

October 6, 2020

Stable quarter expected for telcos!

We expect both subscriber and ARPU to remain firm in an otherwise seasonally weak quarter given a) return of migrants to cities, b) continued higher data usage and thereby pack upgrades and c) improved availability of recharges both digitally/physically as cities/towns have largely restarted post lockdowns. For Bharti Airtel (Airtel), we bake in subscriber addition of ~3 million (mn), while for Vodafone Idea (VIL), we expect sub loss of ~3 mn (much lower than average churn of ~10 mn seen in the last four quarters). For Airtel, reported ARPU is likely to see ~2% QoQ growth at ₹ 160. Indian wireless revenues are expected to see 2.6% QoQ growth at ₹ 13,213 crore. For Vodafone Idea, with ARPU growth of ~3% QoQ at ₹ 117, we expect overall revenues to grow 0.9% QoQ at ₹ 10,753 crore.

Bharti to grow EBITDA; VIL to witness decline QoQ

For Airtel, we expect sequentially flattish India EBITDA margins at 44.3% Africa margins are expected to be stable QoQ at 44%. Reported EBITDA at ₹ 10,660 crore is expected to grow 2.4% QoQ with margins expected at 43.5%, flattish QoQ. For Airtel, we expect a net loss of ₹ 167 crore. For Vodafone Idea, we expect margins of 36.4%, down 200 bps QoQ as Q1 had one-off benefits of ₹ 300 crore in licence fee and network & IT cost. The company is expected to post a net loss of ₹ 5892 crore.

Infratel to report muted numbers

For Infratel, we expect net tenancy addition of ~1600. We expect 0.4% QoQ growth in rental revenues at ₹ 2252 crore, also aided by some catch-up exit charge of Q1. Overall margins are expected at 50.5%, flattish QoQ. Key monitorable will tenancy addition outlook.

Stable Q2 for TCom; STL to witness weak quarter

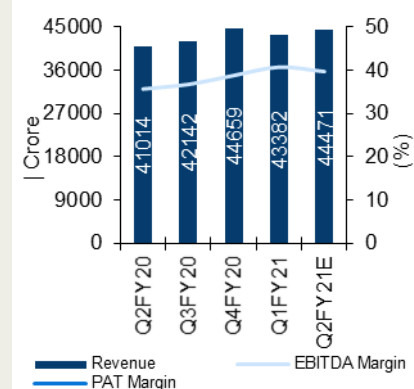
Tata Communication (TCom) is likely to report a stable performance. Overall revenue is expected to grow 1.3% QoQ (4.4% YoY) at ₹ 4459 crore driven by 2.8% QoQ (~9% YoY) data segment topline while voice business is expected to decline ~5.4% QoQ (down 13.5% YoY). Overall margins are expected at 23% (down 70 bps QoQ as Q1 had one-off costs benefits). Sterlite Tech (STL) is expected to witness the impact of weak product demand as well as some Covid-19 impact on services segment execution resulting in 19%, 31% decline in topline, EBITDA, respectively. PAT is expected to decline ~60% YoY given the incremental depreciation and interest of new capacity.

Exhibit 1: Estimates for Q2FY21E: (Telecom)

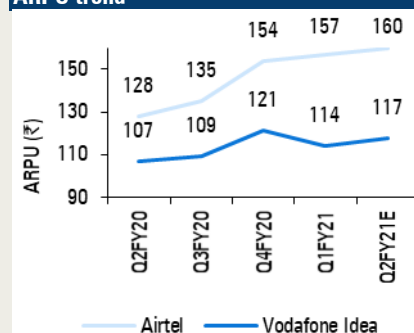
Company	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Bharti Airtel	24,525.7	16.1	2.5	10,660.1	20.6	2.4	-166.6	NA	NA
Bharti Infratel	3,631.7	-0.2	3.6	1,864.2	-0.8	1.7	753.9	-21.8	7.1
Vodafone Idea	10,753.4	-0.8	0.9	3,914.1	16.9	-4.5	-5,892.0	NA	NA
Sterlite Technologies	1,100.6	-19.1	25.6	198.3	63.0	-31.3	63.5	-60.2	965.9
Tata Comm	4,459.3	4.4	1.3	1,024.7	22.9	-1.6	212.4	294.0	-17.6
Total	44,470.7	7.8	2.5	17,661.3	17.6	0.0	-5,028.8	NA	NA

Source: Company, ICICI Direct Research *

Topline & Profitability (Coverage Universe)



ARPU trend



Top Pick

Bharti Airtel

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Exhibit 2: Company Specific view - Telecom

Company	Remarks
Bharti Airtel	We expect subscriber addition of ~3 mn driven by reverse migration of labourers to cities. Notwithstanding seasonality, reported ARPU is likely to witness ~2% QoQ growth at ₹160, aided by higher data based usage upgrades. Indian wireless revenues are expected to witness 2.6% QoQ growth at ₹13,213 crore. India non-wireless revenues traction is expected to remain robust especially broadband and enterprise. Africa is likely to witness revenue growth of 1.8% QoQ to ₹6565 crore. Consolidated revenues are expected to be up 2.5% QoQ at ₹24,526 crore. We expect sequentially flattish India EBITDA margins at 44.3% Africa margins are expected to be stable QoQ at 44%. Reported EBITDA at ₹10,660 crore is expected to grow 2.4% QoQ with margins expected at 43.5%, flattish QoQ. Africa margins are expected to be stable at 44%. Expected loss at bottomline level is ~₹167 crore. Key monitorable: Commentary on ARPU trajectory and non-wireless business
Bharti Infratel	For Bharti Infratel, we bake in net tenancy addition of ~1600. We expect 0.4% QoQ growth in rental revenues at ₹2252 crore, also aided by exit charge. Energy revenues would be up 9.4% QoQ at ₹1391 crore, given higher diesel prices. Overall margins are expected at 50.5%, up flattish QoQ. Key monitorable: future outlook and growth plans
Vodafone Idea	We expect churn for Vodafone Idea to continue, albeit reverse migration of labourers to cities to arrest the same. We consequently bake in ~3 million customer exits on a QoQ basis, much lower than average churn of ~10 mn seen in the last four quarters. We build in ARPU growth of ~3% QoQ at ₹117, aided by higher data based usage upgrades. We expect overall revenues to grow 0.9% QoQ at ₹10,753 crore. Reported margins are expected at 36.4%, down 200 bps QoQ as Q1 had one-off benefits of ₹300 crore in licence fee and network & IT cost. The company is expected to post a net loss of ₹5892 crore. Key monitorable: Fund raising plans and ARPU trajectory ahead
Sterlite Tech	Given the weak demand in product segment and residual Covid-19 led execution challenges in solutions/services business, we bake in topline decline of 19% YoY to ₹860 crore. With negative operating leverage impact, consolidated EBITDA is expected to decline 31% YoY at ₹198 crore while EBITDA margins for the quarter are expected to decline 320 bps YoY to 18%. Reported PAT at ₹63.5 crore, is expected to be down 60% YoY. Key monitorable: Management commentary on overall demand & ramp up of solutions based business
Tata Comm	Revenue for the voice business is expected to decline ~5.4% QoQ (down 13.5% YoY) to ₹756 crore. The data business, is expected to post a 2.8% QoQ topline growth (~9% YoY) at ₹3703 crore. Hence, overall revenue is expected to grow 1.3% QoQ (4.4% YoY) at ₹4459 crore. Overall margins are expected at 23% (down 70 bps QoQ as Q1 had one-off costs benefits). Data segment margins are expected at 26.1% (down 100 bps QoQ given one-offs in Q1). Key monitorable: Growth outlook commentary

Source: Company, ICICI Direct Research

Exhibit 3: Telecom Coverage Universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bharti Airtel	424	700	Buy	231,563	-59.0	-24.7	11.2	NM	NM	37.9	9.6	8.3	6.5	3.5	6.9	9.2	-4.7	4.2	11.3
Bharti Infratel	179	180	Reduce	33,025	17.8	16.7	17.4	10.0	10.7	10.3	5.7	5.6	5.3	18.1	19.8	21.7	24.4	23.7	25.5
Vodafone Idea	9	6	Sell	25,431	-25.7	-14.5	-6.8	NM	NM	NM	9.3	11.3	8.7	-5.7	-4.4	-3.4	NM	NM	NM
Sterlite Tech	155	125	Reduce	6,240	10.8	8.1	11.4	14.4	19.1	13.6	7.7	9.1	7.0	27.8	20.9	15.8	33.0	25.1	15.8
Tata Comm	854	880	Buy	24,333	-3.0	27.8	35.3	NM	30.7	24.2	10.2	8.1	7.0	7.8	12.7	15.7	-22.2	NM	NM

Source: Company, ICICI Direct Research, Reuters

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