

October 8, 2022

Steady quarter!

We expect Reliance Jio (Jio) to lead sub addition with ~7 mn net sub additions during Q2. Bharti Airtel (Airtel) is likely to add ~2 mn subscribers. On the other hand, churn at Vodafone Idea (VIL) is likely with subscriber loss of ~4 mn. ARPU growth is expected to be seen for all telcos, with benefits of an extra day during the quarter and some subscriber mix benefits. We expect Jio, Airtel, VIL's reported ARPU to be up 3%, 2%, 2% QoQ at ~₹ 181, ₹ 187, ₹131, respectively. For Jio, revenues are expected at ₹ 22992 crore, up 5.1% QoQ. Airtel's India wireless revenue is expected to be up 2.5% QoQ at ₹ 18,671 crore. For Vodafone Idea, we expect overall revenues to grow 1.2% QoQ at ₹ 10,538 crore.

Margins to improve for Jio, Airtel

Telcos are expected to witness partial benefits of lower SUC emanating from their recent spectrum purchase. Airtel India EBITDA margins is expected at 51.9%, up 80 bps QoQ, aided by partial benefit of lower SUC. Overall consolidated margins are anticipated at 50.9%, up 50 bps QoQ. We expect PAT at ₹ 2358 crore for Airtel. For Jio, we expect EBITDA margins at 50.4%, up 30 bps QoQ and net profit of ₹ 4598 crore, up 6.1% QoQ. For Vodafone Idea, we expect margins at 41.4%, down 20 bps QoQ. The company is expected to post a net loss of ₹ 7409 crore.

Muted performance likely from Indus Towers

Indus Tower is likely to report muted number during the quarter. We bake in tower and net tenancy addition of 1100 and 1000, respectively, in Q1FY23, with average sharing factor likely to remain stable at 1.81x. We expect rental revenues at ₹ 4228 crore, muted at 0.1% QoQ, with new tenancy renewal agreement discounts to restrict near term rental growth. Overall margins are expected at 51.6%, up 90 QoQ, on adjusted basis. We highlight that Q1FY23 EBITDA on reported basis was impacted by provision for doubtful debts of ₹ 1233 crore against dues from Vodafone Idea.

Tata Communication to witness gradual recovery

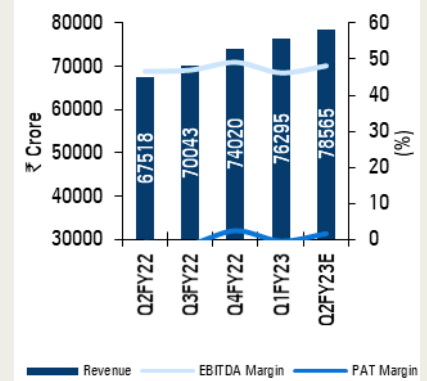
For Tata Communications, we expect the gradual revenue growth recovery to continue, albeit normalising of costs will restrict EBITDA growth. The data revenue is expected to grow 2.1% QoQ (up ~8.6% YoY) at ₹ 3409 crore. Overall revenue is expected to grow 2.1% QoQ (~5.5% YoY) at ₹ 4402 crore. Data segment margins are expected at 29% (flattish QoQ). Overall margins are expected at 24.8%, broadly flattish QoQ.

Exhibit 1: Estimates for Q2FY23E: (Telecom)

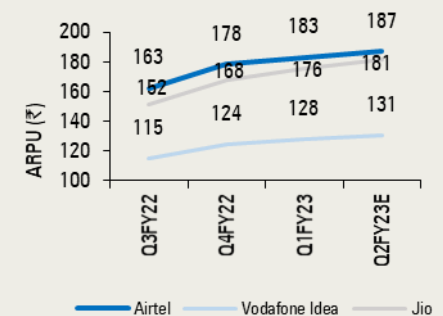
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Bharti Airtel	33,815.2	19.4	3.1	17,201.1	24.6	4.1	2,358.1	108.0	46.8			
Indus Towers	6,818.2	-0.8	-1.1	3,516.1	-3.0	55.4	1,391.1	-10.7	191.5			
Vodafone Idea	10,537.7	12.0	1.2	4,359.1	12.8	0.7	-7,409.0	NA	NA			
Jio	22,992.2	22.7	5.1	11,588.7	28.9	5.7	4,598.1	30.3	6.1			
Tata Comm	4,402.1	5.5	2.1	1,091.7	-1.9	1.4	363.4	-14.6	-33.2			
Total	78,565.3	16.4	3.0	37,756.7	20.2	7.4	1,301.7	LP	LP			

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	<p>Reported ARPU is likely to be up 2% QoQ at ₹ 187 with benefit of subscriber mix and higher number of days during the quarter. We expect modest addition of 2 mn subs. Indian wireless revenues are expected to see 2.5% QoQ growth at ₹ 18,621 crore. India non-wireless revenues traction are expected to remain robust especially broadband and enterprise. Africa is likely to witness revenue growth of 3.6% QoQ to ₹ 10,052 crore, aided by currency tailwind. Consolidated reported revenues are expected to be up 3.1% QoQ at ₹ 33,815 crore. We expect India EBITDA margins at 51.9%, up 80 bps QoQ, aided by partial benefit of lower SUC. Overall consolidated margins are expected at 50.9%, up 50 bps QoQ. We expect PAT at ₹ 2358 crore. Key monitorable: Commentary on ARPU trajectory and non wireless business</p>
Indus Towers	<p>For Indus Towers, we bake in tower and net tenancy addition of 1100 and 1000, respectively in Q2FY23, with average sharing factor likely to remain stable at 1.81x. We expect rental revenues at ₹ 4228 crore, muted at 0.1% QoQ, with new tenancy renewal agreement discounts to restrict near term rental growth. Energy revenues would be down 3.2% QoQ at ₹ 2590 crore, given the lower diesel prices. Overall margins are expected at 51.6%, up 90 QoQ, on adjusted basis. We highlight that Q1FY23 EBITDA on reported basis was impacted by provision for doubtful debts of ₹ 1233 crore against dues from Vodafone Idea (VIL). Key monitorable: Status of dues from VIL, Future outlook and growth plans</p>
Vodafone Idea	<p>We build in monthly ARPU growth of ~2% QoQ at ₹ 131. We expect churn for Vodafone Idea to continue, with ~4 million customer exits likely in Q1. We expect overall revenues to grow 1.2% QoQ at ₹ 10,538 crore. EBITDA at ₹ 4359 crore, is expected to be up 0.7% QoQ. Reported margins are expected at 41.4%, down 20 bps QoQ. The company is expected to post a net loss of ₹ 7409 crore. Key monitorable: 5G launch plan, capex commentary and ARPU trajectory and ahead</p>
Tata Comm	<p>For Tata Communications (TCom), we expect gradual revenue growth recovery to continue, albeit normalising of costs will restrict EBITDA growth. The data revenue is expected to grow 2.1% QoQ (up ~8.6% YoY) at ₹ 3409 crore. The voice revenues would continue to remain muted with flattish QoQ (~7% YoY decline) at ₹ 564 crore. The overall revenue is expected to grow 2.1% QoQ (~5.5% YoY) at ₹ 4402 crore. Data segment margins are expected at 29% (flattish QoQ). Overall margins are expected at 24.8%, broadly flattish QoQ. Key monitorable : Growth outlook commentary</p>
Jio	<p>Reliance Jio (Jio), will lead sub addition with ~7 mn net sub additions during Q2. The monthly ARPU, like peers, will witness growth, driven by higher no. of days and residual benefits of tariff hike, at ~3% QoQ at ₹181. Overall revenues are expected at ₹ 22992 crore, up 5.1% QoQ. EBITDA at ₹ 11,589 crore, is likely to grow 5.7% QoQ. Overall EBITDA margins are expected at 50.4%, up 30 bps QoQ and net profit at ₹ 4598 crore, up 6.1% QoQ. Key monitorable: Commentary on ARPU trajectory, Jio Fiber</p>

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 (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Bharti Airtel	793	860	Buy	4,66,626	8.1	19.2	34.6	97.7	41.3	22.9	10.8	8.9	7.0	9.1	12.1	16.0	4.3	13.9	20.1
Indus Towers	200	195	Reduce	53,965	23.6	16.9	21.5	8.5	11.8	9.3	4.9	5.7	4.9	23.3	18.4	22.9	28.1	20.9	26.4
Vodafone Idea	9	UR	UR	29,228	-8.8	-7.9	-7.0	NM	NM	NM	13.5	12.7	9.9	-5.0	-3.2	0.5	NM	NM	NM
Tata Comm	1,218	1,250	Buy	34,713	52.0	55.5	63.0	23.4	22.0	19.3	9.8	9.4	8.2	26.5	27.7	30.8	159.3	86.9	62.2

Source: Company, ICICI Direct Research, Reuters

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