

January 9, 2023

Modest ARPU growth; margin expansion likely!

We expect Reliance Jio (Jio) to lead subscriber (sub) addition with ~6 million (mn) net sub additions during Q3. Bharti Airtel (Airtel) is likely to add modest ~1 mn subscribers amid SIM consolidation. On the other hand, elevated churn at Vodafone Idea (VIL) is likely with a subscriber loss of ~6 mn. ARPU growth is expected to be seen for all telcos with some subscriber mix benefits. We expect Jio, Airtel, VIL's reported ARPU to be up 1.5%, 2%, 2% QoQ at ~₹ 180, ₹ 194, ₹ 134, respectively. For Jio, revenues are expected at ₹ 23206 crore, up 3% QoQ. Airtel's India wireless revenue is expected to be up 2.1% QoQ at ₹ 19,359 crore. For Vodafone Idea, we expect overall revenues to be flattish QoQ at ₹ 10,620 crore.

Margins to improve for telcos

Telcos are expected to see residual benefits of lower SUC emanating from their recent spectrum purchase, while network opex for top two telcos will go up with 5G rollout. Airtel India EBITDA margins is expected at 52.5%, up 70 bps QoQ, aided by residual benefit of lower SUC, despite higher network opex on 5G rollout. Overall consolidated margins are expected at 51.3%, up 30 bps QoQ. We expect PAT at ₹ 2712 crore for Airtel. For Jio, we expect EBITDA margins at 51.5%, up 50 bps QoQ and net profit at ₹ 4624 crore, up 2.3% QoQ. For Vodafone Idea, we expect margins at 40.5%, up 190 bps QoQ. The company is expected to post a net loss of ₹ 7557 crore.

Indus to witness accelerated tenancy addition on 5G rollout

Indus Tower is likely to witness accelerated tenancy addition on 5G rollout. We bake in tower and net tenancy addition of 1500 and 2600, respectively in Q3FY23, with average sharing factor likely to remain stable at 1.8x. We expect rental revenues at ₹ 4316 crore, down 9.8% QoQ but up 1.9% on an adjusted basis, as Q2FY23 had one-time provision reversal benefit. Overall margins are expected at 51.4%, up 70 QoQ, on an adjusted basis. We highlight that Q2FY23 EBITDA on a reported basis was impacted by provision for doubtful debts of ₹ 1771 crore against dues from VIL.

Tata Communication, Sterlite to witness gradual recovery

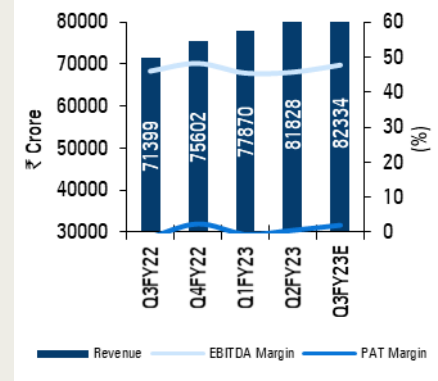
For Tata Communications, we expect a gradual revenue growth recovery to continue, albeit normalising of costs will lead to margins decline QoQ, YoY. Data revenue is expected to grow 2.1% QoQ (up ~10.3% YoY) at ₹ 3565 crore. Overall revenue is expected to grow 1.5% QoQ (~7.5% YoY) at ₹ 4497 crore. Overall margins are expected at 24.9%, down 60 bps QoQ, 100 bps YoY. For Sterlite Tech (Sterlite), we bake in at ₹ 1788 crore, up ~31% YoY, 1% QoQ, driven by product segment. Consolidated EBITDA is expected to grow 13.7% QoQ at ₹ 196.7 crore (vs. loss in base quarter) while EBITDA margins for the quarter are expected to increase 120 bps QoQ to 11%.

Exhibit 1: Estimates for Q3FY23E: (Telecom)

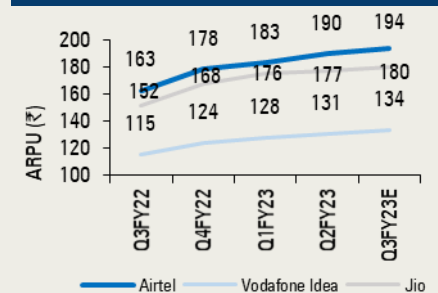
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Bharti Airtel	35,180.3	17.8	1.9	18,055.3	22.8	2.6	2,712.4	226.9	26.4			
Indus Towers	7,042.0	1.7	-11.6	3,616.9	-2.2	28.7	1,475.3	-6.1	69.2			
Vodafone Idea	10,619.9	9.3	0.0	4,299.0	12.6	4.9	-7,556.7	NA	NA			
Jio	23,206.5	19.9	3.0	11,943.6	25.5	4.0	4,623.9	27.9	2.3			
Sterlite Technologies	1,787.7	31.9	1.1	196.7	LP	13.7	30.0	LP	-31.9			
Tata Comm	4,497.4	7.5	1.5	1,119.9	3.5	-0.9	380.0	-3.9	-28.6			
Total	82,333.8	15.3	0.6	39,231.3	19.7	5.2	1,664.8	LP	222.7			

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



ARPU trend



Top Pick

Bharti Airtel
Sterlite Tech

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Exhibit 2: Company Specific view - Telecom

Company	Remarks
Bharti Airtel	The reported ARPU is likely to be up 2% QoQ at ₹ 194 with benefit of subscriber mix during the quarter. We expect modest addition of ~1 mn subs with SIM consolidation restricting subscriber addition. Indian wireless revenues are expected to see 2.1% QoQ growth at ₹ 19,359 crore. India non-wireless revenues traction are expected to remain robust especially broadband and enterprise. Africa is likely to witness muted revenue growth of 0.4% QoQ to ₹ 10,485 crore. Consolidated reported revenues are expected to be up 1.9% QoQ at ₹ 35180 crore. We expect India EBITDA margins at 52.5%, up 70 bps QoQ, aided by residual benefit of lower SUC, despite higher network opex on 5G rollout. Overall consolidated margins are expected at 51.3%, up 30 bps QoQ. We expect PAT at ₹ 2712 crore. Key monitorable: Commentary on ARPU trajectory and non wireless business
Indus Towers	For Indus Towers, we bake in tower and net tenancy addition of 1500 and 2600, respectively in Q3FY23, with average sharing factor likely to remain stable at 1.80x. Tenancy addition will largely be led by Airtel 5G rollout. We expect rental revenues at ₹ 4316 crore, down 9.8% QoQ but up 1.9% on adjusted basis as Q2FY23 had one-time provision reversal benefit. Energy revenues are likely to be down 14.3% QoQ at ₹ 2726 crore, given the one-time benefit in Q2. Overall margins are expected at 51.4%, up 70 QoQ, on adjusted basis. We highlight that Q2FY23 EBITDA on reported basis was impacted by provision for doubtful debts of ₹ 1771 crore against dues from Vodafone Idea (VIL). Key monitorable: Status of dues from VIL, Future outlook and growth plans
Vodafone Idea	We build in monthly ARPU growth of ~2% QoQ at ₹ 134. We expect churn for Vodafone Idea to continue, with ~6 million customer exits likely in Q3. We expect overall revenues to be flat QoQ at ₹ 10,620 crore. EBITDA at ₹ 4299 crore, is expected to be up 4.9% QoQ, aided by SUC benefits. Reported margins are expected at 40.5%, up 190 bps QoQ. The company is expected to post a net loss of ₹ 7557 crore. Key monitorable: Fund raise, 5G launch plan, capex commentary and ARPU trajectory and ahead
Sterlite Tech	Given the depressed base (wherein revenue had declined ~10% in Q3FY22), the YoY numbers growth will be strong. We bake in at ₹ 1788 crore, up ~31% YoY, 1% QoQ, driven by product segment. Consolidated EBITDA is expected to grow 13.7% QoQ at ₹ 196.7 crore (vs. loss in base quarter) while EBITDA margins for the quarter are expected to increase 120 bps QoQ to 11%. Reported PAT is expected at ₹ 30 crore vs. loss in base quarter. Key monitorable: Management commentary on overall demand & ramp-up of optical connect business
Tata Comm	For Tata Communications (TCom), we expect gradual revenue growth recovery to continue, albeit normalising of costs will lead to margins decline QoQ and YoY. The data revenue is expected to grow 2.1% QoQ (up ~10.3% YoY) at ₹ 3565 crore. The voice revenues are anticipated to continue to remain weak, down ~4.7% QoQ (~10 % YoY decline) at ₹ 500 crore. The overall revenue is expected to grow 1.5% QoQ (~7.5% YoY) at ₹ 4497 crore. Data segment margins are expected at 29% (flattish QoQ). Overall margins are expected at 24.9%, down 60 bps QoQ and down 100 bps YoY. Key monitorable: Growth outlook commentary
Jio	Reliance Jio (Jio), is expected to lead sub addition with ~6 mn net sub additions during Q3. The monthly ARPU, like peers, will witness modest growth, driven by mix improvement, at ~1.5% QoQ at ₹ 180. Overall revenues are expected at ₹ 23206 crore, up 3% QoQ. EBITDA at ₹ 11,944 crore. It is likely to grow 4% QoQ. Overall EBITDA margins are expected at 51.5%, up 50 bps QoQ and net profit at ₹ 4624 crore, up 2.3% QoQ. Key monitorable: Commentary on ARPU trajectory, Jio Fiber

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	819	960	Buy	4,81,661	8.1	16.8	33.3	100.8	48.8	24.5	11.0	9.1	7.3	9.1	12.1	15.9	4.3	12.4	19.7
Indus Towers	185	170	Reduce	49,856	23.6	15.8	22.1	7.8	11.7	8.4	4.5	5.6	4.6	23.3	17.0	22.1	28.1	26.4	27.4
Vodafone Idea	8	UR	UR	24,089	-8.8	-7.9	-7.0	NM	NM	NM	13.5	12.7	9.9	-5.0	-3.2	0.5	NM	NM	NM
Sterlite Tech	171	220	Buy	6,783	1.6	4.1	12.6	109.5	41.3	8.2	17.9	12.0	27.8	12.9	5.7	33.0	14.0	2.0	0.3
Tata Comm	1,340	1,270	Hold	38,190	52.0	64.4	63.4	25.8	20.8	21.1	10.6	9.9	8.8	26.5	27.7	29.1	159.3	85.6	57.3

Source: Company, ICICI Direct Research, Reuters

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Reduce: -15% to -5%;

Sell: < -15%



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