

April 8, 2020

Assessing Covid-19 impact...

The impact of Covid-19 will be mixed for the telecom sector. Telecom operators like Airtel are likely to witness some challenges in subscriber (sub) addition and ARPU growth, given the lockdown and extension of validity. However, higher data usage in the interim will offset ARPU challenges. On the other hand, players like Bharti Infratel will have minimal impact and the earnings estimates are likely to be stable. Tata Communication is likely to face challenges in terms of usage based segment such as TTPSL and TCTS as well as new deal closures. Sterlite Tech, which was already facing product demand challenges, is likely to face issues in terms of exports as well as execution of services/solutions in the interim period.

Impact on Airtel to be minimal

Given the lockdown, the net sub addition of telcos is likely to be impacted coupled with some SIM consolidation phenomenon on account of tariff hike taken in December, 2019. Furthermore, to protect these low income subscribers (~80 mn), Airtel has extended free incoming calls until April 17, 2020 with additional ₹ 10 talk-time. We expect the impact of the same on consolidated revenues and EBITDA at ~1% and 2%, respectively, in FY21E. On the contrary, higher data usage in the interim will offset the ARPU challenges. Furthermore, the recent sharp decline in crude could result in a muted performance in crude dependent economies of Nigeria, Congo and Chad. Nevertheless, our FY21 and FY22 Africa EBITDA growth estimates are ~5%. We do not see major risk to the same.

TCom to face some challenges in usage based segment

Tata Communication's (TCom) impact will be mainly on the user based data segments such as Tata Communications Transformation Services (TCTS) and TCPSL (payment solutions business wherein transactions have dried up). Furthermore, near term challenges could be new deal closures given the travel restriction. We cut the EBITDA estimates for FY21E and FY22E by ~6% and 5%, respectively. The subsequent impact on earnings would be ~21% and 15%, respectively.

Sterlite woes in near term may be significant

Sterlite Tech is likely to face dual challenges of global fibre demand as well as impact of Covid-19. Europe, which contributes to ~24%, 40% to overall and product revenues, respectively, is likely to be a washout for the next three months. Services, solutions business also faces execution stoppage during lockout and lower ordering momentum thereafter, especially from government agencies, thereafter. We revise down FY21 earnings estimates by ~19%, with FY22E estimates (now introduced) now mirroring erstwhile FY21 earnings estimates.

Valuation & Outlook

Bharti Airtel (BUY, TP - ₹ 630), remains the top pick in our sector given the stronger retention of its revenue market share with stable KPI across, and also enjoys a comfortable leverage vis-à-vis peers. We also **upgrade Tata Communication to BUY (TP ₹ 345)** post sharp correction. We **maintain HOLD on Bharti Infratel (TP - ₹ 185)** as we lower the EV/EBITDA target multiple to 5x (vs. 6.5x, earlier) given the uncertainty on Vodafone Idea's form of survival and risk thereafter. **Sterlite Tech**, notwithstanding recent sharp correction is assigned **HOLD (TP - ₹ 75)** at 4.5x FY21E EV/EBITDA, with challenges overshadowing the optical low valuations.

Rating Matrix		
	Rating	
	Old	New
Bharti Airtel	Buy	Buy
Bharti Infratel	Hold	Hold
Tata Communications	Hold	Buy
Sterlite Technologies	Hold	Hold

Target price (₹)				
	CMP	Target price		Upside
		Old	New	
Bharti Airtel	460	630	630	37%
Bharti Infratel	167	250	185	11%
Tata Communications	256	460	345	35%
Sterlite Technologies	66.2	120	75	13%

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Company wise impact

Bharti Airtel

Given the largely unchanged earnings estimates, we maintain **BUY with DCF based target price at ₹ 630/share**. We highlight that we have not built in any major ARPU hike apart from 5% increase in H2FY21 and FY22, largely from upgradation of existing base on account of higher data usage. Furthermore, market share grab from Vodafone Idea (in case it struggles on financial metrics) will also be an upside ahead. Implementation of floor pricing, albeit could be delayed on account of *Covid-19*, could also provide a sharp boost to ARPU, going ahead.

Exhibit 1: Change in estimates

₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	87,848	86,529	-1.5	102321	101020	-1.3	111967	111,282	-0.6
EBITDA	37,253	36,218	-2.8	47963	46831	-2.4	54553	53,868	-1.3
EBITDA Margin (%)	42.4	41.9	-55 bps	46.9	46.4	-52 bps	48.7	48.4	-32 bps
PAT	-26,944	-27,376	NA	4937	4522	-8.4	8773	8,568	-2.3
EPS (₹)	-48.6	-50.2	NA	9.0	8.3	-8.4	16.1	15.7	-2.3

Source: Company, ICICI Direct Research

Bharti Infratel

Estimates are largely unchanged with no major impact of Covid-19. We however, lower our EV/EBITDA target multiple to 5x (vs. 6.5x, earlier) as there remains uncertainty in the form of Vodafone Idea's survival and its impact of Infratel's tenancies. **We maintain HOLD with a revised target price of ₹ 185/share**.

Exhibit 2: Change in estimates

₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	14,660.7	14,665.9	0.0	14,987.7	14,993.0	0.0	15,214.1	15,219.4	0.0
EBITDA	7,513.3	7,511.9	0.0	7,543.8	7,542.3	0.0	7,647.2	7,645.7	0.0
EBITDA Margin (%)	51.2	51.2	0 bps	50.3	50.3	0 bps	50.3	50.2	-3 bps
PAT	3,427.0	3,426.0	0.0	3,146.6	3,145.5	0.0	3,158.7	3,157.6	0.0
EPS (₹)	18.5	18.5	0.0	17.0	17.0	0.0	17.1	17.1	0.0

Source: Company, ICICI Direct Research

Tata Communication

Given the Covid-19 impact, we cut the EBITDA estimates for FY21E and FY22E by ~6% and 5%, respectively. The subsequent impact on earnings would be ~21% and 15%, respectively. We lower our EV/EBITDA target multiple to 6x (vs. 7x, earlier) for the data services EBITDA. **We upgrade Tata Communication to BUY, with a revised target price of ₹ 345/share**, post the recent sharp correction.

Exhibit 3: Change in estimates

₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	17,034.4	16,896.5	-0.8	17,705.2	17,295.5	-2.3	18,501.8	18,030.7	-2.5
EBITDA	3,240.6	3,139.4	-3.1	3,452.5	3,239.3	-6.2	3,700.4	3,505.4	-5.3
EBITDA Margin (%)	19.0	18.6	-44 bps	19.5	18.7	-77 bps	20.0	19.4	-56 bps
PAT	286.3	231.3	-19.2	440.8	346.9	-21.3	531.6	452.0	-15.0
EPS (₹)	10.0	8.1	-19.2	15.5	12.2	-21.3	18.7	15.9	-15.0

Source: Company, ICICI Direct Research

Sterlite Technologies

Given the Covid-19 impact, we revise down FY21 earnings estimates by ~19%, with FY22E estimates (now introduced) now mirroring erstwhile FY21 earnings estimates. We **maintain HOLD** on **Sterlite Tech** with a revised **target price of ₹ 75/share, notwithstanding the recent sharp correction, with challenges overshadowing the optical low valuations**. We lower our EV/EBITDA target multiple to 4.5x (vs. 5x, earlier).

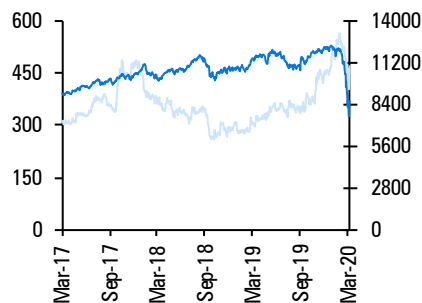
Exhibit 4: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	5,314.8	5,314.5	0.0	6,266.1	5,425.2	-13.4	6,247.0
EBITDA	1,117.8	1,117.3	0.0	1,190.6	1,030.8	-13.4	1,186.9
EBITDA Margin (%)	21.0	21.0	-1 bps	19.0	19.0	0 bps	19.0
PAT	458.7	455.3	-0.7	484.1	390.4	-19.3	479.5
EPS (₹)	11.4	11.3	-0.7	12.0	9.7	-19.3	11.9

Source: Company, ICICI Direct Research

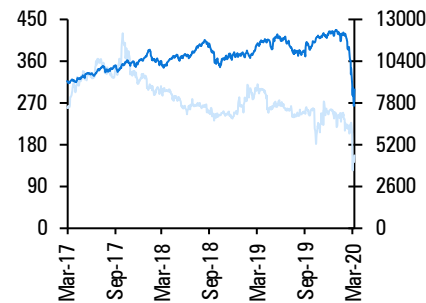
Price Charts

Bharti Airtel



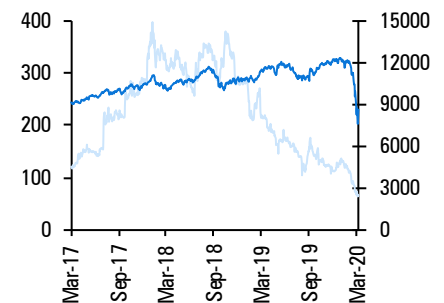
Airtel (LHS) Nifty Index

Bharti Infratel



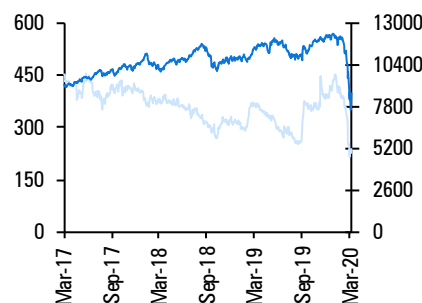
Infratel (LHS) Nifty Index

Sterlite Technologies



Sterlite (LHS) Nifty Index

Tata Communication



TCOM (LHS) Nifty Index

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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