AlcoBev, Telecom & MidCap Q3FY21 Quarterly Preview

DART
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Modest recovery.... Finally!

After a lackluster Q1 and mild Q2FY21 impacted by pandemic, we expect Q3 to witness early signs of normalcy. This is especially for retail and media sector. Telecom was least impacted and is likely to register QoQ improvement in revenues. AlcoBev especially UNSP registered a modest decline in Q2 led by supportive base, pent-up demand and channel filling, but will see some softening (-5.2% volume growth) due to high-base in Q3FY21. UBL too will witness recovery but still will be significantly lower than pre-covid levels. Hotel companies will continue to be under pressure led by steep ARR (35-40%) drop and moderate occupancies at 35-40%.

To summarize, we expect Bharti Airtel, Zee Entertainment, Dmart and Vmart to register healthy recovery whereas UNSP, UBL, IHCL and Lemon Tree will be laggard.

AlcoBev

Sector Overview

- AlcoBev being a discretionary spend with weak on-trade demand despite opening-up, lack of big-fat Indian weddings, business meetings and conferences, night curfews etc the demand is expected to be subdued. AP state had been part of base for both UNSP and UBL with gradual decline in sales and it would thus be a further dampener.
- Beer as a category is expected to be more severely impacted then IMFL due to winters, bulk commodity nature and higher share of on-trade. Though QoQ recovery is expected but we are still away from pre covid levels especially in beer category.
- ENA prices are down ~4-6% whereas glass bottle prices are steady.
- We expect UNSP/RDCK/UBL to register a -5.2%/+2.1%/-25% volume growth YoY.

Key things to watch-out for

- Outlook on (1) demand recovery (2) Price increases from the state governments and (3) the risk of further excise hikes by state governments are the key things to watch-out.

Our View

- As a discretionary spend, AlcoBev is showing recovery though is muted vs. Q2, especially for UNSP. Q2 benefitted from low-base, pent-up demand and channel filling too. Both UNSP and UBL have significantly under-performed the broader market. But in backdrop of weak business momentum, we expect the AlcoBev stocks to go through a time and/or price correction in the short-term. Radico remains a preferred pick in the space.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
United Spirits	23,878	(7.5)	3,451	(18.6)	14.5	(196)	1,822	(29.6)	2.5	▪ We expect UNSP's Q3 to be subdued led by volume decline of ~5.2% YoY viz. 8% in P&A and 2% in Popular. Volumes to be muted on account of (1) Restrictions on gatherings in marriages/new year parties, night curfews and lack of conferences and travel impacting HoReCa segment. UNSP trivial sales in AP in Q3FY20 vs. negligible in Q3FY21 due to RTM changes would also be a dampener. This will be partly off-set by shift of duty-free sales to retail segment benefitting UNSP. With benign ENA prices and flat glass bottle prices we estimate the GM to be flat YoY and improve QoQ. EBITDA margin to decline YoY on account of operating de-leverage.
Radico Khaitan	6,823	5.3	1,211	18.1	17.7	193	748	21.6	5.6	▪ We expect RDCK's IMFL volume to be up by 2.1% (P&A 3.5%, Popular 1.5%) and revenue to grow by 5.3% contributed by better state mix. Volume growth to be led by UP, Karnataka, Telangana and AP. Eastern markets were a laggard primarily due to West Bengal. Contrary to UNSP, led by supportive RM prices and opex rationalization, we estimate GP/EBITDA to grow by 7/18% and APAT by 22%.
United Breweries	11,281	(22.4)	1,050	(52.4)	9.3	(588)	278	(73.9)	1.1	▪ We estimate UBL's volume to decline by ~25% YoY on account of Covid related reduction in demand. Consequently, revenue to decline by 22.4% YoY. Beer remains to be one of the highest impacted category. Despite costs rationalization, on account of operating de-leverage, EBITDA/APAT to decline by 52/74% YoY.

Source: DART

Hotels

Sector Overview

- Hospitality business saw some recovery in occupancies primarily driven by the leisure segment. Industry wide occupancies is estimated at 35-40% vs. 25-30% in previous quarter. Pent up demand, festive season, extended weekends, revenge travel and staycations have been the driving factor offsetting the Covid related business in Q2FY21. However, international travel and corporate business continues to be lack luster on account of covid related restrictions and virtual conferences.
- The growth in occupancies QoQ however is at the costs of ARR which is likely to witness a limited uptick QoQ and expected to be down 35-40% YoY.
- Despite weak revenues, various cost rationalization initiatives on the employee costs, HLP (Heat, light and power), AMCs, F&B etc are likely to cushion the drop in EBITDA. But this would be insufficient to mitigate the impact of pandemic led revenue decline.

Key things to watch-out:

- (1) Management commentary on pace of recovery in occupancies and ARR (2) Funding plans to pare down the debt (3) Potential industry consolidation, if any

Our View

- The worst phase for the hotel industry is likely behind. But, revival may be gradual over 18-24 months to hit the historic occupancies and ARR in our view. That said, we expect the operating performance to improve from hereon led by recovery in occupancies, ARR and few of the cost rationalization benefits to sustain in future. The optimism has been fairly captured in the recent run-up of the broader market and hotel stocks too in hopes of vaccine. In this backdrop, we expect Hotel stocks to go through a both time and price correction in the near-term.

Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (bps)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	
Indian Hotels	4,805	(65.0)	(840)	(119.7)	(17.5)	(4,849)	(2,124)	(199.2)	(1.8)	▪ We estimate revenue to decline by 65% YoY led by steep drop in occupancies and ARR. Owing to high operating leverage, EBITDA and APAT to remain under pressure. Industry and IHCL's efforts on costs rationalization are appreciable. However, it is not sufficient to mitigate the revenue decline from the impact of pandemic. While the worst is behind for the industry, pre-covid normalization we believe is at least 12-18 months away.
Lemon Tree	679	(66.0)	180	(77.9)	26.5	(1,422)	(329)	(369.8)	(0.4)	▪ Numbers are not comparable YoY/QoQ on account of consolidation of Keys Hotels from Nov'19. We estimate revenue drop of 66% YoY led by 2850bps decline in occupancies to 43% and 40% drop in ARR. EBITDA to decline by 78% to Rs 180mn. In backdrop of steep revenue decline, this is yet healthy led by robust costs control measures.

Source: DART

Media - Broadcasters

Sector Overview

- We expect a modest recovery in ad revenues aided by low-base, festive season and re-opening of economy post-covid. FMCG, Paints, Auto etc we estimate to be the key sectors driving the performance.
- Zee would also benefit from conversion of pay-channels to FTA driving ~5-6% ad revenue growth.
- We estimate a modest growth in subscription revenues primarily driven by digital business. Broadcast business subscription revenues we expect to be flattish to low-single digit growth.

Key things to watch-out:

- Free cash flow generation for Zee would be the key in addition to management's outlook on recovery and sustainability in ad revenues. Commentary from Sun management on buyback/dividend, spend on original content in SunNxt and from Zee on sale of IWPL (at loss) would be the other things to watch-out.

Our View

- Media companies are witnessing a structural disruption from OTT. Though we believe that broadcasters may continue to register growth on both advertising and subscription revenues in the foreseeable future on account of under-penetration of C&S, lower pricing of C&S for end consumers, lower ad rates, increase in data rates and consolidation in telecom impacting OTT proliferation etc. In this backdrop, the valuations for Zee/Sun at ~11-12x FY23E EPS looks attractive.
- That said, Zee is coming out of its promoter's issues and need to establish credibility with healthy and persistent FCF generation. Even Sun's approach to business has been more of tactical leading to its losing market share in broadcast business. It runs the risk of being a laggard on OTT space. We thus remain cautiously optimistic with preference for Zee.

Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Zee Entertainment	20,592	0.5	5,277	(12.6)	25.6	(383)	3,543	(17.0)	3.7	▪ Led by low-base (-15% YoY in Q3FY20) and economic recovery, we expect Zee's domestic/overall ad revenue to be +2/-0.5% YoY. L2L subscription revenue to increase by 5% YoY led by digital business. Broadcast business subscription revenue to be flattish on account of NTO 2.0 and likely impact of Siti Cable too. Other operating income to be down 45%. Overall revenue/EBITDA/APAT we estimate of 0.5/-12.6/-17% YoY. EBITDA though down YoY on account of investments in digital and operating deleverage due to muted revenue growth, would register ~271bps expansion QoQ.
Sun TV	9,068	11.3	5,798	(0.1)	63.9	(727)	4,013	7.5	10.2	▪ We estimate Sun's advertising revenue to decline by 8.7% whereas subscription revenue to be +4.5/2% YoY/QoQ. Sun will benefit from IPL during the quarter. We factor IPL revenue/EBITDA of Rs 1.2bn/301mn. Ex-IPL we estimate revenue/EBIT/APAT of -3.6/-5.3/+2. EBIT/PAT growth to be driven by lower amortization charges.

Source: DART

Retail

Sector Overview

- After a tepid Q1 and Q2FY21 impacted by pandemic and consequent store closures, we expect the retail companies to bounce back healthily. The boost is likely to be led by pent-up demand, buying season coinciding with festivity and the opening up of economy.
- We estimate a SSSG decline of 7/10% for Dmart and Vmart respectively. Overall revenues to increase by 15.6% for Dmart led by store (area) expansion and to decline by 7% for Vmart.
- We estimate 8 new store additions for Dmart during Q3FY21. For Vmart, we estimated 11 store additions (vs 10 as reported by the company).

Key things to watch-out:

- Management commentary on (1) Sustainability of the Q3FY21 demand trends and (2) consequent guidance on store expansion would be the key.

Our View

- The worst phase for the retail industry is likely behind with healthy recovery in demand in Q3FY21. The optimism has been fairly captured in the recent run-up of the broader market and retails stocks too. Run-up has also been partly on account of visibility on the availability of vaccine. In this backdrop, we expect Retail stock to go through at least a time correction (if not price correction) in the near-term. Our bias remains positive on the business trajectory and we would remain Buyer on dips.

Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Dmart	78,040	15.6	6,348	7.0	8.1	(65)	4,336	10.0	6.7	▪ We estimate revenue/GP/EBITDA/APAT growth of 15.6/11.7/7/10% YoY. GP growth to trail revenue growth due to lower contribution from high-margin non-FMCG and General Merchandise and apparels category. We estimate Dmart to add 8 stores during the quarter.
Vmart	5,231	(7.0)	1,122	(3.9)	21.4	67	523	(10.2)	28.8	▪ We estimate revenue/GP/EBITDA/APAT decline of 7/6.5/3.9/10.2% YoY. GP we expect to improve marginally due to higher share of winter-wear, lower shrinkage, absence of EOSS and lower contribution of low-margin Kirana sales. Being in discretionary category and led by healthy sales in Diwali, we expect the SSS decline of ~10% YoY. This will be a healthy recovery vs. 84/56% decline in Q1 and Q2FY21. We estimated Vmart to add 11 stores during the quarter (vs 10 as reported by the company)

Source: DART

Telecom

Sector Overview

- Q3FY21 had been a complete foregone quarter on tariff increase aspect. This is especially in backdrop of high hopes of potential tariff increase post the settlement of AGR case in early Sep'20. That said, Bharti with its superior execution had been witnessing healthy subscriber additions ahead of Jio.
- In our view, Jio on account of potential spectrum crunch and impacted by farmer agitation in HPH circles may witness further moderation in subscriber adds. Jio's lacklustre performance on subscriber additions (market share gains!) post the fund raise may either brew an another tariff war (seem unlikely as Jio itself will be the major loser as a leader) or lead to a potential price increases to drive performance. We remain believer of the second scenario.
- VIL with its struggle for optimising cash flows and capex continues to lose customers.

Key things to watch-out:

- (1) Funding plans by VIL (2) Potential tariff increase, if any (3) Bharti's potential weight increase in MSCI (4) Launch of low cost smartphones by Jio (5) Commentary on upcoming spectrum auctions are few of the key things to watch-out.

Our View

- With industry consolidation and struggle of VIL, telecom remains a long-term compounding story. The sector is likely to turn out into either 'two-private player market or Rs 250 ARPU' scenario with near 100% probability of these events on a combined basis. Potential fund raise by VIL with lack of material price increases is a key risk. Bharti with its superior execution and Balance sheet strength is best-positioned as a pure-player telecom operator. Indus Tower is a proxy-play on telecom tariff increases but runs the risk of VIL shutdown.

Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Company	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Bharti Airtel	2,65,298	20.9	1,20,245	29.8	45.3	310	2,472	(123.9)	0.5	▪ Bharti's consolidated revenue/EBITDA to grow by 2.9/3.3% primarily led by India wireless business. We estimate Bharti to add 7.5mn subscribers and 1.5% QoQ ARPU growth. Bharti would be de-consolidating Indus Tower (erstwhile Bharti Infratel) post-merger from mid-Nov'20. These would negatively impact the Net Debt/EBITDA and Net Debt/Equity ratio. These is on account of lease debt recognition for towers taken on lease by Bharti from Indus, net cash balance of Indus and reduction in EBITDA contribution of Indus.
Reliance Jio	180,147	29.0	77,365	38.6	42.9	298	29,866	95.6	0.7	▪ RJio's revenue/EBITDA/APAT to grow by 3.1/3.1/5% QoQ and 29/39/95.6% YoY. We estimate a net subscriber addition of 5mn and QoQ ARPU growth of 1.5% to Rs 147. Rjio has faced severe criticism in HPH circle (18.3mn active subs as on Oct out of total 310mn) and may witness a higher churn in this market. Jio has also lagged Bharti in active/MBB subscriber additions in trailing couple of months.
Indus Tower	37,609	2.4	19,198	2.3	51.0	(6)	8,057	0.9	4.4	▪ We estimate core rental/energy/overall revenues to grow by 1/3.2/1.8% QoQ. Core/Overall EBITDA to grow by 1.7/5.7% QoQ. Energy margin had been negative in previous two quarters which we expect to reverse. Indus Tower consolidation would happen wef 19th Nov, 2020. Co would also declare an extra-ordinary dividend of ~ Rs18/sh shortly.

Source: DART

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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