

January 7, 2021

## Airtel to lead subscriber addition again!

We expect Bharti Airtel (Airtel) to lead subscriber addition in Q3FY21 aided by VIL churn and challenges faced by the new operator due to farmer's protest. For Airtel, we bake in subscriber addition of ~7.5 million (mn), while for Vodafone Idea (VIL), we expect sub loss of ~4 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 ₹ 165. Indian wireless revenues are expected to see 5.3% QoQ growth at ₹ 14,565 crore. For Vodafone Idea, with ARPU growth of ~3% QoQ at ₹ 123, we expect overall revenues to grow 0.6% QoQ at ₹ 10,861 crore.

## Airtel EBITDA to remain firm on like to like basis

For Airtel, we expect India EBITDA margins at 44.8%, down 100 bps QoQ owing to tower exclusion (up 50 bps on like to like basis). Africa margins are expected to be stable QoQ at 45%. Reported EBITDA at ₹ 11,216 crore is expected to decline 3.7% QoQ with margins expected at 44.2%, down 100 bps QoQ. On adjusted basis, we expect flattish margins QoQ. For Airtel, we expect a net loss of ₹ 56 crore. For Vodafone Idea, we expect margins at 36.8%, down 170 bps QoQ as Q2 had one-off costs benefits of ₹ 300 crore. The company is expected to post a net loss of ₹ 6655 crore.

## Indus Towers merged entity numbers not comparable

For Indus Towers (erstwhile Bharti Infratel), reported numbers will be for merged entity and, hence, not comparable YoY, QoQ. On a merged basis, we bake in net tenancy addition of ~2500. We expect merged entity rental revenues at ₹ 4070 crore, 1.5% QoQ growth on like-to-like basis. Energy revenues would be up 1.8% QoQ (on like to like basis) at ₹ 2403 crore. Overall margins are expected at 50.5%, up 150 bps QoQ on like to like basis.

## TCom to report muted quarter QoQ; STL to improve QoQ

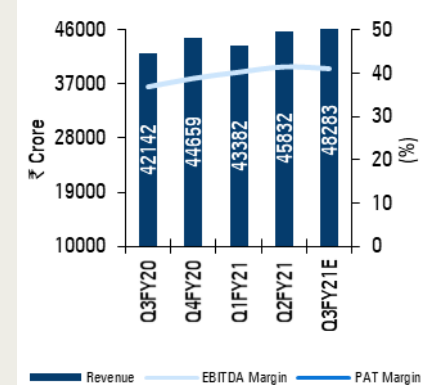
For Tata Communication (TCom), given the seasonally weak quarter (more holidays) and continued delays in closure of transformation deals, the data business is expected to post a 2% QoQ topline decline (up ~4.4% YoY) at ₹ 3570 crore. Hence, overall revenue is expected to decline 2.4% QoQ (up 1.5% YoY) at ₹ 4294 crore. Data segment margins are expected at 28.4% (down 200 bps QoQ given one-offs in Q2) but up 750 bps YoY. Overall margins are expected at 24.8% (down 150 bps QoQ as Q2 had one-off costs benefits). Sterlite Tech (STL) is expected to report topline growth of 5% YoY to ₹ 1263 crore driven by benign base (wherein revenue had declined by ~10%) and some recovery in product segment demand. EBITDA margins for the quarter are expected to decline 150 bps YoY to 18.6%, given the higher product pricing in the base quarter. Reported PAT at ₹ 84.7 crore, is expected to be up 61% YoY (as Q3FY20 had one-off tax settlement). Adjusted PAT is expected to decline 6.5% YoY.

Exhibit 1: Estimates for Q3FY21E: (Telecom )

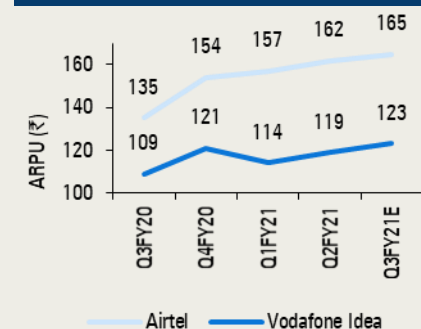
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Bharti Airtel	25,391.4	15.7	-1.5	11,216.3	21.3	-3.7	-56.1	NA	NA			
Indus Towers	6,473.5	NA	NA	3,272.6	NA	NA	1,180.0	NA	NA			
Vodafone Idea	10,860.8	-2.1	0.6	3,998.8	16.9	-3.7	-6,654.6	NA	NA			
Sterlite Technologies	1,263.2	5.0	8.9	234.9	-2.7	16.1	84.7	61.0	44.9			
Tata Comm	4,294.1	1.5	-2.4	1,064.9	40.0	-8.0	283.9	385.0	-26.2			
<b>Total</b>	<b>48,282.9</b>	<b>14.6</b>	<b>5.3</b>	<b>19,787.5</b>	<b>27.3</b>	<b>4.3</b>	<b>-5,162.1</b>	<b>NA</b>	<b>NA</b>			

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 continued traction in subscriber addition at ~7.5 mn, aided by VIL churn and challenges faced by the new operator due to farmers' protest. The reported ARPU is likely to witness ~2% QoQ growth at ₹ 165, aided by higher data based usage upgrades. Indian wireless revenues are expected to witness 5.3% QoQ growth at ₹ 14,565 crore. India non-wireless revenues traction to remain robust especially broadband and enterprise. Africa is likely to witness revenue growth of 1.7% QoQ to ₹ 7288 crore. Consolidated reported revenues are expected to be down 1.5% QoQ at ₹ 25,391 crore (up ~5% QoQ basis on like to like basis as tower revenues post Infratel merger will not be taken below the line). We expect India EBITDA margins at 44.8%, down 100 bps QoQ owing to tower exclusion (up 50 bps on adjusted basis). Africa margins are expected to be stable QoQ at 45%. Reported EBITDA at ₹ 11,216 crore, may decline by 3.7% QoQ with margins expected at 44.2%, down 100 bps QoQ. On adjusted basis, we expect flattish margins QoQ. Expected loss at bottomline level is ~₹ 56 crore. <b>Key monitorable:</b> Commentary on ARPU trajectory and non wireless business
Indus Towers (erstwhile Bharti Infratel)	<b>For Indus Towers, the reported numbers will be for merged entity and therefore not comparable YoY/QoQ.</b> On merged basis, we bake in net tenancy addition of ~2500. We expect merged entity rental revenues at ₹ 4070 crore, 1.5% QoQ growth on like to like basis. Energy revenues would be up 1.8% QoQ (on like to like basis) at ₹ 2403 crore. Overall margins are expected at 50.5%, up 150 bps QoQ on like to like basis. <b>Key monitorable:</b> Future outlook and growth plans
Vodafone Idea	We expect churn for Vodafone Idea to go down driven by completion of network integration. We consequently bake in ~4 million customer exits on a QoQ basis, much lower than average churn of ~10 mn seen in last four quarters. We build in ARPU growth of ~3% QoQ at ₹ 123, aided by higher data based usage upgrades. We expect overall revenues to grow 0.6% QoQ at ₹ 10,861 crore. Reported margins are expected at 36.8%, down 170 bps QoQ as Q2 had one-off costs benefits of ₹ 300 crore. The company is expected to post a net loss of ₹ 6655 crore. <b>Key monitorable:</b> Fund raising plans and ARPU trajectory commentary ahead
Sterlite Tech	Given the benign base (wherein revenue had declined ~10%) and some recovery in product segment demand, we bake in topline growth of 5% YoY to ₹ 1263 crore. Consolidated EBITDA is expected to decline 3% YoY at ₹ 235 crore while EBITDA margins for the quarter are expected to decline 150 bps YoY to 18.6%, given the higher product pricing in the base quarter. Reported PAT at ₹ 84.7 crore, is expected to be up 61% YoY (as Q3FY20 had one-off tax settlement). Adjusted PAT is expected to decline 6.5% YoY. <b>Key monitorable:</b> Management commentary on overall demand & ramp up of solutions based business
Tata Comm	Revenue for the voice business is expected to decline ~4.7% QoQ (down 10.6% YoY) to ₹ 724 crore. Given the seasonally weak quarter (more holidays) and continued delays in closure of transformation deals, the data business, is expected to post a 2% QoQ topline decline (up ~4.4% YoY) at ₹ 3570 crore. Hence, overall revenue is expected to decline 2.4% QoQ (up 1.5% YoY) at ₹ 4294 crore. Overall margins are expected at 24.8% (down 150 bps QoQ as Q2 had one-off costs benefits). Data segment margins are expected at 28.4% (down 200 bps QoQ given one-offs in Q2) but up 750 bps YoY. <b>Key monitorable:</b> 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	545	700	Buy	2,97,467	-59.0	-28.5	11.4	NM	NM	47.7	11.4	9.3	7.1	3.5	7.5	11.3	-4.7	-0.7	11.9
Bharti Infratel	266	220	Hold	49,227	17.8	16.4	17.6	14.9	16.3	15.2	5.8	5.6	5.2	18.1	19.7	22.2	24.4	23.4	25.9
Vodafone Idea	12	6	Sell	34,339	-25.7	-15.7	-8.5	NM	NM	NM	9.3	11.9	9.9	-5.7	-4.8	-4.2	NM	NM	NM
Sterlite Tech	190	150	Reduce	7,512	10.8	8.1	11.8	17.6	23.5	16.1	8.9	10.5	8.1	27.8	20.9	15.4	33.0	25.0	16.5
Tata Comm	1,080	1,055	Buy	30,770	-3.0	38.9	43.7	NM	27.8	24.7	12.1	9.1	8.1	7.8	14.9	16.4	-22.2	-426.5	142.5

Source: Company, ICICI Direct Research, Reuters

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Reduce: -15% to -5%;

Sell: < -15%



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