

- Bharti Airtel (BUY)
- Idea Cellular (REDUCE)
- Bharti Infratel (REDUCE)
- Tata Communications (ADD)

Telecom

GST magnifies seasonal weakness

Q2 is a seasonally weak quarter for the telecom industry, but the replacement of 15% service tax with 18% GST w.e.f. 1-Jul'17 magnified ARPU/EBITDA drop for Bharti Airtel (Bharti) and Idea Cellular (Idea) in Q2FY18, exacerbated by telcos' inability to pass through the increase due to competitive intensity. We see green shoots from: 1) Reliance Jio's tariff increase by ~30% (from Rs309 for 84 days to Rs399), which must also benefit incumbents; and 2) delay in JioPhone delivery and the not-very-disruptive terms and conditions thereof. Further, full-fledged benefits of consolidation are yet to start flowing through to incumbents; we would therefore treat Q2FY18 as an atypical quarter and not a reversal of market repair. Nonetheless, some of these benefits would be offset due to scheduled cut in interconnect usage charges (IUC).

Voice revenues are likely to decline 6-8% QoQ for Bharti / Idea on account of lower volume growth, and continued erosion in pricing. Data revenues are likely to dip (even on low base) by 2-3.5% QoQ due to continued fall in realisation, while volumes may grow upward of 50% QoQ. Consequently, ARPU is expected to show 4.5-6% QoQ dip. Operating deleverages and expansion in the 4G network is likely to have impacted EBITDA significantly.

- ▶ **Bharti's consolidated EBITDA to decline 20.6% YoY (3.8% QoQ)** to Rs75bn led by its India operations' EBITDA drop of 25.5% YoY (5.3% QoQ) to Rs61bn. Within Bharti India, we expect revenues and EBITDA softening in the Home segment and increasing in Enterprise. Bharti Africa's USD EBITDA is expected to rise 18.7% YoY (up 2.5% QoQ) to US\$217mn, partially offsetting weakness in India operations. Company's Africa performance in USD terms is showing gradual recovery probably due to improvement in Nigeria. EUR depreciation should increase forex losses.
- ▶ **Expect Idea's EBITDA to drop 50% YoY and 23% QoQ** to Rs14.3bn led by margin contraction of 11.9pps YoY and 420bps QoQ to 18.6%. We expect Idea to report a net loss of Rs11bn. Our estimate indicates Idea's operating cashflow generation post interest cost would be severely restricted and its net debt already at elevated levels which perhaps may delay its capex. We await Idea's merger with Vodafone, and the resultant synergy, which should aid the merged entity in this challenging times.
- ▶ **Expect Bharti Infratel to see deceleration in tenancy addition (+5,020) in Q2FY18**, and rental per tenant to dip 0.5% YoY / 0.8% QoQ due to rise in tenancy sharing, and perhaps fewer loadings. EBITDA to benefit from improvement in energy spread. Bharti Infratel is likely to report EBITDA growth of 15.9% YoY (2.1% QoQ) and Indus 9.6% YoY (5.1% QoQ). Consolidated net profit will likely be down 14.8% YoY and 0.7% QoQ, to Rs6.6bn on lower other income.
- ▶ **Tata Communications' (TCom) EBITDA at Rs5.9bn, up 4.9% QoQ**, while the YoY figure would not be comparable due to stake sale in Neotel and data centre business. GVS revenues will likely drop 2.0% QoQ and we expect EBITDA margin at 5.5%. GDS revenues will likely grow 3.0% QoQ. We expect GDS EBITDA margin to expand 60bps QoQ, but restricted due to investments in the company's internal digital transformation program. We expect net profit at Rs431mn for Q2FY18.

Quarterly summary

(Rs mn)	Sales			EBITDA			PAT		
	JAS'17*	% chg		JAS'17*	% chg		JAS'17*	% chg	
		(QoQ)	(YoY)		(QoQ)	(YoY)		(QoQ)	(YoY)
Bharti Airtel	216,403	(1.7)	(12.3)	75,069	(3.8)	(20.6)	2,555	(30.4)	(82.5)
Idea Cellular	76,704	(6.0)	(17.5)	14,298	(23.4)	(49.6)	(11,168)	nm	nm
Bharti Infratel	16,428	3.1	9.8	7,982	2.1	15.9	6,590	(0.7)	(14.8)
TCom	43,626	1.2	(3.2)	5,860	4.9	(11.5)	431	nm	nm

* JAS'17: July-Sep'17; Source: Company data, I-Sec research

Please refer to important disclosures at the end of this report

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Table 1: Subscriber growth slows to 8.4%/2.9% YoY for Bharti/Idea

(mn)

Subscribers	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	260	266	274	281	282	0.4	8.4
Idea Cellular	179	185	190	189	184	(2.6)	2.9
Total	439	451	463	470	466	(0.9)	6.1

Source: Company data, I-Sec research

Table 2: ARPU to dip 6.2% QoQ for Bharti, but only 4.5% for Idea due to net drop in subscribers

(Rs)

ARPU	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	188	172	158	154	145	(6.2)	(22.8)
Idea Cellular	173	157	142	141	135	(4.5)	(22.1)

Source: Company data, I-Sec research

Table 3: Voice revenues to slip 6.2%-7.7% QoQ

(Rs mn)

Voice revenue	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	101,604	97,145	92,573	92,724	87,012	(6.2)	(14.4)
Idea Cellular	64,688	62,171	59,947	61,298	56,600	(7.7)	(12.5)
Total	166,293	159,316	152,520	154,023	143,611	(6.8)	(13.6)

Source: Company data, I-Sec research

Table 4: Minutes to grow at 1% QoQ for Bharti/Idea on seasonality and fewer subscriber net adds

(mn min)

Minutes	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	313,403	330,217	381,236	421,912	426,131	1.0	36.0
Idea Cellular	195,504	209,828	231,372	250,729	253,236	1.0	29.5
Total	508,907	540,045	612,608	672,641	679,367	1.0	33.5

Source: Company data, I-Sec research

Table 5: Voice RPM to collapse 7.1%-8.6% QoQ due to unlimited voice offers

(Rs/min)

Voice RPM	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	0.324	0.294	0.243	0.220	0.204	(7.1)	(37.0)
Idea Cellular	0.331	0.296	0.259	0.244	0.224	(8.6)	(32.5)

Source: Company data, I-Sec research

Table 6: Data revenues to dip despite favourable base

(Rs mn)

Data revenue	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	35,823	30,879	27,452	28,181	27,617	(2.0)	(22.9)
Idea Cellular	19,957	17,109	14,559	13,633	13,140	(3.6)	(34.2)
Total	55,780	47,988	42,011	41,815	40,757	(2.5)	(26.9)

Source: Company data, I-Sec research

Table 7: Blended RPM to fall 5.9% / 7.0% QoQ for Bharti and Idea

(Rs/min)

Blended RPM	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Bharti Airtel	0.463	0.411	0.335	0.305	0.287	(5.9)	(38.0)
Idea Cellular	0.470	0.407	0.345	0.320	0.298	(7.0)	(36.7)

Source: Company data, I-Sec research

Table 8: Data revenue contribution to total mobile revenues

(%)

Data as % of mobile revenue	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E
Bharti Airtel	24.7	22.8	21.5	21.9	21.5
Idea Cellular	21.9	20.2	18.3	17.1	17.5

Source: Company data, I-Sec research

Table 9: Forex movement

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Average INR/USD	67.1	67.6	67.1	64.4	64.3	0.3	4.3

Source: Bloomberg, I-Sec research

Table 10: African currencies (average) movement against USD

Country	Contribution to Africa revenue (%)	% chg (QoQ)	% chg (YoY)	Country	Contribution to Africa revenue (%)	% chg (QoQ)	% chg (YoY)
Nigeria	30.4	(9.1)	(11.6)	Gabon	4.7	5.7	5.1
D.R. Congo	9.5	0.3	(6.6)	Ghana	4.4	5.7	5.1
Tanzania	8.3	(10.5)	(61.4)	Chad	4.3	(2.3)	(11.8)
Uganda	7.7	0.2	(2.0)	Malawi	3.5	0.1	(0.9)
Congo	7.2	2.1	8.5	Madagascar	2.0	6.6	2.4
Niger	5.7	6.0	5.4	Rwanda	0.7	(0.9)	(6.0)
Zambia	5.6	5.7	5.1	Seychelles	0.7	(0.3)	(2.0)
Kenya	5.4	(0.1)	(2.1)				

Source: Bloomberg, I-Sec research

Note: Revenue contribution is based on CY16 numbers

Bharti Airtel (BUY, target price Rs496)

(QoQ chg: 1.4%; YTD chg: 25.8%)

Q2FY18 estimates

(Rs mn, year ending March 31)

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Financials (Rs mn)							
Revenue	192,570	180,839	171,608	172,865	168,563	(2.5)	(12.5)
EBITDA	82,206	72,518	66,986	64,638	61,218	(5.3)	(25.5)
EBITDA margin (%)	42.7	40.1	39.0	37.4	36.3	-107bp	-637bp
Bharti Airtel - Africa Financials (US\$ mn)							
Revenue	790	792	752	753	766	1.8	(3.0)
EBITDA	182	190	195	211	217	2.5	18.7
EBITDA margin (%)	23.1	24.0	25.9	28.1	28.3	20bp	517bp
Bharti (consolidated) Financials (Rs mn)							
Revenue	246,715	233,639	219,806	220,067	216,403	(1.7)	(12.3)
EBITDA	94,602	85,097	79,060	78,070	75,069	(3.8)	(20.6)
EBITDA margin (%)	38.3	36.4	36.0	35.5	34.7	-79bp	-366bp
PAT	14,607	5,037	3,734	3,673	2,555	(30.4)	(82.5)
NPM (%)	5.9	2.2	1.7	1.7	1.2		
EPS (Rs)	3.7	1.3	0.9	0.9	0.6	(30.4)	(82.5)

Source: Company data, I-Sec research

Idea Cellular (REDUCE, target price: Rs85)

(QoQ chg: -9.6%; YTD chg: 2.4%)

Q2FY18 estimates

(Rs mn, year ending March 31)

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Revenue	92,989	86,607	81,091	81,574	76,704	(6.0)	(17.5)
EBITDA	28,388	21,635	21,795	18,663	14,298	(23.4)	(49.6)
EBITDA margin (%)	30.5	25.0	26.9	22.9	18.6	-424bp	-1189bp
PAT	915	(3,839)	(3,277)	(8,149)	(11,168)	37.0	(1,321.0)
NPM (%)	1.0	(4.4)	(4.0)	(10.0)	(14.6)		
EPS (Rs)	0.3	(1.1)	(0.9)	(2.3)	(3.1)	35.9	(1,321.0)

Source: Company data, I-Sec research.

Bharti Infratel (REDUCE, target price: Rs360)

(QoQ chg: 1.7%; YTD chg: 18.9%)

Q2FY18 estimates

(Rs mn, year ending March 31)

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
KPIs							
Towers	89,791	90,255	90,646	90,837	91,218	0.4	1.6
Tenancies	198,795	204,934	210,606	218,401	223,421	2.3	12.4
Tenancies net adds (QoQ)	2,393	6,139	5,673	7,795	5,020		
Tenancy (x)	2.21	2.24	2.30	2.36	2.43		
Reported rentals (Rs/month)	34,994	34,966	35,029	35,112	34,825	(0.8)	(0.5)
Financials (Rs mn)							
Revenue	14,963	15,300	16,053	15,934	16,428	3.1	9.8
EBITDA	6,890	7,056	7,695	7,816	7,982	2.1	15.9
EBITDA margin (%)	46.0	46.1	47.9	49.1	48.6	-46bp	254bp
Share of profit from JV	2,866	3,041	3,272	3,208	3,482	8.5	21.5
PAT	7,738	6,204	5,966	6,639	6,590	(0.7)	(14.8)
EPS (Rs)	4.1	3.3	3.1	3.5	3.5	(0.7)	(14.8)

Source: Company data, I-Sec research

Tata Communications (ADD, target price: Rs750)

(QoQ chg: 0.3%; YTD chg: 10.4%)

Q2FY18 estimates

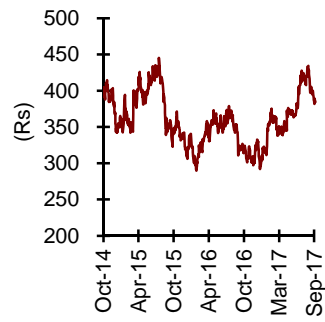
(Rs mn, year ending March 31)

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18E	% chg QoQ	% chg YoY
Segment Revenue	46,891	44,188	42,996	43,100	43,626	1.2	(7.0)
Global voice	17,734	16,524	15,030	15,334	15,027	(2.0)	(15.3)
Global data services	29,157	27,664	27,966	27,766	28,599	3.0	(1.9)
Segment EBITDA	7,792	5,919	6,165	5,587	5,860	4.9	(24.8)
Global voice	1,178	845	1,100	876	827	(5.7)	(29.8)
Global data services	6,614	5,074	5,065	4,711	5,033	6.8	(23.9)
Segment EBITDA margin (%)	16.6	13.4	14.3	13.0	13.4		
Global voice	6.6	5.1	7.3	5.7	5.5		
Global data services	22.7	18.3	18.1	17.0	17.6		
Consolidated*							
Revenue	45,091	43,601	42,937	43,100	43,626	1.2	(3.2)
EBITDA (adjusted)	6,625	5,691	6,165	5,586	5,860	4.9	(11.5)
EBITDA margin (%)	14.7	13.1	14.4	13.0	13.4	47bp	-126bp
PAT	400	14,129	(2,617)	329	431	30.8	7.8
NPM (%)	0.9	32.4	(6.1)	0.8	1.0		

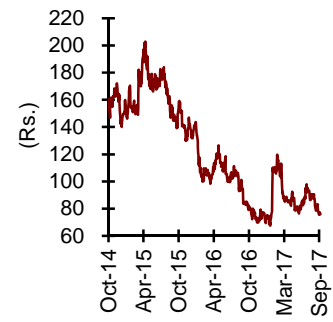
Source: Company data, I-Sec research. * Q1FY17 numbers includes data centre and Neotel financials

Price charts

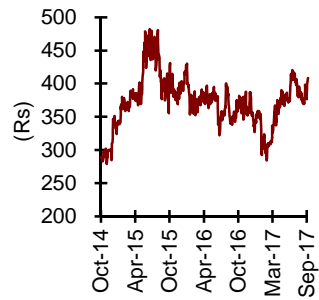
Bharti Airtel



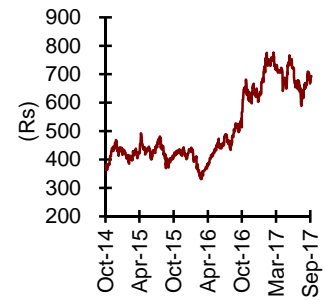
Idea Cellular



Bharti Infratel



Tata Communications



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