

July 10, 2020

## Lockdown to have some impact on telcos in Q1

Both the reported subscriber base and ARPU are likely to be sequentially lower for telcos in Q1FY21 given the lockdown effect. For Airtel and Vodafone Idea (VIL), we expect subscriber (sub) loss of ~2 million (mn) and ~10 mn, respectively, on account of Covid-19 led disruption. We note that telcos had extended their prepaid validity for low cost users during lockdown. For Bharti, reported ARPU is likely to see ~2% QoQ decline at ₹ 151. Indian wireless revenues are expected to see 2.2% QoQ decline at ₹ 12,665 crore. For Vodafone Idea, with ARPU decline of ~5% QoQ at ₹ 115 due and subscriber churn, we expect overall revenues to decline 8% QoQ at ₹ 10,819 crore. **Other notable Q1FY21 trends could be weak international roaming revenues, higher adoption of digital recharges, superior broadband traction and relatively slower 4G adoption impacted by low smartphone sales.**

## Topline sluggishness to percolate to EBITDA

For Airtel, we expect sequentially flattish India EBITDA margins at 42.7% as higher network operating cost will be offset by lower admin and S&D expenses (digital recharge led lower commissions). Africa margins are expected to be stable QoQ at 44%. Reported EBITDA margins are expected at 43%, flattish QoQ. For Airtel, we expect a net loss of ₹ 240 crore. For Vodafone Idea, we expect margins of 33.7%, down 360 bps QoQ as Q4FY20 had one-off benefits of ₹ 400 crore in employee cost (reversal of variable pay) and network operator cost (provision write backs). The company is expected to post a net loss of ₹ 6340 crore.

## Infratel to report muted numbers

For Infratel, we expect net tenancy addition of ~1000. We expect 1% QoQ decline in rental revenues at ₹ 2229 crore, largely due to residual impact of exits (equipment removal) during previous quarters by VIL. Overall margins are expected at 50.5%, up 360 bps QoQ as Q4FY20 had one-off provision for debtors of ~₹ 193 crore.

## Both TCom, Sterlite to witness some Covid-19 impact

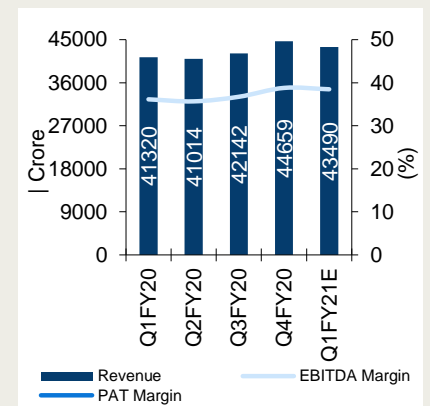
Sterlite Tech is expected to witness the impact of weak product demand as well as Covid-19 impact resulting in 40%, 49% decline in topline, EBITDA, respectively. PAT is expected to decline ~80% YoY given the incremental depreciation and interest of new capacity. Tata Communication (TCom) is likely to report a muted performance. Overall revenue is expected to decline 0.5% QoQ at ₹ 4376 crore with flattish QoQ (~9.5% YoY) data segment topline while voice business is expected to decline ~2% QoQ (down 11.4% YoY). Overall margins are expected at 19.6% (down 20 bps QoQ but flattish on adjusted basis as Q4 rental revenues had one-off benefits).

Exhibit 1: Estimates for Q1FY21E: (Telecom )

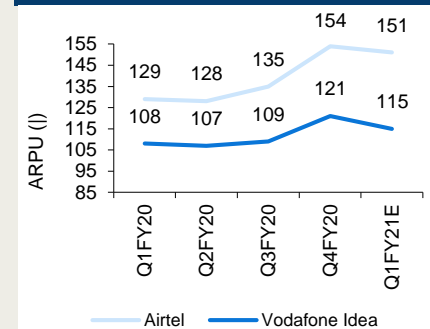
Company	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
Bharti Airtel	23,835.4	14.9	0.5	10,249.1	24.3	0.8	-240.0	NA	NA
Bharti Infratel	3,600.2	-3.0	-0.7	1,816.8	-4.2	6.9	730.6	-17.6	12.5
Vodafone Idea	10,819.3	-4.0	-8.0	3,649.4	0.0	-16.7	-6,340.3	NA	PL
Sterlite Technologies	859.6	-40.0	-25.9	164.2	-49.2	-24.0	28.3	-80.0	-64.8
Tata Comm	4,375.8	5.0	-0.5	855.5	3.6	-1.5	96.8	26.4	LP
<b>Total</b>	<b>43,490.3</b>	<b>5.3</b>	<b>-2.6</b>	<b>16,735.0</b>	<b>12.0</b>	<b>-3.4</b>	<b>-5,724.6</b>	<b>NA</b>	<b>NA</b>

Source: Company, ICICI Direct Research \*

Topline &amp; Profitability (Coverage Universe)



ARPU trend



Top Pick

Bharti Airtel

Research Analyst

Bhupendra Tiwary, CFA

bhupendra.tiwary@icicisecurities.com

bharat.chhoda@icicisecurities.com

## Exhibit 2: Company Specific view - Telecom

Company	Remarks
Bharti Airtel	We expect a marginal sub loss of ~2 mn on account of Covid-19 led disruption, which had impacted recharge by low cost prepaid customers. Notwithstanding some tariff hike pass through, reported ARPU is likely to witness ~2% QoQ decline at ₹ 151 as the company had extended its prepaid validity for low cost users till May 3, 2020. Indian wireless revenues are expected to witness 2.2% QoQ decline at ₹ 12,665 crore. India non-wireless revenues traction may remain robust, especially broadband and enterprise. Africa is likely to witness revenue growth of 3% QoQ to ₹ 6689 crore, aided by forex movement. Consolidated revenues are expected to be up 0.5% QoQ at ₹ 23,835 crore. We expect sequentially flattish India EBITDA margins at 42.7% as higher network operating cost will be offset by lower admin and S&D expenses. Africa margins are expected to be stable at 44%. Reported EBITDA margins are expected at 43%, flattish QoQ. Expected loss at bottomline level is ~₹ 240 crore. <b>Key monitorable:</b> Commentary on ARPU trajectory and non-telecom business
Bharti Infratel	For Bharti Infratel, we bake in net tenancy addition of ~1000. We expect 1% QoQ decline in rental revenues at ₹ 2229 crore, largely due to residual impact of exits (equipment removal) during previous quarters by VIL. Energy revenues would be flattish QoQ at ₹ 1391 crore. Overall margins are expected at 50.5%, up 360 bps QoQ as Q4FY20 had one-off provision for debtors of ~₹ 193 crore. <b>Key monitorable:</b> future outlook and growth plans
Vodafone Idea	We expect churn for Vodafone Idea to continue amid integration led challenges and Covid-19 impact. We consequently bake in ~10 million customer exits on a QoQ basis. Given the extension of validity of low cost customers during lockdown, we build in ARPU decline of ~5% QoQ at ₹ 115. We expect overall revenues to decline 8% QoQ at ₹ 10,819 crore. Reported margins are expected at 33.7%, down 360 bps QoQ as Q4FY20 had one-off benefits of ₹ 400 crore in employee cost (reversal of variable pay) and network operator cost (provision write-backs). The company is expected to post a net loss of ₹ 6340 crore. <b>Key monitorable:</b> AGR led relief and development on floor pricing norms
Sterlite Tech	Given the weak demand in product segment and Covid-19 led execution challenges in solutions/services business, we bake in topline decline of 40% YoY to ₹ 860 crore. With negative operating leverage kicking in, consolidated EBITDA is expected to decline 49% YoY at ₹ 164 crore while EBITDA margins for the quarter are expected to decline 350 bps YoY to 19.1%. Reported PAT at ₹ 28.3 crore, is expected to be down 80% 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 ~2% QoQ (down 11.4% YoY) to ₹ 788 crore. The data business is expected to post a flattish QoQ topline (~9.5% YoY) at ₹ 3587 crore. Data segment revenue is expected to be impacted by Covid-19 in the usage based segments, while traditional (bandwidth usage) and growth (conferencing) are expected to remain robust given work from home usage. Hence, overall revenue is expected to decline 0.5% QoQ (up 5% YoY) at ₹ 4376 crore. Overall margins are expected at 19.6% (down 20 bps QoQ but flattish on adjusted basis as Q4 rental revenues had one-off benefits). Data segment margins are expected at 22.6% (flattish QoQ on adjusted basis). <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 (%)		
					FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E
Bharti Airtel	569	700	Buy	310,233	1.0	-59.0	7.3	555.1	NM	77.4	16.5	11.8	8.8	2.1	3.5	7.1	-3.5	-4.7	5.2
Bharti Infratel	215	175	Hold	39,683	13.5	17.8	16.3	15.9	12.0	13.2	4.6	4.7	4.5	21.2	18.1	19.4	17.2	24.4	23.3
Vodafone Idea	9	UR	UR	28,937	-5.1	-23.7	-5.4	NM	NM	NM	31.7	8.4	6.3	-5.0	-5.1	-3.3	NM	NM	NM
Sterlite Tech	136	95	Hold	5,491	14.0	10.8	8.5	9.8	12.7	16.0	6.4	7.0	7.5	29.7	27.8	20.9	28.7	33.0	25.1
Tata Comm	626	600	Hold	17,832	-2.9	-3.0	13.0	NM	NM	48.3	9.7	8.2	7.7	5.9	5.4	7.8	9.4	127.7	-22.2

Source: Company, ICICI Direct Research, Reuters

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction