

April 5, 2021

Airtel to report strong operating print again!

We expect Airtel to lead subscriber addition again in Q4FY21. For Bharti Airtel (Airtel), we bake in subscriber addition of ~9 million (mn) while for Vodafone Idea (VIL), we expect sub loss of ~2 mn (similar to Q3). Q4FY21 will witness the impact of IUC going to zero impacting both topline and costs. For Airtel, reported ARPU is likely to see ~6.5% QoQ decline (~9% decline owing to IUC impact offset by ~2.5% like to like growth) at ₹ 155. Indian wireless revenues are expected to see 3.1% QoQ decline at ₹ 14,326 crore. For Vodafone Idea, with ARPU decline of ~9% QoQ (~11% decline owing to IUC impact offset by ~2% like to like growth) at ₹ 110, we expect overall revenues to decline 8.8% QoQ at ₹ 9940 crore.

EBITDA margins to improve optically with IUC going to zero

With IUC going to zero, removal of revenues, costs will result in improved optical margins (Airtel being a net payer would gain in absolute terms while VIL being a net receiver would lose). For Airtel, we expect India EBITDA margins at 48.5%, up 330 bps QoQ. Africa margins are expected to be stable QoQ at 46.5%. Reported EBITDA at ₹ 12,326 crore, is expected to grow 2.3% QoQ with margins expected at 47%, up 150 bps QoQ. For Airtel, we expect PAT of ₹ 169 crore. For Vodafone Idea, EBITDA at ₹ 4170 crore, will decline by 2.7% QoQ. We expect margins at 42%, up 270 bps QoQ. VIL is expected to post a net loss of ₹ 6481 crore.

Indus Towers to reported muted numbers

Indus Towers (erstwhile Bharti Infratel) is likely to report muted numbers as Q3 had higher exit penalty receipts. On a merged basis, we bake in net tenancy addition of ~3670. We expect merged entity rental revenues at ₹ 4180 crore, 3% QoQ decline. Energy revenues are expected to be up 5.9% QoQ (on a like to like basis) at ₹ 2566 crore. Overall margins are expected at 50.7%, down 200 bps QoQ on a like to like basis.

Muted quarter for TCom; STL to report stellar numbers

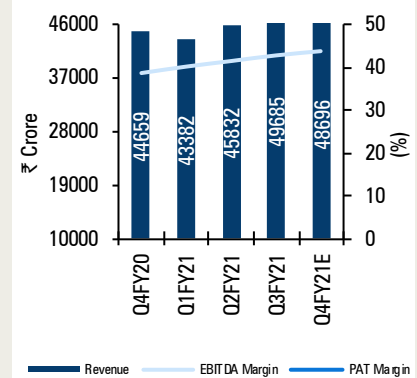
For Tata Communication (TCom), with disruption in the European region due to Covid-19 and continued delays in closure of transformation deals, the data business is expected to post 2.5% QoQ topline growth (up ~1.1% YoY) at ₹ 3636 crore. Hence, overall revenue is expected to grow 2% QoQ (down 2.1% YoY) at ₹ 4307 crore. Data segment margins are expected at 26.9% (down 200 bps QoQ given one-offs in Q3) but up 400 bps YoY. Overall margins are expected at 23.5% (down 130 bps QoQ). Sterlite Tech (STL) is expected to report topline growth of 25% YoY to ₹ 1452 crore driven by depressed base (wherein revenue had fallen ~35%) and some recovery in product segment demand. EBITDA margins for the quarter are expected to fall 50 bps YoY to 18.1%, given higher product pricing in the base quarter. Reported PAT at ₹ 114 crore is expected to be up 42% YoY.

Exhibit 1: Estimates for Q4FY21E: (Telecom)

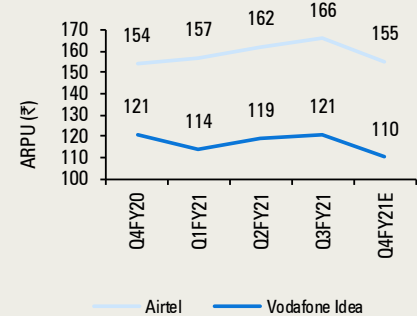
Company	Revenue			EBITDA			PAT		
	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ
Bharti Airtel	26,252.1	10.7	-1.0	12,326.1	21.3	2.3	169.0	LP	-80.2
Indus Towers	6,746.5	NA	0.2	3,423.4	NA	-3.6	1,142.8	NA	-16.0
Vodafone Idea	9,939.5	-15.4	-8.8	4,169.7	-4.8	-2.7	-6,481.5	NA	NA
Sterlite Technologies	1,451.6	25.1	10.4	262.7	21.6	14.2	114.1	31.7	42.1
Tata Comm	4,306.5	-2.1	2.0	1,013.5	16.7	-3.1	273.0	LP	-11.7
Total	48,696.2	9.0	-2.0	21,195.6	22.3	0.1	-4,782.6	NA	NA

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 ~9 mn. Q4FY21 will witness the impact of IUC going to zero (with effect from January 1, 2021) impacting both topline and costs. The reported ARPU is likely to see ~6.5% QoQ decline (~9% decline owing to IUC impact offset by ~2.5% like to like growth) at ₹ 155. Indian wireless revenues are expected to see 3.1% QoQ decline at ₹ 14,326 crore. India non-wireless revenues traction is expected to remain robust especially broadband and enterprise. Africa is likely to witness revenue growth of 0.9% QoQ to ₹ 7712 crore. Consolidated reported revenues are expected to be down 1% QoQ at ₹ 26,252 crore. We expect India EBITDA margins at 48.5%, up 330 bps QoQ. Africa margins are expected to be stable QoQ at 46.5%. Reported EBITDA at ₹ 12,326 crore is likely to be up 2.3% QoQ with margins expected at 47%, up 150 bps QoQ. We expect PAT of ₹ 169 crore. Key monitorable: Commentary on ARPU trajectory and non wireless business
Indus Towers (erstwhile Bharti Infratel)	Indus Towers is likely to report muted number as Q3 had higher exit penalty receipts. On a merged basis, we bake in net tenancy addition of ~3670. We expect merged entity rental revenues at ₹ 4180 crore, 3% QoQ decline. Energy revenues would be up 5.9% QoQ (on a like to like basis) at ₹ 2566 crore, driven by higher diesel prices. Overall margins are expected at 50.7%, down 200 bps QoQ on like to like basis, as base quarter had merger led benefits. Key monitorable: Future outlook and growth plans
Vodafone Idea	We expect churn for Vodafone Idea to remain controlled driven by completion of network integration. We consequently bake in ~2 million customer exits on a QoQ basis (similar to Q3). We build in ARPU decline of ~9% QoQ (~11% decline owing to IUC impact offset by ~2% like to like growth) at ₹ 110. We expect overall revenues to decline 8.8% QoQ at ₹ 9940 crore. EBITDA at ₹ 4170 crore is expected to decline 2.7% QoQ. Reported margins are expected at 42%, up 270 bps QoQ, largely the IUC led revenues cost exclusion impact. The company is expected to post a net loss of ₹ 6481 crore. Key monitorable: Fund raising plans and ARPU trajectory commentary ahead
Sterlite Tech	Given the benign base (wherein revenue had declined ~35%) and some recovery in product segment demand, we bake in topline growth of 25.1% YoY to ₹ 1452 crore. Consolidated EBITDA is expected to grow 21.6% YoY at ₹ 263 crore while EBITDA margins for the quarter are expected to decline 50 bps YoY to 18.1%, given the higher product pricing in the base quarter. Reported PAT at ₹ 114.1 crore, is expected to be up 42.1% YoY driven by strong operating profit growth. Key monitorable: Management commentary on overall demand & ramp up of solutions based business
Tata Comm	Revenue for the voice business is expected to decline ~0.5% QoQ (down 16.5% YoY) to ₹ 671 crore. Given the disruption in European region due to Covid-19 and continued delays in closure of transformation deals, the data business is expected to post 2.5% QoQ topline growth (up ~1.1% YoY) at ₹ 3636 crore. Hence, overall revenue is expected to grow 2% QoQ (down 2.1% YoY) at ₹ 4307 crore. Data segment margins are expected at 26.9% (down 200 bps QoQ given one-offs in Q3) but up 400 bps YoY. Overall margins are expected at 23.5% (down 130 bps QoQ). Key monitorable: Growth outlook commentary

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Telecom)

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	528	730	Buy	2,88,192	-59.0	-26.7	18.6	NM	NM	28.4	11.1	9.2	6.8	4.1	7.4	11.5	-5.3	-1.3	17.8
Indus Towers	252	245	Hold	67,858	17.8	14.5	17.5	14.1	17.3	14.4	9.4	7.6	5.6	18.1	17.1	20.5	24.4	23.1	27.1
Vodafone Idea	10	6	Sell	27,442	-25.7	-14.9	-8.0	NM	NM	NM	9.9	12.5	11.0	-5.7	-4.4	-2.6	NM	NM	NM
Sterlite Tech	207	200	Hold	8,191	10.8	7.3	11.7	19.2	28.5	17.6	9.5	12.2	8.5	27.8	20.9	14.6	33.0	25.0	15.1
Tata Comm	1,113	1,210	Buy	31,708	-3.0	44.6	46.0	NM	24.9	24.2	12.4	9.0	8.2	7.8	16.0	16.6	-22.2	NM	118.7

Source: Company, ICICI Direct Research, Reuters

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