

October 6, 2021

Mixed performance likely!

We expect the subscriber addition trend to be mixed for the industry, Industry leader – Reliance Jio (Jio) is likely to lead subscriber addition with ~15 million (mn) net adds in Q2. On the other hand, Vodafone Idea (VIL) is expected to continue experiencing churn, also impacted by last quarter's tariff hike for 2G customers, which, in our view, will drive consolidation. Thus, for VIL, we expect subscriber loss of ~6 mn. For Jio, reported ARPU is likely to be up 1% QoQ at ~₹ 140 while revenues are expected to see 4.1% QoQ growth at ₹ 18,734 crore. For Vodafone Idea, with ARPU growth of ~6% QoQ at ₹ 110, we expect overall revenues to grow 2.1% QoQ at ₹ 9347 crore.

Flattish margins for Jio; slight margin expansion for VIL

For Jio, we expect EBITDA margins at 47.8%, flattish QoQ. For Jio, we expect a net profit of ₹ 3470 crore, down 1% QoQ, as EBITDA growth will be offset by higher depreciation/interest. For Vodafone Idea, we expect margins at 41.1%, up 60 bps QoQ, aided by higher ARPU. The company is expected to post a net loss of ₹ 7439 crore.

Indus Towers to report stable numbers

Indus Towers is likely to report stable number during the quarter. We bake in tower, net tenancy addition of 1810, 3000, respectively, in Q2FY22. We expect rental revenues at ₹ 4274 crore, up 1.5% QoQ. Energy revenues are expected to be up 6% QoQ at ₹ 2742 crore, driven by higher diesel prices. Overall margins are expected at 50.7%, down 100 bps QoQ given the higher share of energy revenues, which currently have negative spread.

TCom to witness gradual sequential growth

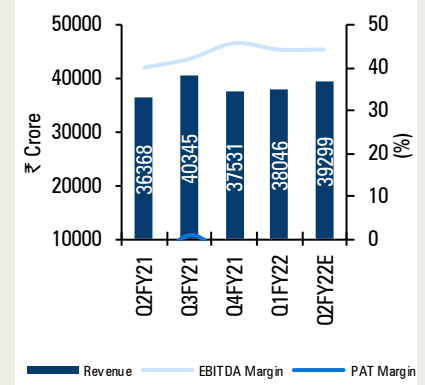
For Tata Communications (TCom), given the gradual reopening of the economy and its key markets in the European region, we expect data revenue growth of 3.1% QoQ at ₹ 3200 crore. Voice revenues are expected to continue to remain weak with 1.2% QoQ decline at ₹ 582 crore. Overall revenue is expected to grow 2.4% QoQ at ₹ 4202 crore. Data segment margins are expected at 30% (flattish QoQ). Overall margins are expected at 24.3% (up 30 bps QoQ).

Exhibit 1: Estimates for Q2FY22E: (Telecom)

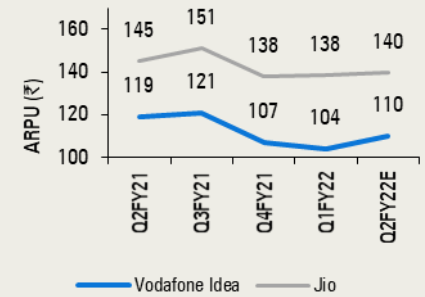
Company	₹ crore								
	Revenue			EBITDA			PAT		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
Indus Towers	7,016	NA	3.2	3,557	NA	1.2	1,425	NA	0.7
Vodafone Idea	9,347	-13.4	2.1	3,840	-7.5	3.6	-7,439	NA	NA
Jio	18,734	7.2	4.1	8,962	19.4	4.0	3,470	22.0	-0.9
Tata Comm	4,202	-4.5	2.4	1,022	-11.7	3.6	304	-20.9	2.7
Total	39,299	8.1	3.3	17,381	18.8	3.3	-2,241	NA	NA

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



ARPU trend



Top Pick

Tata Communications

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Exhibit 2: Company Specific view - Telecom

Company	Remarks
Indus Towers	For Indus Towers, we bake in tower and net tenancy addition of 1810 and 3000, respectively in Q2FY22. We expect rental revenues at ₹ 4274 crore, up 1.5% QoQ. Energy revenues are anticipated to be up 6% QoQ at ₹ 2742 crore, driven by higher diesel prices. Overall margins are expected at 50.7%, down 100 bps QoQ given the higher share of energy revenues, which currently has negative spread. Key monitorable: Future outlook and growth plans
Vodafone Idea	We expect the churn for Vodafone Idea to continue given its stressed balance sheets restricting network spends as well as recent tariff hike in the 2G segment, which, we believe, will drive SIM consolidation. We consequently bake in ~6 million customer exits in Q2. We build in monthly ARPU growth of ~6% QoQ at ₹ 110, largely driven by tariff hike seen in 2G and postpaid segment. We expect overall revenues to grow 2.1% QoQ at ₹ 9347 crore. EBITDA, at ₹ 3840 crore, is expected to grow 3.6% QoQ driven by ARPU growth. Reported margins are expected at 41.1%, up 60 bps QoQ. The company is expected to post a net loss of ₹ 7439 crore. Key monitorable: Fund raising plans and ARPU trajectory commentary ahead
Tata Comm	For Tata Communications (TCom), given the gradual reopening of the economy, mainly its key markets in the European region, we expect data revenue growth of 3.1% QoQ at ₹ 3200 crore. Voice revenues are expected to continue to remain weak with 1.2% QoQ decline at ₹ 582 crore. Thus, overall revenue is expected to grow 2.4% QoQ at ₹ 4202 crore. Data segment margins are expected at 30% (flattish QoQ). Overall margins are expected at 24.3% (up 30 bps QoQ). Key monitorable: Growth outlook commentary
Jio	We expect Jio to continue to lead subscriber addition with net subscriber addition of ~15 mn. Monthly ARPU, however, is expected to be muted with ~1% QoQ growth at ₹ 140. Hence, overall revenue is expected to grow 4.1% QoQ at ₹ 18734 crore. EBITDA, at ₹ 8962 crore, is likely to grow 4% QoQ. Overall EBITDA margins are expected at 47.8% (flattish QoQ). Key monitorable: Commentary on ARPU trajectory, Jio Fiber

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 (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Indus Towers	313	220	Hold	84,350	18.5	20.5	21.0	17.0	15.3	14.9	7.8	7.1	6.7	21.7	23.6	23.4	31.3	32.4	30.8
Vodafone Idea	11	4	Sell	32,902	-15.4	-9.9	-9.3	NM	NM	NM	12.5	13.8	11.8	-4.1	-4.9	-3.1	NM	NM	NM
Tata Comm	1,477	1,725	Buy	42,107	43.9	48.2	60.5	33.7	30.7	24.4	11.7	11.4	9.7	20.7	20.3	23.7	NM	98.6	57.2

Source: Company, ICICI Direct Research, Reuters

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Sell: < -15%



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