

January 6, 2022

## Partial benefit of tariff hike to be seen!

We expect subscriber addition momentum to moderate for the industry amid recent tariff hike. Reliance Jio (Jio) is likely to lead the subscriber addition with ~8 mn net adds mainly led by JioPhone Next launch. Bharti Airtel (Airtel), which is likely to add ~0.3 mn subscribers, with modest addition amid tariff hike led consolidation. On the other hand, Vodafone Idea (VIL) is expected to continue experiencing churn (albeit in a controlled level vis-à-vis earlier quarter) with subscriber loss of ~2 mn. ARPU growth will be seen for all telcos, led by partial benefit of tariff hike. We expect Jio, Airtel, VIL to report ARPU to be up 6%, 4%, 6% QoQ at ~₹ 149, ₹ 163, ₹ 116, respectively. The lower ARPU growth for Jio is owing to lag between tariff hike vs. peers and larger share of long duration renewals. For Jio, revenues are expected at ₹ 19,387 crore, up 3.5% QoQ. Airtel's India wireless revenue is expected at ₹ 16,111 crore, up 6.1% QoQ. For Vodafone Idea, we expect overall revenues to grow 4.6% QoQ at ₹ 9835 crore.

## Tariff hike to aid margins

Airtel India EBITDA margins are expected at 51.2%, up 160 bps, aided by tariff hike flow through. Overall consolidated margins are expected at 49.7%, up 90 bps. We expect PAT at ₹ 1240 crore for Airtel. For Jio, we expect EBITDA margins at 48.1%, up 10 bps QoQ and net profit of ₹ 3675 crore, up 4.2% QoQ. For Vodafone Idea, we expect margins at 41.6%, up 50 bps QoQ, aided by higher ARPU. The company is expected to post a net loss of ₹ 6993 crore.

## Indus Towers to report stable numbers

Indus Tower is likely to report stable number during the quarter. We bake in tower and net tenancy addition of 2470 and 3500, respectively in Q3FY22. We expect rental revenues at ₹ 4290 crore, up 1% QoQ growth. Energy revenues would be up 1% QoQ at ₹ 2650 crores. Overall margins are expected at 52.8%, flattish QoQ.

## TCom to witness gradual growth recovery

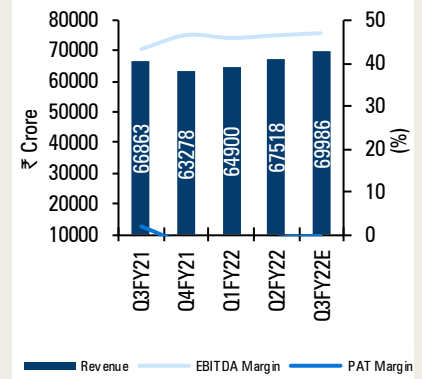
For Tata Communications (TCom), we expect gradual growth recovery and YoY growth in revenues after three quarters of decline, despite seasonally weak quarter wherein usage based revenues are lower due to holidays. The data revenue is expected to grow 2% QoQ (up 2.5% YoY) at ₹ 3203 crore. The voice revenues would continue to remain weak with 5% QoQ (14.7% YoY decline) decline at ₹ 575 crore. The overall revenue is expected to grow 1% QoQ at ₹ 4215 crore. Data segment margins are expected at 31% (down 240 bps QoQ as it had one-off benefits). Overall margins are expected at 25.6% (down 110 bps QoQ), as Q2FY22 had one off benefits.

Exhibit 1: Estimates for Q3FY22E: (Telecom )

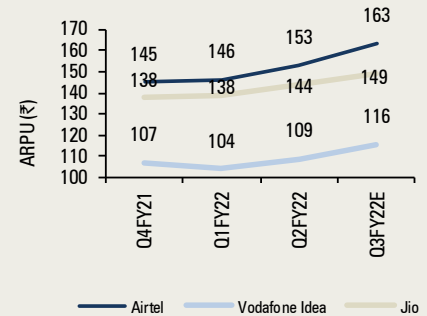
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
Bharti Airtel	29,608	11.7	4.5	14,706	22.0	6.5	1,240	45.3	9.4			
Indus Towers	6,941	3.0	0.9	3,662	3.1	1.1	1,533	12.8	-1.6			
Vodafone Idea	9,835	-9.7	4.6	4,096	-4.4	6.0	-6,993	NA	NA			
Jio	19,387	4.8	3.5	9,333	15.0	3.8	3,675	11.7	4.2			
Tata Comm	4,215	-0.2	1.0	1,079	3.1	-3.0	374	20.8	-12.2			
<b>Total</b>	<b>69,986</b>	<b>4.7</b>	<b>3.7</b>	<b>32,876</b>	<b>13.2</b>	<b>4.7</b>	<b>-170</b>	<b>PL</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	The reported ARPU is likely to be up 6% QoQ at ₹ 163 as tariff hike benefits will kick in partially during the quarter. We expect modest addition of 0.3 mn subs amid tariff hike. Indian wireless revenues are expected to see 6.1% QoQ growth at ₹ 16,111 crore. India non-wireless revenues traction to remain robust especially broadband and enterprise. Africa is likely to witness revenue growth of 1.8% QoQ to ₹ 8745 crore. Consolidated reported revenues are expected to be up 4.5% QoQ at ₹ 29,608 crore. We expect India EBITDA margins at 51.2%, up 160 bps QoQ, aided by tariff hike flow through. Overall consolidated margins are expected at 49.7%, up 90 bps QoQ. We expect PAT at ₹ 1240 crore. <b>Key monitorable:</b> Commentary on ARPU trajectory and non-wireless business.
Indus Towers	For Indus Towers, we bake in tower and net tenancy addition of 2470 and 3500, respectively in Q3FY22. We expect rental revenues at ₹ 4290 crore, up 1% QoQ growth. Energy revenues would be up 1% QoQ at ₹ 2650 crores. Overall margins are expected at 52.8%, flattish QoQ. <b>Key monitorable:</b> Future outlook and growth plans
Vodafone Idea	VIL is also expected to witness tariff led ARPU hike benefits in Q3FY22. We build in monthly ARPU growth of ~6% QoQ at ₹ 116, largely driven by tariff hike. We expect churn for Vodafone Idea to continue, albeit in controlled levels with ~2 million customer exits likely in Q3. We expect overall revenues to grow 4.6% QoQ at ₹ 9835 crore. EBITDA at ₹ 4096 crore, is expected to grow 6% QoQ. Reported margins are expected at 41.6%, up 50 bps QoQ, aided by higher ARPU. The company is expected to post a net loss of ₹ 6993 crore. <b>Key monitorable:</b> Fund raising plans and ARPU trajectory commentary ahead
Tata Comm	For Tata Communications (TCom), we expect gradual growth recovery and YoY growth in revenues after three quarters of decline. The data revenue is expected to grow 2% QoQ (up 2.5% YoY) at ₹ 3203 crore. The voice revenues would continue to remain weak with 5% QoQ (14.7% YoY decline) decline at ₹ 575 crore. The overall revenue is expected to grow 1% QoQ at ₹ 4215 crore. Data segment margins are expected at 31% (down 240 bps QoQ as it had one-off benefits). Overall margins are expected at 25.6% (down 110 bps QoQ), as Q2FY22 had one off benefits <b>Key monitorable:</b> Growth outlook commentary
Jio	We expect Jio to continue to lead subscriber addition with net subscriber addition of ~8 mn. The monthly ARPU, like peers, will witness growth, driven by tariff hike, at ~4% QoQ at ₹ 149. The lower ARPU growth for Jio is owing to lag between tariff hike vs. peers and larger share of long duration renewals. The overall revenue is expected to grow 3.5% QoQ at ₹ 19387 crore. EBITDA at ₹ 9333 crore, is likely to grow 3.8% QoQ. Overall EBITDA margins are expected at 48.1% (up 10 bps QoQ). <b>Key monitorable:</b> Commentary on ARPU trajectory, Jio Fiber

Source: Company, ICICI Direct Research

Exhibit 3: Telecom Coverage Universe

Sector / Company	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
Bharti Airtel	Buy	3,91,966	-27.6	10.8	25.3	NM	65.8	28.2	11.8	9.0	6.7	6.4	9.7	13.3	-2.2	8.0	14.8
Indus Towers	Hold	70,687	18.5	21.6	20.9	14.2	12.1	12.6	7.2	6.5	6.4	21.7	24.2	23.2	31.3	33.5	30.2
Vodafone Idea	UR	44,109	-15.4	-9.8	-9.4	NM	NM	NM	12.2	13.6	11.6	-4.1	-5.0	-3.1	NM	NM	NM
Tata Comm	Buy	42,459	43.9	54.6	61.5	34.0	27.3	24.2	11.8	11.2	9.9	20.7	21.4	22.9	NM	98.1	54.4

Source: Company, ICICI Direct Research, Reuters

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