

April 7, 2023

Muted quarter for telcos!

We expect Reliance Jio (Jio) to lead subscriber addition with ~6.5 million (mn) net sub additions during Q4. Bharti Airtel (Airtel) is likely to add modest ~1 mn subscribers owing to SIM consolidation amid 2G base tariff hike. On the other hand, churn at Vodafone Idea (VIL) will continue with subscriber loss of ~4 mn. ARPU growth is expected to be muted across telcos as upgrades benefits will be offset by lower number of days in the quarter. We expect Jio, Airtel, VIL's reported ARPU to be up 0.6%, 0.5%, 1% QoQ at ~₹ 179, ₹ 194, ₹ 136, respectively. For Jio, revenues are expected at ₹ 23455 crore, up 2% QoQ. Airtel's India wireless revenue is expected to witness 1.3% QoQ growth at ₹ 19,606 crore. For Vodafone Idea, we expect overall revenues to be down ~1% QoQ at ₹ 10,519 crore.

Higher network opex to keep margins under check

The network opex for top two telcos will go up with 5G rollout. Airtel India EBITDA margins are expected at 52.7%, flat QoQ, given the higher network opex on 5G rollout. Overall consolidated margins are expected at 51.1%, down 40 bps QoQ, owing to weak Africa margins. We expect PAT at ₹ 2440 crore for Airtel. For Jio, we expect EBITDA margins at 51.6%, down 60 bps QoQ due to higher network expenses on account of 5G and net profit at ₹ 4510 crore. For Vodafone Idea, we expect margins at 38.7%, down 70 bps QoQ. The company is expected to post a net loss of ₹ 7960 crore.

Tata Communications' cost normalisation to impact margins

For Tata Communications, we expect revenue growth recovery albeit normalising of costs is expected to lead to margin decline QoQ and YoY. Data revenue is expected to grow 2% QoQ (up ~11% YoY) at ₹ 3664 crore. Overall revenue is expected to grow 1.8% QoQ (~8.1% YoY) at ₹ 4609 crore. Data segment margins are expected at 26.5% (flattish QoQ). Overall margins are expected at 23.1%, down 70 bps QoQ, down 140 bps YoY, given the normalisation of costs.

Margin recovery to continue for Sterlite Tech

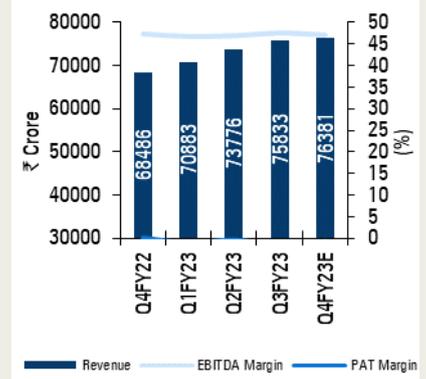
For Sterlite Tech (Sterlite), we bake in revenues at ₹ 1852 crore, up ~17% YoY and down 1.6% QoQ. Sequential decline will be owing to lower services revenues. Consolidated EBITDA is expected to grow 6.7% QoQ at ₹ 259 crore while EBITDA margins for the quarter are expected to increase 110 bps QoQ to 14%.

Exhibit 1: Estimates for Q4FY23E: (Telecom)

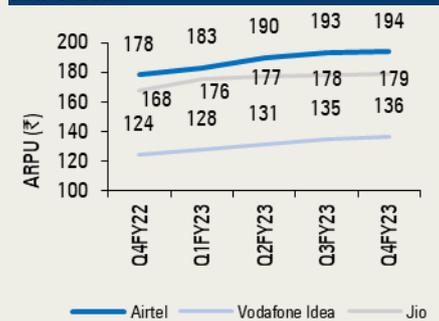
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Bharti Airtel	35,946.1	14.1	0.4	18,370.3	14.5	-0.4	2,440.4	21.5	53.7			
Vodafone Idea	10,519.1	2.7	-1.0	4,072.0	-12.4	-2.6	-7,960.2	NA	NA			
Jio	23,455.3	12.2	2.0	12,111.5	15.2	0.9	4,510.0	8.1	-2.8			
Sterlite Technologies	1,851.6	17.0	-1.6	259.2	184.9	6.7	75.0	LP	49.9			
Tata Comm	4,608.8	8.1	1.8	1,065.3	1.9	-1.1	330.1	-9.6	-16.2			
Total	76,380.9	11.5	0.7	35,878.3	11.0	-0.2	-604.9	NA	NA			

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



ARPU trend



Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Exhibit 2: Company Specific view - Telecom

Company	Remarks
Bharti Airtel	The reported ARPU is likely to be muted (up 0.5% QoQ) at ₹ 194 with the benefit of subscriber mix, 2G customer tariff hike being offset by lower number of days during the quarter. We expect modest addition of ~1 mn subs with SIM consolidation restricting subscriber addition. Indian wireless revenues are expected to see 1.3% QoQ growth at ₹ 19,606 crore. India non-wireless revenues traction is expected to remain robust especially broadband and enterprise. Africa is likely to witness revenue decline of 2.6% QoQ to ₹ 10,797 crore, owing to seasonality and currency impact. Consolidated reported revenues are expected to be muted (up 0.4% QoQ) at ₹ 35946 crore. We expect India EBITDA margins at 52.7%, flat QoQ, given the higher network opex on 5G rollout. Overall consolidated margins are expected at 51.1%, down 40 bps QoQ, owing to weak Africa margins. We expect PAT at ₹ 2440 crore. Key monitorable: Commentary on ARPU trajectory and non wireless business
Vodafone Idea	We build in monthly ARPU growth of ~1% QoQ at ₹ 136. We expect churn for Vodafone Idea to remain elevated, with ~4 million customer exits likely in Q4. We expect overall revenues to be down 1% QoQ at ₹ 10,519 crore. EBITDA at ₹ 4072 crore is expected to be down 2.6% QoQ owing to negative operating leverage. Reported margins are expected at 38.7%, down 70 bps QoQ. The company is expected to post a net loss of ₹ 7960 crore. Key monitorable: Fund raise, 5G launch plan, capex commentary, ARPU trajectory ahead
Sterlite Tech	We bake in revenues at ₹ 1852 crore, up ~17% YoY and down 1.6% QoQ. Sequential decline will be owing to lower services revenues. Consolidated EBITDA is expected to grow 6.7% QoQ at ₹ 259 crore while EBITDA margins for the quarter are expected to increase 110 bps QoQ to 14%. Reported PAT is expected at ₹ 75 crore vs. loss in the base quarter. Key monitorable: Management commentary on overall demand & ramp-up of optical connect business
Tata Comm	For Tata Communications (TCom), we expect revenue growth recovery to continue albeit normalising of costs will keep margins under pressure QoQ and YoY. The data revenue is expected to grow 2% QoQ (up ~11% YoY) at ₹ 3664 crore. Voice revenues would continue to remain weak, down ~2.2% QoQ (~7.8 % YoY decline) at ₹ 495 crore. Overall revenue is expected to grow 1.8% QoQ (~8.1% YoY) at ₹ 4609 crore. Data segment margins are expected at 26.5% (flattish QoQ). Overall margins are expected at 23.1%, down 70 bps QoQ and down 140 bps YoY, given the normalisation of costs. Key monitorable: Growth outlook commentary
Jio	Reliance Jio (Jio), will lead sub addition with ~6.5 mn net sub additions during Q4. The monthly ARPU, like peers, is expected to witness modest growth amid lower number of days, at ~0.6% QoQ at ₹ 179. Overall revenues are expected at ₹ 23455 crore, up 2% QoQ. EBITDA, at ₹ 12,112 crore, is likely to grow 0.9% QoQ. Overall EBITDA margins are expected at 51.6%, down 60 bps QoQ due to higher network expenses on account of 5G and net profit at ₹ 4510 crore. 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 (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Bharti Airtel	766	920	Buy	4,50,709	8.1	14.5	29.4	94.3	52.8	26.0	10.5	8.7	7.5	9.1	12.3	14.9	4.3	11.1	17.2
Vodafone Idea	6	UR	UR	30,158	-8.8	-7.9	-7.0	NM	NM	NM	13.5	12.7	9.9	-5.0	-3.2	0.5	NM	NM	NM
Sterlite Tech	158	220	Buy	6,284	1.6	4.0	12.1	101.4	39.3	7.7	17.0	10.4	27.8	12.9	5.7	33.0	14.0	2.0	0.4
Tata Comm	1,260	1,290	Hold	35,910	52.0	63.7	56.5	24.2	19.8	22.3	10.1	9.5	8.6	26.5	27.1	28.0	159.3	85.3	54.8

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

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst 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.

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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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 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, and 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 or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

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 and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest 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.