

Telecommunications

Refer to important disclosures at the end of this report

Uneventful quarter


 Click here to: [Asiamoney Brokers Poll 2019](#)

- After a quarter that saw a rise in wireless revenues, both Bharti and VIL should see a moderation due to the stabilization of minimum recharge plans. We continue to highlight that competitive intensity remains high, restricting revenue growth in a weak subscriber-addition scenario. Only data subscriber additions can improve revenue mix in the interim, in our view.
- Bharti is expected to register 1.8% qoq growth in wireless revenue, while for VIL we are estimating a marginal deceleration (-1% qoq). The mix change with data subscriber additions and subscriber loss should aid ARPU increase. Strong subscriber additions for JIO are expected to continue, along with market share gains.
- ARPUs for Bharti and VIL are estimated to increase by 3% and 8% qoq, respectively. The differential in ARPU increase is an outcome of subscriber losses and marginal benefit accruing from mix change. Data volume growth is expected to remain steady at 8-11% qoq for both Bharti and VIL.
- Wireless EBITDA for Bharti is expected to marginally decline due to one-off cost reversals in the last quarter. Africa should continue to record revenue growth (+1.7% qoq). VIL, on the other hand, should see a 7% qoq increase in EBITDA, driven by sustained cost synergies. SG&A expenses should remain under control, supported by a lack of subscriber additions for both Bharti and VIL. Merger-related cost saving will be a key monitorable for VIL as it is expected to support EBITDA.
- The impact of debt reduction and the subsequent decline in finance charges should start reflecting from Q1FY20, while major reduction would be visible from the next quarter.
- **Bharti Infratel:** Another uninspiring quarter with muted KPI performance. We estimate consolidated tower additions of 173 and a net tenancy increase of 690 vs. a reduction of 1,725 in Q4FY19, resulting in a tenancy ratio of 1.88x. Continued exits from VIL could pose risks to tenancy additions. Energy reimbursements should see an increase due to seasonality. Energy margins are expected to be 5.6% vs. 3.7% a year ago. Rental revenues should see the impact of the exits in the previous quarter. Rental/month/tower should also see a moderation sequentially due to the exits in the last quarter.
- **Tata Communications:** Data revenues are expected to grow 17% yoy, driven by strong and sustained increase in growth services and an uptick in the traditional business. Healthy revenue growth should support the margin expansion in GDS. On the other hand, the voice business should continue to decelerate. Margins of the voice segment are expected to return to their normalized levels of 6-7% after three quarters of rebound. Overall, EBITDA is estimated to grow 19% yoy to Rs7bn, with a 137bps expansion in margin to 16.3%.
- **We currently have a SELL rating on Bharti Airtel and Bharti Infratel and VIL, while we maintain HOLD on Tata Communications. We maintain our Underweight call on the sector in EAP.**

 Please see our sector EAP (page 7): [Emkay Alpha Portfolio – Telecommunications](#)

Bharti Airtel	SELL
CMP	Target Price
365	307
Bharti Infratel	SELL
CMP	Target Price
261	270
Tata Communications	HOLD
CMP	Target Price
460	540
Vodafone Idea	SELL
CMP	Target Price
12	13

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Exhibit 1: KPI assumption and trend

Bharti Airtel (BHARTI IN)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20E	QoQ	YoY
India							
Subscriber (mn)	345	333	284	283	282	-0.4%	-18%
MOU (min)	700	686	726	858	892	4.0%	27%
Total minutes (bn)	684	693	703	731	755	3.3%	10%
Wireless Revenue (Rs mn)	104803	102521	101894	106322	108233	1.8%	3%
Data Volume (bn MB)	2151	2660	3217	3690	4107	11.3%	91%
Data Usage/subscriber (MB)	7864	9221	10528	11048	11600	5.0%	48%
ARPU (Rs)	105	101	104	123	127	3.0%	20.2%
Africa							
Revenue	52841	56472	59035	55115	56066	1.7%	6%
EBITDA	19221	20934	21868	21608	21780	0.8%	13%
% EBITDA margin	36.4%	37.1%	37.0%	39.2%	38.8%	-36	242
Vodafone Idea (IDEA IN)							
Subscriber (mn)	435	422	387	334	327	-2.1%	-25%
MoU	609	568	580	592	702	6.0%	15%
Total minutes (bn)	350	731	704	640	696	-2.8%	99%
Wireless Revenue (Rs mn)	57453	76219	108068	112523	111399	-1.0%	94%
Data Volume (bn MB)	1018	1209	2673	2776	3180	8.1%	212%
Data Usage/subscriber (MB)	7309	8405	6324	6324	7173	7.0%	40%
ARPU (Rs)	100	88	89	104	112	8.0%	12%
Bharti Infratel (BHIN IN)							
Rental revenue (Rs mn)	21989	21201	20412	20089	19607	-2.4%	-10.8%
Energy revenue (Rs mn)	14746	15482	15440	14917	15276	2.4%	3.6%
Total tower (no's)	91759	92123	92301	92277	92450	0.2%	0.8%
Total tenancy (no's)	200778	174512	174449	172724	173414	0.4%	-13.6%
Tenancy addition (no's)	-4818	-26266	-63	-1725	690		
Tenancy ratio (x)	2.19	1.89	1.89	1.87	1.88	0.2%	-14.3%
Rental/month/tower (Rs)	35276	36599	38996	38576	37763	-2.1%	7.1%
Energy margin	3.7%	7.2%	8.1%	11.0%	5.6%	-532	197
Tata Communication (TCOM IN)							
GDS (Rs mn)							
Revenue	28954	28855	32913	33091	33761	2.0%	17.0%
EBITDA	4841	4859	7508	5770	6212	7.7%	24%
EBITDA margin	17%	17%	23%	17%	18%	-184	97
GVS (Rs mn)							
Total Minutes (bn min)	8.7	7.7	7.2	6.7	7.8	16.9%	-10.0%
Revenue Per Minute (Rs)	1.2	1.3	1.3	1.3	1.1	-16.6%	-5%
Revenue	10268	9991	9436	9008	8779	-2.5%	-15%
EBITDA	695	927	759	966	615	-36.4%	-12%
EBITDA margin	6.8%	9.3%	8.0%	10.7%	7.0%	-372	23

Source: Company, Emkay Research

Exhibit 2: Company wise estimates

Name			Jun'19E	Mar'19	Jun'18	% Chg YoY	% Chg QoQ	Comments
Bharti Airtel								
CMP(Rs)	362	Net Sales (Rs mn)	2,11,310	2,06,022	2,00,800	5.2%	2.6%	India mobile revenue to increase by 2% qoq to Rs108.2bn, with ARPU improvement, driven by improved mix, supported by continued data subscriber additions and no major down-trading. MOU and data usage should continue to grow, driven by increasing acceptance of bundled plans. Minutes to increase 3% on a qoq basis, while data volume is estimated to increase 11% qoq. Cost inflation and a lack of cost reversals should restrict EBITDA performance in the India business. Africa is expected to report a steady 1.7% qoq revenue growth with stable margins.
Mkt Cap (Rs bn)	1,858	EBITDA (Rs mn)	66,575	66,316	67,258	-1.0%	0.4%	
Reco	Sell	EBITDA Margin (%)	31.5	32.2	33.5	-199 bps	-68 bps	
Target Price (Rs)	307	PAT (Rs mn)	-6,689	1,072	973	n.a	n.a	
% Upside	-15%	EPS (Rs)	-1.7	0.3	0.2	n.a	n.a	
Bharti Infratel								
CMP(Rs)	263	Net Sales (Rs mn)	35,783	36,003	36,735	-2.6%	-0.6%	The revenue impact of last quarter's tenancy exits will have a bearing on both rental revenues and rentals/month. We are estimating tenancy additions of 691 on a consolidated basis, while sustained exits from VIL could pose risks to our estimates. Energy reimbursements are expected to increase 2% qoq to Rs15.3bn. Consolidated tower additions will be 173, while total tenants should increase by 691 qoq, resulting in a tenancy ratio of 1.88x vs. 1.87x in Q4FY19. We expect energy margins to increase marginally yoy to 5.6%.
Mkt Cap (Rs bn)	486	EBITDA (Rs mn)	14,275	14,911	15,196	-6.1%	-4.3%	
Reco	Sell	EBITDA Margin (%)	39.9	41.4	41.4	-147 bps	-152 bps	
Target Price (Rs)	270	PAT (Rs mn)	6,126	6,076	6,380	-4.0%	0.8%	
% Upside	3%	EPS (Rs)	3.3	3.3	3.4	-4.0%	0.8%	
Idea Cellular*								
CMP(Rs)	12	Net Sales (Rs mn)	1,18,399	1,17,750	58,892	101.0%	0.6%	We believe this will be the last quarter of subscriber losses due to minimum recharge plans. Further, a large part of the one-time revenue uptick with the minimum recharge plans has already been reflected in 4Q numbers. We expect 1% qoq decline in wireless revenues, with 7mn subscriber loss and 8% increase in ARPU. Slow data subscriber growth is expected due lower 4G coverage/capacity and competition from JIO and Bharti. Merger-related cost synergies should sustain EBITDA increase, while the company has achieved 60% of its stated guidance by Q4FY19 itself. Debt reduction benefit on lower interest charge should be seen.
Mkt Cap (Rs bn)	353	EBITDA (Rs mn)	19,052	17,853	6,594	188.9%	6.7%	
Reco	Sell	EBITDA Margin (%)	16.1	15.2	11.2	489 bps	93 bps	
Target Price (Rs)	13	PAT (Rs mn)	-37,304	-37,361	-31,080	n.a	n.a	
% Upside	6%	EPS (Rs)	-10.4	-10.4	-8.6	n.a	n.a	

* Vodafone Idea YoY financials are not comparable due to merger

Exhibit 2: Company wise estimates (contd.)

Name			Mar'19E	Dec'18	Mar'18	% Chg YoY	% Chg QoQ	Comments
Tata Communication								
CMP(Rs)	462	Net Sales (Rs mn)	42,870	42,435	39,438	8.7%	1.0%	Data revenues are expected to grow by 17% yoy, driven by strong and sustained increase in growth services and an uptick in the traditional business. Healthy revenue growth should help in margin expansion in GDS. On the other hand, the voice business should continue to decelerate. Margins in the voice segment are expected to return to their normalized levels of 6-7% after three quarters of rebound.
Mkt Cap (Rs bn)	132	EBITDA (Rs mn)	6,966	6,853	5,869	18.7%	1.7%	
Reco	Hold	EBITDA Margin (%)	16.3	16.1	14.9	137 bps	10 bps	
Target Price (Rs)	540	PAT (Rs mn)	353	-1,995	-585			
% Upside	17%	EPS (Rs)	1.2	-7.0	-2.1			

* Q3FY19 EBITDA included one-off to the tune of Rs2.5bn.

Bharti Airtel
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Jun-19	349	307	12m	Sell	Naval Seth
09-Jun-19	357	307	12m	Sell	Naval Seth
15-May-19	331	307	12m	Sell	Naval Seth
07-May-19	325	302	12m	Sell	Naval Seth
08-Apr-19	326	277	12m	Sell	Naval Seth
01-Feb-19	286	277	12m	Reduce	Naval Seth
27-Nov-18	301	246	12m	Reduce	Naval Seth
26-Oct-18	274	246	12m	Reduce	Naval Seth
29-Aug-18	344	327	12m	Hold	Naval Seth
27-Jul-18	335	327	12m	Hold	Naval Seth
26-Apr-18	376	406	12m	Hold	Naval Seth
26-Feb-18	389	439	12m	Hold	Naval Seth
29-Jan-18	405	439	12m	Hold	Naval Seth
19-Jan-18	457	518	12m	Accumulate	Naval Seth
24-Nov-17	456	551	12m	Accumulate	Naval Seth
02-Nov-17	499	551	12m	Accumulate	Naval Seth
14-Oct-17	396	422	12m	Accumulate	Naval Seth
21-Sep-17	367	312	12m	Reduce	Naval Seth
26-Jul-17	391	312	12m	Reduce	Naval Seth
09-Jun-17	338	281	12m	Reduce	Naval Seth
10-May-17	342	281	12m	Reduce	Naval Seth
27-Feb-17	327	281	12m	Reduce	Naval Seth
01-Feb-17	317	281	12m	Reduce	Naval Seth
25-Jan-17	286	281	12m	Reduce	Naval Seth
26-Oct-16	292	281	12m	Reduce	Naval Seth
01-Sep-16	285	281	12m	Reduce	Naval Seth
30-Aug-16	305	309	12m	Reduce	Naval Seth
29-Jul-16	332	309	12m	Reduce	Naval Seth

Source: Company, Emkay Research

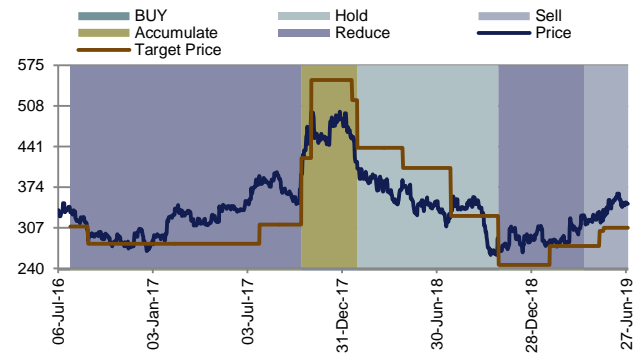
Bharti Infratel
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-Apr-19	273	270	12m	Sell	Naval Seth
08-Apr-19	316	280	12m	Sell	Naval Seth
24-Jan-19	263	280	12m	Hold	Naval Seth
09-Jan-19	290	288	12m	Hold	Naval Seth
25-Oct-18	265	270	12m	Hold	Naval Seth
26-Jul-18	287	286	12m	Reduce	Naval Seth
02-May-18	314	313	12m	Reduce	Naval Seth
24-Apr-18	329	313	12m	Reduce	Naval Seth
19-Jan-18	346	340	12m	Hold	Naval Seth
31-Oct-17	442	380	12m	Hold	Naval Seth
26-Jul-17	414	370	12m	Hold	Naval Seth
09-May-17	366	348	12m	Hold	Naval Seth
01-Feb-17	294	348	12m	Hold	Naval Seth
25-Jan-17	352	400	12m	Hold	Naval Seth
25-Oct-16	379	380	12m	Hold	Naval Seth
28-Jul-16	400	380	12m	Hold	Naval Seth

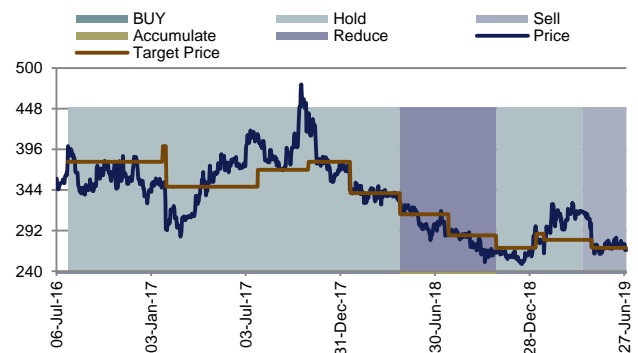
Source: Company, Emkay Research

Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – **Kindly refer the Disclaimer page**, however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

RECOMMENDATION HISTORY CHART

Source: Bloomberg, Company, Emkay Research

RECOMMENDATION HISTORY CHART

Source: Bloomberg, Company, Emkay Research

Tata Communications

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
08-Apr-19	592	540	12m	Hold	Naval Seth
01-Feb-19	499	540	12m	Hold	Naval Seth
02-Nov-18	491	541	12m	Hold	Naval Seth
13-Aug-18	559	624	12m	Hold	Naval Seth
14-May-18	637	735	12m	Accumulate	Naval Seth
09-Feb-18	638	730	12m	Accumulate	Naval Seth
26-Oct-17	676	654	12m	Hold	Naval Seth
26-Jul-17	679	672	12m	Hold	Naval Seth
05-May-17	641	705	12m	Hold	Naval Seth
25-Jan-17	714	740	12m	Accumulate	Naval Seth
17-Nov-16	604	632	12m	Accumulate	Naval Seth
03-Aug-16	452	503	12m	Accumulate	Naval Seth
20-Jul-16	467	530	12m	Accumulate	Naval Seth

Source: Company, Emkay Research

Vodafone Idea

RECOMMENDATION HISTORY TABLE

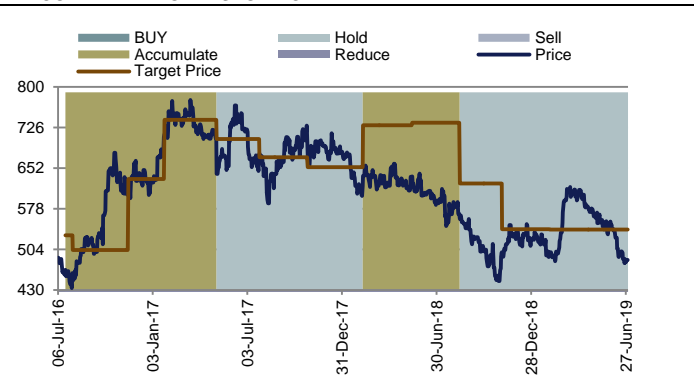
Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Jun-19	12	13	12m	Sell	Naval Seth
09-Jun-19	13	13	12m	Sell	Naval Seth
14-May-19	14	13	12m	Sell	Naval Seth
08-Apr-19	17	14	12m	Sell	Naval Seth
22-Feb-19	18	13	12m	Sell	Naval Seth
08-Feb-19	18	13	12m	Sell	Naval Seth
27-Nov-18	23	20	12m	Sell	Naval Seth
26-Nov-18	24	20	12m	Sell	Naval Seth
29-Aug-18	30	24	12m	Sell	Naval Seth
01-Aug-18	32	24	12m	Sell	Naval Seth
02-May-18	41	37	12m	Sell	Naval Seth
26-Feb-18	50	37	12m	Sell	Naval Seth
29-Jan-18	57	37	12m	Sell	Naval Seth
24-Nov-17	57	55	12m	Hold	Naval Seth
15-Nov-17	57	55	12m	Hold	Naval Seth
21-Sep-17	48	42	12m	Reduce	Naval Seth
31-Jul-17	56	45	12m	Reduce	Naval Seth
09-Jun-17	48	42	12m	Reduce	Naval Seth
15-May-17	52	42	12m	Reduce	Naval Seth
27-Feb-17	69	-	12m	UR	Naval Seth
13-Feb-17	65	-	12m	UR	Naval Seth
01-Feb-17	65	-	12m	UR	Naval Seth
25-Oct-16	45	45	12m	Reduce	Naval Seth
10-Oct-16	48	45	12m	Reduce	Naval Seth
01-Sep-16	51	49	12m	Reduce	Naval Seth
10-Aug-16	56	62	12m	Reduce	Naval Seth

Source: Company, Emkay Research

Note:

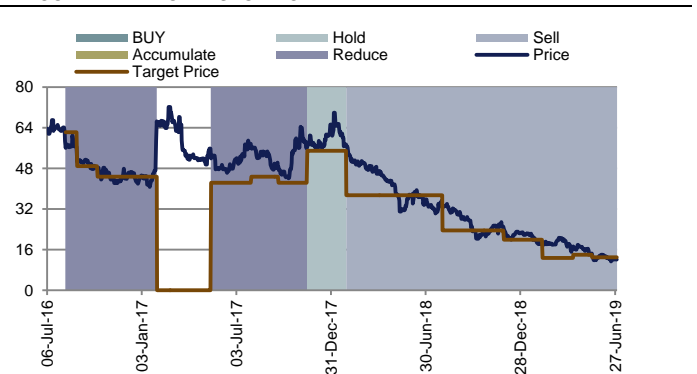
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RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Telecommunications



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Sector

Media, Telecom, Consumer Durables

Analyst bio

Naval holds an MBA in Finance and has more than 10 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Telecommunications	1.52	0.67	-56%	-85	100.00
Bharti Airtel	0.97	0.46	-53%	-51	30.00
Bharti Infratel	0.38	0.17	-55%	-21	11.00
Tata Communications	0.06	0.05	-20%	-1	3.00
Vodafone Idea	0.12	0.00	-100%	-12	0.00
Cash	0.00	0.85	NA	85	56.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base				Latest
	1-Apr-19	30-Apr-19	31-May-19	28-Jun-19	4-Jul-19
EAP - Telecommunications	100.0	98.8	101.2	100.6	101.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	89.9	94.3	92.4	94.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

Please see our India EAPs:

[Emkay Alpha Portfolio – Nifty](#)

[Emkay Alpha Portfolio – SMID](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 05 Jul 2019 21:44:13 (SGT)

Dissemination Date: 05 Jul 2019 21:45:13 (SGT)

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