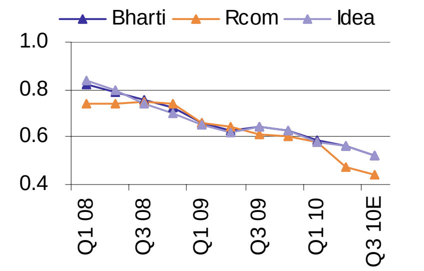
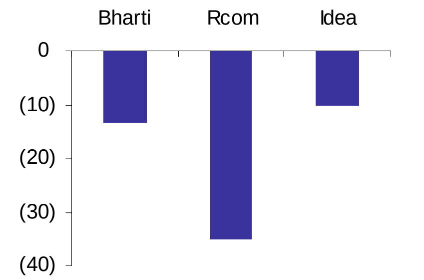
Telecom – Q3 FY10

Expect Q3 rev/min to fall 3-4p qoq



Source: India Infoline Research

3M performance vs. Sensex (%)



Source: India Infoline Research

Q3 FY10 was the first full impact quarter of a no holds barred tariff war amongst operators. Albeit we expect voice traffic to improve in response to the tariff cuts which could partly counteract the estimated 3-4p decline in revenue/min. Bharti/Rcom wireless revenues would be lower by 0.8/2.5% qoq while Idea could witness 3.4% sequential rise in topline. Bharti telemedia sales would remain flat qoq on a 2.4% ARPU decline. Enterprise business at both Bharti and Rcom should continue on revival path driven by renewed corporate spending.

Tariff cuts would dent OPM on qoq basis; Bharti though should see the least damage. We forecast yoy PAT declines for both Idea and Rcom while Bharti could post ~8% qoq drop in profit. Retain Bharti as top pick for ~18% upside.

- Bharti and Rcom are expected to report wireless revenue decline of 0.8% and 2.5% qoq respectively on the back of 7.5% and 9.9% ARPU drops qoq
- Idea subscriber base is likely to jump 13% qoq which would drive a 3.4% topline growth; we factor in ~7-9% ARPU fall for Idea and Spice
- Bharti broadband revenues are projected to stay flat on a 2.4% drop in ARPU/sub. However, enterprise business should report 3.5-8% qoq increase for Bharti and Rcom, given the revival in corporate IT spending
- Relentless pressure on tariffs implies operating margin for all the three coverage companies would contract on both qoq as well as yoy basis; Bharti, though should suffer the least damage with 88bps drop in Q3 OPM
- Net profit for Idea and Rcom is likely to decline ~27% yoy and 47% yoy respectively due to margin contraction and higher interest cost
- Bharti with 1) FY09-12 avg return ratios of ~24% 2) robust FY11 free cash flows of Rs84bn and 3) zero net D/E makes it the best play on the sector. Retain BUY for ~18% upside

Q3 FY10 Estimates

		(%) growth			Change (bps)			(%) growth	
(Rs m)	Revenues	yoy	qoq	OPM (%)	yoy	qoq	PAT	yoy	qoq
Bharti Airtel	102,603	6.1	(0.9)	39.9	(19)	(88)	20,769	5.1	(7.9)
Rcom	52,049	(8.2)	(5.3)	31.5	(620)	(150)	7,449	(47.2)	0.6
Idea	30,760	12.7	3.4	25.2	(32)	(202)	1,607	(26.8)	(27.0)

Source: Companies, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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