

Telecommunication Services

Q2FY12 Preview: Muted quarter; forex may swing profits

We expect a modest quarter from Indian telcos driven by seasonal weakness. Overall, wireless revenues are likely to grow ~1% QoQ driven by muted traffic growth and marginal improvement in realisations and a slight dip in EBITDA margin. BHARTI's Africa performance will be in focus—we expect dollar revenue growth of 4% QoQ and 50bps rise in EBITDA margin. Apart from a subdued quarter operationally, forex volatility is likely to hurt profits. BHARTI/IDEA are trading at 7.2x/7.8x FY12E EV/EBITDA. While announcement of NTP-2011 might be a near-term overhang on stocks, we remain positive on the sector as we expect pricing benefits to flow in over the next 2-3 quarters.

- ❖ **India wireless business to see muted quarter:** We expect subdued wireless revenue growth of 1–1.5% QoQ owing to lower subscriber additions and seasonal weakness in MOUs (down 3–4% QoQ). However, we believe companies will show a slight 20–30bps decline in wireless margins over the last quarter as higher network costs due to a rise in fuel costs and 3G rollouts would be offset to an extent by rationalisation in S&M spends, lower churn and slower gross adds.
- ❖ **Bharti Africa improvement in focus:** We believe performance in Africa will be a focus area. We expect dollar revenue growth of 4.2% driven by traffic growth with EBITDA margin improvement of 50bps to 28.2%. Currency volatility is likely to impact BHARTI (~Rs 6bn); however we are not building in any MTM losses on the Africa debt as this is likely to be reflected on the balance sheet. We expect net debt to move up to Rs 635bn (Rs 601bn in Q1FY12) due to the currency impact.
- ❖ **Key issues to watch for:** The key issues to watch for will be (1) traffic elasticity to the pricing hikes in India, (2) competition and outlook on churn rates, (3) 3G offtake and investment, (4) capex guidance, and (5) Bharti's Africa progress. Further, NTP-2011 is likely to be announced soon; the impact of this new policy and commentary on regulation will be keenly monitored.

Indian telecom: Q2FY12 preview

Rs mn, Year End March	2QFY1E	1QFY12	Q/Q	2QFY11	Y/Y
Bharti					
Revenues	174,608	169,749	2.9	152,150	14.8
India and SE Asia revenues	127,869	125,965	1.5	113,312	12.8
Africa revenues	46,738	43,784	6.7	38,906	20.1
EBITDA	59,372	56,980	4.2	51,212	15.9
Net Income	10,088	12,152	-17.0	16,613	(39.3)
EPS	2.7	3.2	-17.0	4.4	(39.3)
EBITDA Margins (%)					
India and SE Asia	36.7	36.5		37.3	
Africa	28.2	26.7		23.9	
Idea					
Revenue	45,779	45,158	1.4	36,592	25.1
EBITDA	12,066	11,991	0.6	8,788	37.3
Net Income	1,659	1,773	(6.4)	1,798	(7.7)
EPS	0.50	0.54	(6.4)	0.54	(7.7)
EBITDA margins	26.4%	26.6%		24.0%	

Source: Company, RCML Research.

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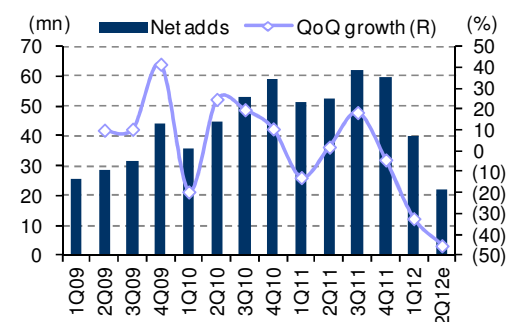
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Key metrics Est.

	Bharti	Idea
ARPUs (Rs)	186	157
Q/Q chg (%)	(2.2)	(2.0)
MOUs	431	379
Q/Q chg (%)	(3.1)	(3.0)
ARPM	0.43	0.41
Q/Q chg (%)	1.0	1.0
Traffic (mins)	221,374	110,766
Q/Q chg (%)	0.1	2.0

India Telecom: Quarter-wise subscriber net adds



Price performance

	Price	1 m chg (%)	3 m chg (%)	6 m chg (%)
Bharti	355	(11.7)	(10.9)	(0.6)
Idea	90	(9.5)	11.6	36.0
RCOM	73	(18.0)	(26.3)	(34.2)
Nifty	4,888	(3.5)	(13.1)	(17.0)



Fig 1 - Q2FY12: Bharti preview

Rs mn, Year End March	2QFY12E	1QFY12	Q/Q	2QFY11	Y/Y
Bharti - Consolidated					
Revenues	174,608	169,749	2.9	152,150	14.8
India and SE Asia revenues	127,869	125,965	1.5	113,312	12.8
Africa revenues	46,738	43,784	6.7	38,906	20.1
EBITDA	59,372	56,980	4.2	51,212	15.9
EBIT	27,548	25,666	7.3	25,422	8.4
PBT	15,010	17,195	-12.7	22,268	(32.6)
Net Income	10,088	12,152	-17.0	16,613	(39.3)
EPS	2.7	3.2	-17.0	4.4	(39.3)
EBITDA Margins (%)	34.0	33.6		33.7	
Metrics - India operations					
Mobile Subs ('000)	173,187	169,187	2.4	143,292	20.9
Mobile ARPU (Rs)	186	190	-2.2	202	(7.8)
Mobile Revenues	99,422	98,404	1.0	88,045	12.9
Mobile EBITDA margins (%)	34.0	34.2		35.2	
Metrics - Africa operations					
Mobile Subs ('000)	48,406	46,306	4.5	40,082	20.8
Mobile ARPU (US\$)	7.2	7.3	-1.6	7.4	(2.9)

Source: Company, RCML Research.

Fig 2 - Q2FY12: Idea preview

Rs mn, year-end March	2QFY1E	1QFY12	Q/Q	2QFY11	Y/Y
Revenue	45,779	45,158	1.4	36,592	25.1
EBITDA	12,066	11,991	0.6	8,788	37.3
EBIT	4,841	4,965	(2.5)	2,968	63.1
PBT	2,387	2,551	(6.4)	1,940	23.0
Net profit	1,659	1,773	(6.4)	1,798	(7.7)
EPS	0.50	0.54	(6.4)	0.54	(7.7)
EBITDA margins	26.4%	26.6%		24.0%	
Key Metrics					
Mobile Subs ('000)	99,600	95,100	4.7	74,200	34.2
Mobile ARPU (Rs)	157	160	(2.0)	167	(6.1)

Source: Company, RCML Research

Fig 3 - Bharti- Split of debt by currency

(Rs mn)	FY11
INR	100,803
USD	454,332
JPY	16,626
NGN	35,178
XAF	5,399
Others	8,443
Total	620,781

Source: Company

Fig 4 - Average exchange rates

	US\$/NGN	US\$/INR	US\$/CDF	US\$/TZS	US\$/ZMK
Q112	155.4	44.7	923	1,541	4,756
Q212	154.3	45.8	922	1,614	4,895
Chg (%)	-0.7%	2.5%	-0.2%	4.8%	2.9%

Source: Bloomberg, RCML Research

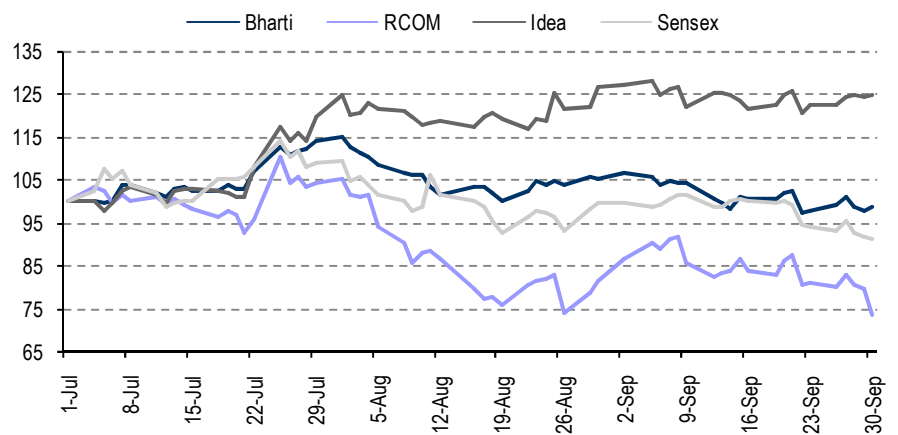
Fig 5 - Period end exchange rates

	US\$/NGN	US\$/INR	US\$/CDF	US\$/TZS	US\$/ZMK
Q112	152.3	44.7	920	1,608	4,835
Q212	159.7	49.0	923	1,660	4,830
Chg (%)	4.9%	9.6%	0.3%	3.2%	-0.1%

Source: Bloomberg, RCML Research

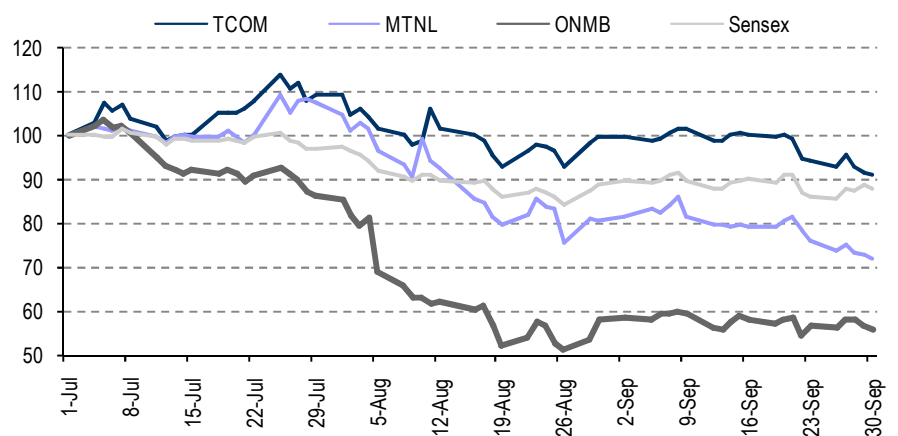
Stock price movement

Fig 6 - Movement in Indian wireless stocks (Q2FY12)



Source: Bloomberg

Fig 7 - Movement in mid cap telcos (Q2FY12)



Source: Bloomberg

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