

## Telecom

### First signs of pain

#### Top pick

Bharti Airtel

Mobile subscriber additions are likely to sustain growth momentum in Q3FY10 with the per second plan being an enormous success. The expansion of Tata Teleservices (TTSL) and Idea has helped aid strong subscriber addition – Idea garnered 19% and TTSL 29% of net adds. We expect Q3FY10 to witness the impact of price war, largely owing to the per second plan, which is likely to continue going forward. Overall revenues for the I-Sec Telecom universe are likely to grow just 0.3%QoQ. We expect ARPUs to decline within 6-8%, driven by an aggressive tariff war. We maintain our cautious view on the sector and expect financials to worsen only after network expansion by new players, implementation of mobile number portability and 3G auctions. We believe it is early to say that the sector has bottomed out as consolidation is unlikely in '10. Bharti Airtel (BAL) remains our top pick in the sector.

- ▶ **ARPM & MoU decline to continue.** With the huge success of the per second plan, ARPM and MoUs will continue to be affected in our view. The per second plan is likely to lead to some improvement in elasticity. In Q3FY10E, we expect QoQ ARPU to decline 7.9%, 6.8% and 7.7% for BAL, Reliance Communication (RCom) and Idea respectively.
- ▶ **Expect tower tenancy to improve** for all tower companies after strong expansion by new players such as TATA Docomo and Idea. We expect tenancy for Indus to rise to 1.75x from 1.61x and anticipate some external tenancy for Reliance Infratel (RITL) from Etisalat.
- ▶ **I-Sec Telecom universe to post 1.1% YoY revenue growth** and 2.1% YoY EBITDA decline, while PAT is likely to decline 24.9% YoY, mostly on account of RCom witnessing maximum erosion in profitability.
- ▶ **Factors to watch for:** i) impact of per second plan on ARPMs and MoUs, ii) net interest & financial costs, especially for RCom and iii) any significant improvement in tower sharing post aggressive expansion by new players.

#### Quarterly summary

(Rs mn)

Company	Sales			EBITDA			PAT		
	OND*-09	% Chg		OND*-09	% Chg		OND*-09	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
BAL	98,489	2.2	0.0	40,127	1.7	(3.1)	19,807	(8.3)	(14.7)
RCom	56,692	(3.1)	(0.6)	19,417	(17.5)	(3.9)	7,149	(50.6)	(3.8)
Idea	30,015	9.9	0.9	8,314	19.3	2.7	2,015	(8.2)	4.5
MTNL	10,401	(8.1)	7.0	728	683.5	14.4	192	(67.2)	(6.9)

\*October-November-December '09

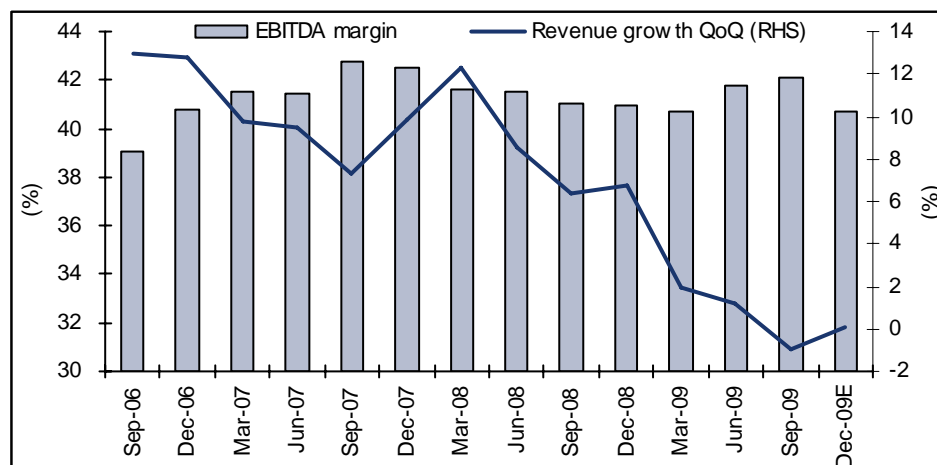
Source: I-Sec Research

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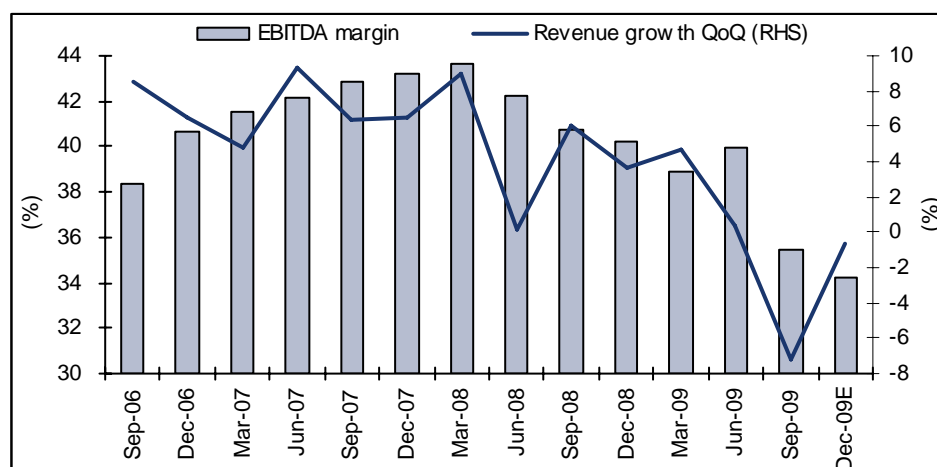
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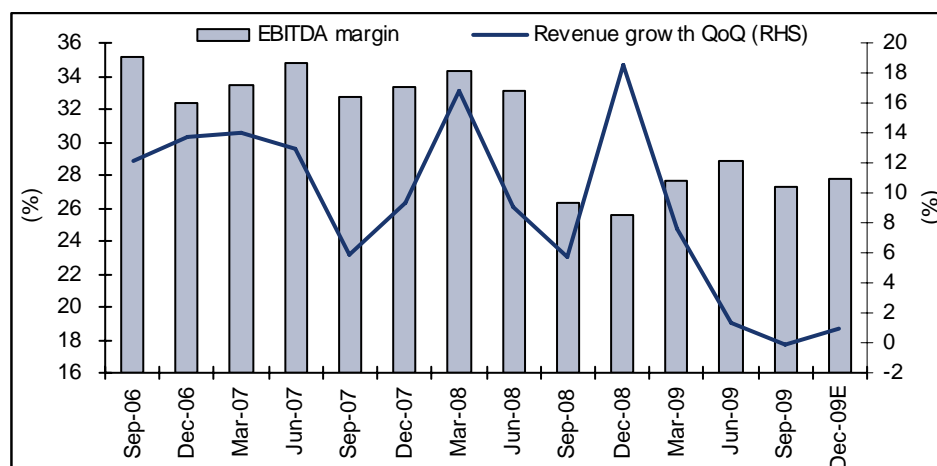
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**Chart 1: BAL – Expect revenue growth to be flat QoQ**

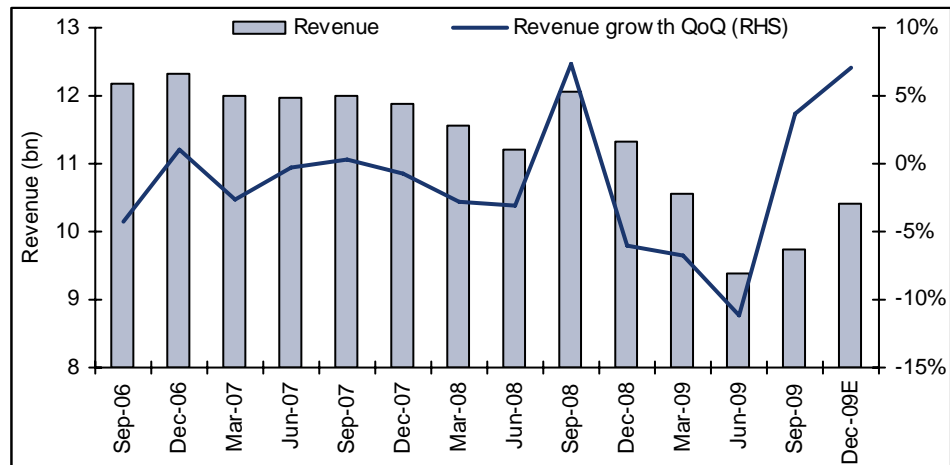
Source: Company data, I-Sec Research

**Chart 2: RCom – Revenues to decline marginally 0.6% QoQ**

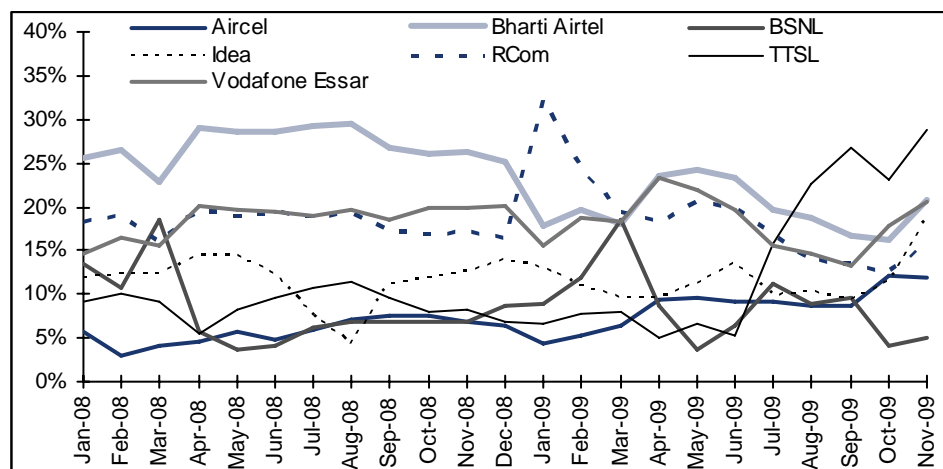
Source: Company data, I-Sec Research

**Chart 3: Idea – Expect 0.9% QoQ revenue growth**

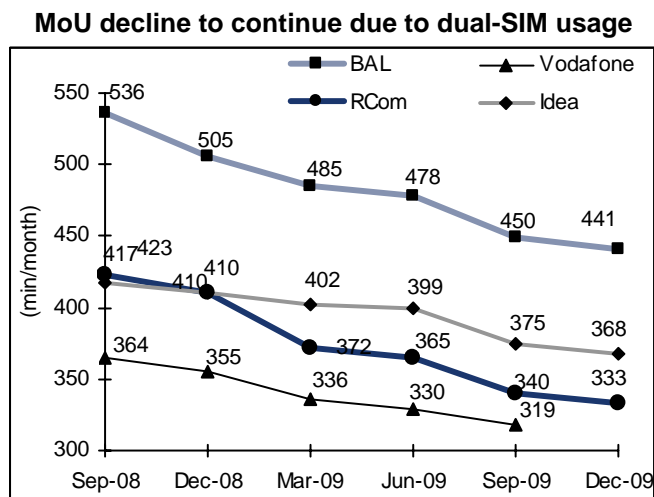
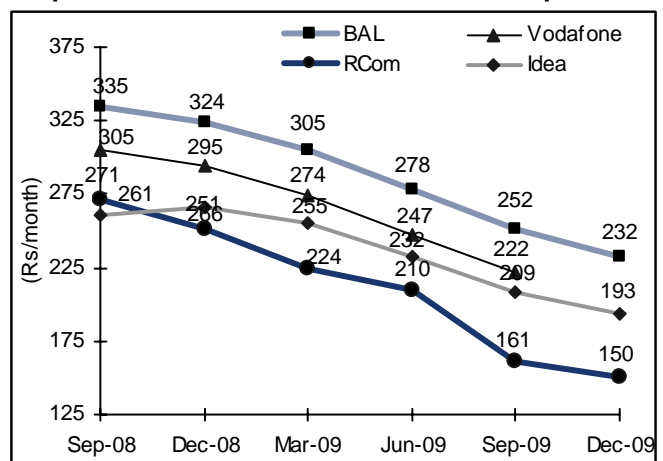
Source: Company data, I-Sec Research

**Chart 4: MTNL – Expect 7% QoQ revenue growth**

Source: Company data, I-Sec Research

**Chart 5: Net adds share – TTSL leads in November '09**

Source: TRAI, Company data, I-Sec Research

**Chart 6: Pressure on ARPMs to continue; MoU elasticity to remain negative****Expect ARPU decline to continue for all operators**

Source: Company data, I-Sec Research

## Bharti Airtel (Hold)

(QoQ chg: -8.9%; YTD chg: -0.9%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY10E	Q3FY09	YoY (%)	QoQ (%)	YTDFY10	YTDFY09	YoY (%)
Revenues	98,489	96,334	2.2	0.0	197,870	175,036	13.0
EBITDA	40,127	39,450	1.7	(3.1)	82,933	72,214	14.8
PBT	24,655	24,629	0.1	(7.3)	56,676	43,538	30.2
PAT	19,807	21,593	(8.3)	(14.7)	48,376	40,713	18.8

Source: Company data, I-Sec Research

- We expect wireless ARPUs to decline 7.9% QoQ to Rs232/month; MoUs will likely decline 2% QoQ to 441min/month.
- Expect PAT to decline 14.7% YoY to Rs21.6bn and EPS to dip 8.3% QoQ to Rs5.2 due to higher assumed tax rate.

## Reliance Communications (Sell)

(QoQ chg: -30.5%; YTD chg: 5.5%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY10E	Q3FY09	YoY (%)	QoQ (%)	YTDFY10*	YTDFY09*	YoY (%)
Revenues	56,692	58,502	(3.1)	(0.6)	118,478	109,672	8.0
EBITDA	19,417	23,525	(17.5)	(3.9)	44,724	45,518	(1.7)
PBT	8,416	14,952	(43.7)	29.4	26,090	32,393	(19.5)
PAT	7,149	14,460	(50.6)	(3.8)	23,909	31,719	(24.6)

Source: Company data, I-Sec Research

- RCom's ARPU will likely decline 6.6% QoQ to Rs150 after posting 23.3% decrease in Q2FY10, which was owing to reduction in revenues from the sale of CDMA equipment.
- Q3FY10E PBT will likely decline 50.6% YoY as we expect higher interest costs. Depreciation policy change since Q2FY10 will lead to improvement in reported profitability.

## Idea Cellular (Sell)

(QoQ chg: -4.1%; YTD chg: 5.6%)

### Quarterly estimates (Consolidated\*)

(Rs mn, year ending March 31)

	Q3FY10E	Q3FY09	YoY (%)	QoQ (%)	YTDFY10*	YTDFY09*	YoY (%)
Revenues	30,015	27,305	9.9	0.9	59,498	44,814	32.8
EBITDA	8,314	6,969	19.3	(0.9)	16,694	13,268	25.8
PBT	2,290	2,164	5.8	(7.2)	5,417	4,467	21.2
PAT	2,015	2,195	(8.2)	(9.2)	4,900	4,072	20.3

\* Includes 41.09% share in Spice and 16% share in Indus

Source: Company data, I-Sec Research

- Idea's revenues are likely to grow marginally QoQ as subscriber addition continues to be very strong, with Idea adding 4.5mn subscribers in October-November '09.
- We are factoring in 7.4% QoQ ARPU decline to Rs209/month and 2% QoQ MoU decline to 375min/month.

## MTNL (Sell)

(QoQ chg: 1.4%; YTD chg: 14.3%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY10E	Q3FY09	YoY (%)	QoQ (%)	YTDFY10	YTDFY09	YoY (%)
Revenues	10,401	11,323	(8.1)	7.0	19,098	23,265	(17.9)
EBITDA	728	93	683.5	14.4	251	3,239	(92.2)
PBT	296	1,015	(70.8)	(4.6)	(416)	2,872	(114.5)
PAT	192	584	(67.2)	(6.9)	(263)	2,073	(112.7)

Source: Company data, I-Sec Research

- We expect MTNL to continue to make provisions with respect to employee benefits and estimate employee costs to be 48% of revenues.

*I-Sec investment ratings (all ratings relative to Sensex over next 12 months)*

**BUY:** +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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