

## Telecom - Q1FY10 Earnings Preview

**Expect 4-5% qoq growth in revenue; impact of termination rate cut to play out**

Apart from subscriber additions reverting to a stable 11-12mn/month post the monthly average of 15mn clocked in Q4FY09 led by promotional schemes, Q1FY10 will also witness the impact (fall in ARPU, slight increase in operating margins) of 10p mobile termination rate cut (effective April 2009). We expect 5-6% qoq fall in ARPU and sector revenue to grow 4-5% qoq. Higher capex spends led by the upcoming 3G auctions, upgrading networks to improve quality of service and planned expansions will entail further fund raising for telecom companies. We maintain UNDERWEIGHT on the telecom sector and on Bharti Airtel and SELL on Idea Cellular.

**Table 1: Bharti - Quarterly Estimates**

(Rs mn)

	Q1FY10E	Q1FY09yoy (%)	Q4FY09 qoq (%)	Comments		
Revenue	103,814	84,833	22.4	98,245	5.7	Revenue growth led by 8.4mn increase in users and a modest 5.6% qoq fall in ARPU
Operating income	41,324	35,106	17.7	39,173	5.5	Increase in EBITDA aided by impact of MTC cut, leading to lower access charges
EBITDA (%)	39.8	41.4	-	39.9	-	Margins stable: Increase in network operating & selling cost offset by lower access charges
Net income	23,652	20,250	16.8	22,393	5.6	Mobile business margins expected to improve to 32.0% in Q1FY10 v/s 31.5% in Q4FY09 (MTC impact)
PAT (%)	22.8	23.9	-	22.8	-	High margin enterprise segment expected to clock 12-15% increase in revenue, owing to high traffic
EPS (Rs)	12.5	10.7	16.6	11.8	5.5	PAT estimate excludes any forex gain that could accrue, due to rupee appreciation
Subscribers (mn)	102.4	69.4	47.6	93.9	8.9	Maintained monthly net adds run rate of 2.8mn during the quarter, 24% market share
ARPU (Rs)	288	350	-17.6	305	-5.6	Only a modest fall in ARPU as not much reduction seen in tariffs (RPM at 58p) coupled with a slight increase in minutes of usage (promotional offers by competitors withdrawn)
MoU (Min)	500	534	-6.4	485	3.1	
RPM (Rs)	0.58	0.65	-12.0	0.63	-8.4	

Source: Company, BRICS Research

### Valuation

At the current price of Rs780, Bharti Airtel trades at P/E of 15.6x FY10E and 14.4x FY11E earnings. It presents a 4% potential upside to our DCF fair value of Rs815. We maintain UNDERWEIGHT on Bharti Airtel. Terms of the Bharti-MTN deal and impending 3G auctions remain wild cards for the company's stock performance in the near term.

**Table 2: Idea - Quarterly Estimates**

(Rs mn)

	Q1FY10E	Q1FY09yoy (%)	Q4FY09 qoq (%)	Comments		
Revenue	30,594	21,781	40.5	29,365	4.2	Revenue growth led by 4.1mn increase in users, 52% revenue growth from new circles
Operating income	8,220	7,203	14.1	8,108	1.4	EBITDA growth aided by lower access charges led by MTC cut, increased carrying of NLD traffic on own network and improvement in established circles' operations (margin at 31.1% v/s 29.2% in Q4FY09)
EBITDA (%)	26.9	33.1	-	27.6	-	
Net income	2,780	2,632	5.6	2,743	1.4	Operating margin for new circles expected at -49.5% v/s -66.4%, losses higher by 13-15% qoq (added Orissa/Tamil Nadu in Q1FY10)
PAT (%)	9.1	12.1	-	9.3	-	Spice's ARPU expected at Rs250 (6.4% qoq fall); 4.5% sequential fall in RPM, at 55p v/s 57p in Q4FY09
EPS (Rs)	0.9	1.0	-10.3	0.9	1.9	Earnings growth flat owing to higher interest outgo and Q4FY09 profit higher by Rs319mn
Subscribers (mn)	47.1	27.2	73.2	43.0	9.5	Clocked average monthly net adds of 1.4mn during Q1FY10, maintained 11% market share
ARPU (Rs)	241	278	-13.3	254	-5.1	Only a modest fall in ARPU as not much reduction seen in tariffs (RPM at 59p) coupled with a marginal increase in MOU (incremental customers of low usage variety)
MoU (Min)	408	428	-4.7	402	1.5	
RPM (Rs)	0.59	0.65	-9.1	0.63	-6.5	

Source: Company, BRICS Research

### Valuation

At the current price of Rs73, Idea Cellular trades at P/E of 25.0x FY10E and 21.8x FY11E earnings. The stock trades at a 36% premium to our DCF fair value of Rs54 and 61% premium to the leader, Bharti Airtel. We maintain SELL on Idea Cellular. Gestation losses from new circle launches and 3G auctions remain key concerns for the company.

**Table 3: Key Financials - Bharti Airtel**

Y/E	Sales	EBITDA	PAT	EPS	EBITDA	RoE	Debt:	Sales	Earnings	P/E	EV/EBITDA
31 Mar	(Rs mn)	(Rs mn)	(Rs mn)	(Rs)	Margin (%)	(%)	Equity (x)	Growth (%)	Growth (%)	(x)	(x)
FY07	184,202	74,407	40,621	21.4	40.4	43.1	0.5	57.9	100.3	-	-
FY08	270,122	114,018	63,954	33.7	42.2	38.5	0.4	46.6	57.4	-	-
FY09	373,521	150,580	78,590	41.4	40.3	30.9	0.3	38.3	22.9	18.8	10.2
FY10E	436,195	170,280	95,080	50.1	39.0	28.0	0.2	16.8	21.0	15.6	9.1
FY11E	485,108	184,313	102,550	54.0	38.0	23.5	0.2	11.2	7.9	14.4	8.2

Source: BRICS Research

**Table 4: Key Financials - Idea Cellular**

Y/E	Sales	EBITDA	PAT	EPS	EBITDA	RoE	Debt:	Sales	Earnings	P/E	EV/EBITDA
31 Mar	(Rs mn)	(Rs mn)	(Rs mn)	(Rs)	Margin (%)	(%)	Equity (x)	Growth (%)	Growth (%)	(x)	(x)
FY07	43,664	14,653	5,022	2.2	33.6	13.4	1.0	47.2	137.2	-	-
FY08	67,200	22,518	10,423	4.0	33.5	21.8	1.1	53.9	107.5	-	-
FY09	101,252	28,121	9,009	3.1	27.8	9.3	0.8	50.7	-13.6	23.9	10.3
FY10E	132,841	34,278	9,654	2.9	25.8	6.6	0.7	31.2	7.2	25.0	9.0
FY11E	153,558	39,905	11,104	3.4	26.0	7.1	0.7	15.6	15.0	21.8	8.2

Source: BRICS Research

**Table 5: Comparative valuations**

	CMP (Rs)	Mkt Cap (Rs mn)	Avg Vol (Nos)	EV/Subs (US\$)	EPS (Rs)			RoE (%)			P/E (x)			EV/EBITDA (x)		
					FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Bharti Airtel	780	1,481,263	5,466,471	325	41.4	50.1	54.0	30.9	28.0	23.5	18.8	15.6	14.4	10.2	9.1	8.2
Idea Cellular	73	227,237	11,520,260	158	3.1	2.9	3.4	9.3	6.6	7.1	23.9	25.0	21.8	10.3	9.0	8.2
Reliance Comm	262	541,704	9,661,295	342	28.6	23.0	24.9	NA	13.9	13.0	9.2	11.4	10.5	15.5	12.4	10.7
MTNL	95	59,787	1,755,028	98	3.4	3.5	2.6	1.3	1.7	1.4	27.8	27.1	36.5	7.0	5.5	4.7

Source: BRICS Research, Bloomberg Consensus Estimates

## Sensex hits 14300, reaches our target area

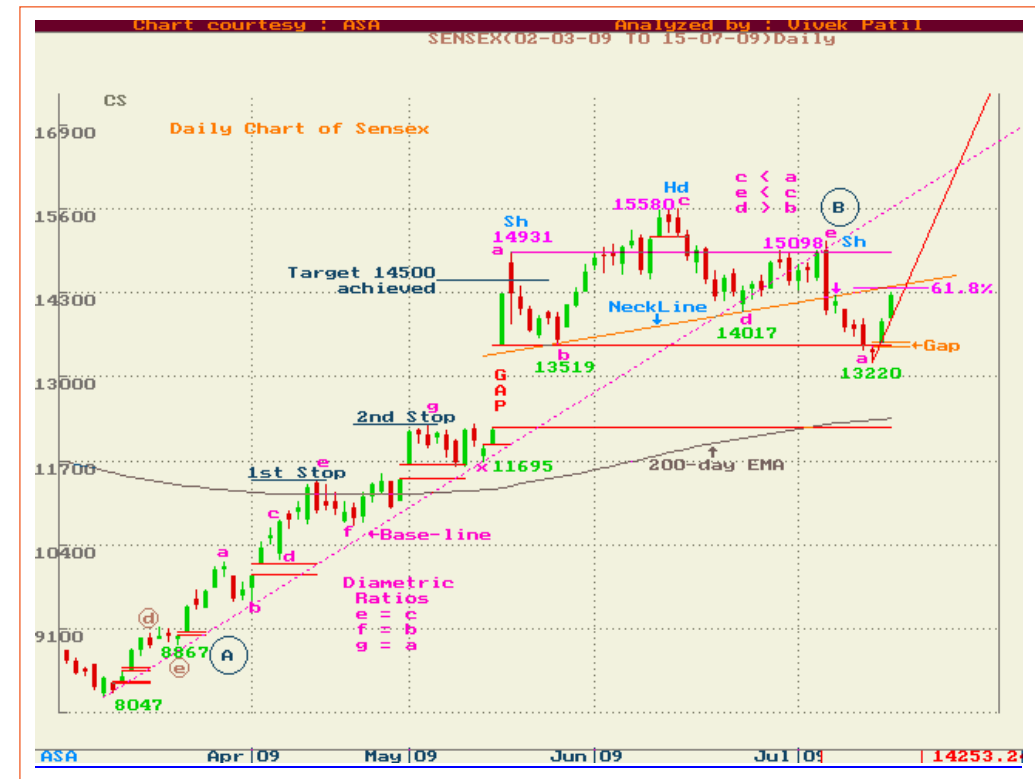
Technical View

Previously we expected a pull-back toward the Neckline of H&S formation to test 14000-400 area. Initially trading volatile, Sensex later moved higher to achieve our target area. At its high of 14300, Index is 100-150 point short of the Neckline. Against Senesx' gain of 2.8%, Realty Index shot up 8%. A/D ratio maintained extremely positive at 14:1. The action formed a sizable bull candle, as a part of the pull-back move to the Neckline. Now overbought in the short term, and having reached our target area already, we may watch if the Sensex reacts from closer to the Neckline.

The value of the Neckline for today is at about 14400-50, which was placed previously as our target for the pull-back move. Remember, reaction from the pull-back levels would continue the downtrend which started from the Budget Day. On Nifty and Nifty Future, the Neckline has been crossed marginally. Remember however, that last year, during Jul-Sep'08, a similar Head & Shoulder (or Extracting Triangle) was formed. It had also generated a pull-back to the Neckline. At that time as well, Nifty and Nifty Future crossed the Neckline. But Sensex had reacted heavily exactly from the Neckline, losing almost 50% of value. We'll watch if similar action is seen this time as well. Since we are long and at a hefty profit already, we may now adjust our stop-loss below the opening lows. Watch for a strongly positive, but unsustainable opening action to decide.

Previously I suspected Intra-day wave-structure since Budget high of 15098 to be a Complex Corrective. As I mentioned previously, the pattern implication for Double Combination is normally 80%. The Neckline value is also close to 61.8% retracement to post-Budget fall. A strong reaction today would mean resistance at the Neckline, which would continue the larger "C" which began from the Budget Day, downwards.

Chart: BSE Sensex



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