

## Telecom

### Off-season

The telecom sector will most likely report muted Q2FY12 results driven by a seasonally weak quarter and forex losses owing to unfavourable currency movements. We expect ARPU (average revenue per user) to be sequentially stable as marginal gains in ARPM (average revenue per minute) have likely been negated by decline in MoU (minutes of usage). Also, subscriber addition has been weak during the quarter and data uptake on 3G has not taken off despite steep cuts in 3G tariffs. We expect Bharti Airtel to witness maximum impact of forex losses owing to its unhedged exposure. We expect Idea Cellular to report strong improvement in the mobility business as it continues to garner strong subscriber addition vis-à-vis peers. We maintain a cautious view on the sector given the imminent telecom policy, which is likely to tax incumbents heavily, and also because any benefits of a better M&A policy regime are likely to be far-fetched. We recommend cautious view on Idea prior to NTP'11 and maintain a positive view on Bharti. RCom continues to be a SELL.

- ▶ **Lower MoUs on account of seasonality to impact revenue growth.** We expect telcos to report 3-4% QoQ revenue growth in Q2FY12 as price increase will offset lower volumes on account of seasonality. BAL (India and South Asia), Idea and RCom can be expected to post 2.8%, 3.5% and 3.8% QoQ revenue growth respectively. Volume increase is expected to be ~2-4% led by a 1-3% decline in MoUs.
- ▶ **Recent price hike to result in increase in ARPM.** We expect average revenue per minute to witness a 1-1.5% QoQ increase for all players post hike in pre-paid tariffs by ~20% in most circles. Data revenues as a % of total mobility revenues is likely to remain at Q1FY12 levels since data uptake is still slow.
- ▶ **Rupee depreciation to result in higher forex losses.** Rupee depreciation to the tune of 9.6% in Q2FY12 will significantly impact profitability of Bharti and RCom. We expect Bharti to report forex losses of ~Rs7bn and expect a negative impact on RCom owing to its outstanding FCCBs.
- ▶ **BAL's Africa operations are likely to post revenue growth** of 3% QoQ in dollar terms and 7.7% in rupee terms. EBITDA margin is expected to improve marginally by 120bps to 26.4% in Q2FY12 (Q1FY12: 25.2%).

### Quarterly summary

(Rs mn)

Company	Sales			EBITDA			PAT		
	JAS'11*	% Chg		JAS'11*	% Chg		JAS'11*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
BAL	176,995	16.3	4.2	60,488	18.1	6.0	8,005	(51.8)	(34.1)
RCom	51,293	0.2	3.8	16,824	1.4	5.0	1,279	(71.3)	(19.1)
Idea	46,777	27.8	3.5	12,349	40.5	2.6	1,497	(16.8)	(15.5)

\* July-August-September '11

Source: I-Sec Research

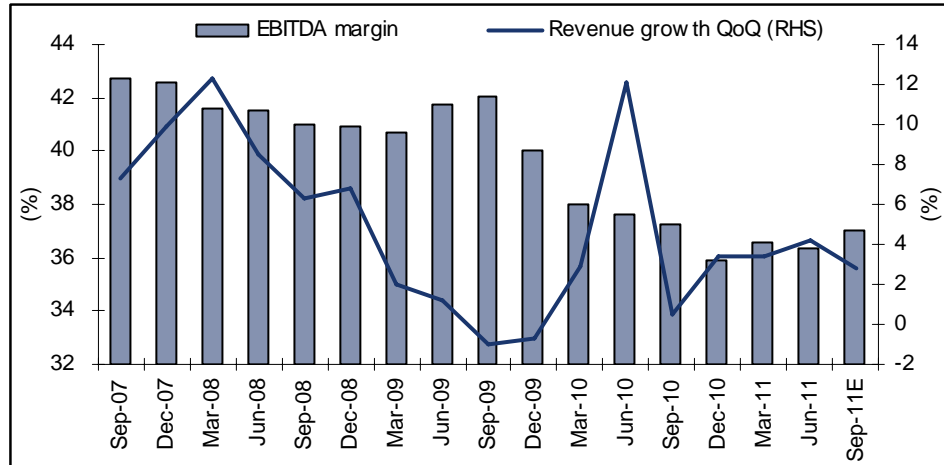
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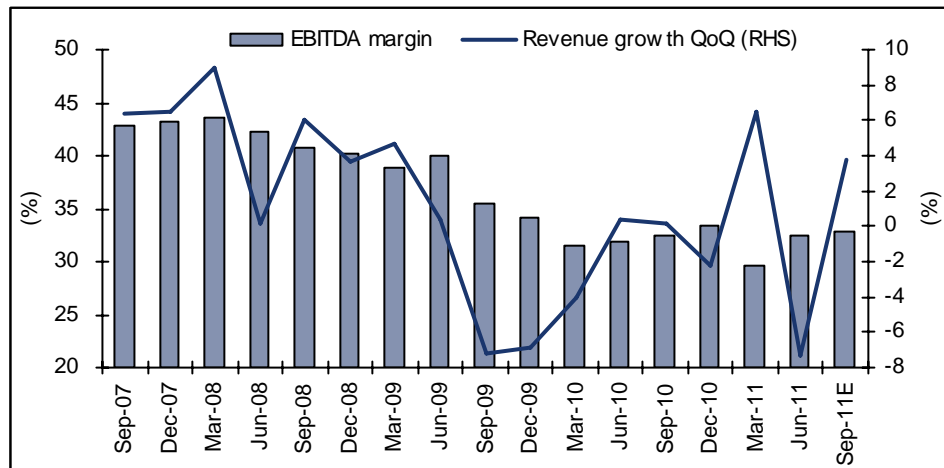
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**Chart 1: BAL (ex-Africa) – Revenue growth likely at 2.8% QoQ**

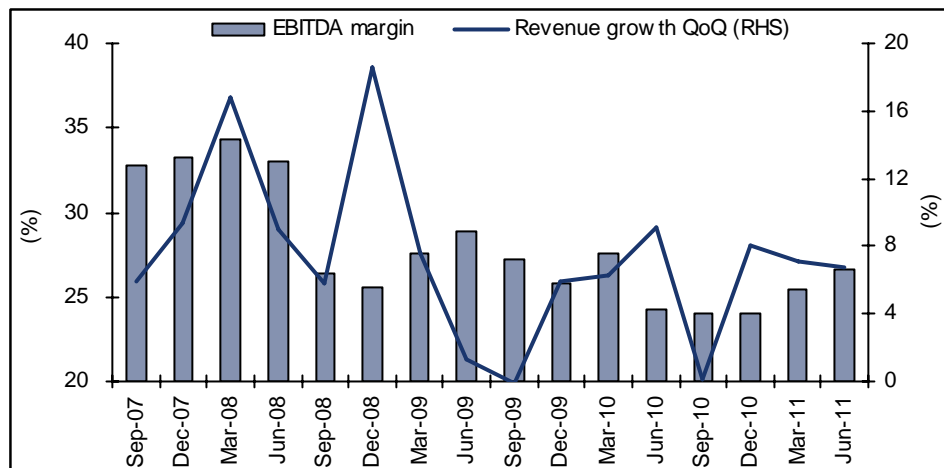


Source: Company data, I-Sec Research

**Chart 2: RCom – Revenue growth likely at 3.8% QoQ**

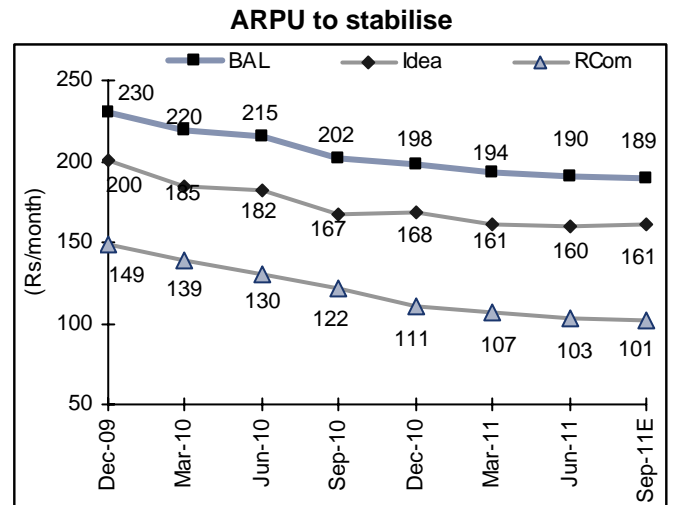
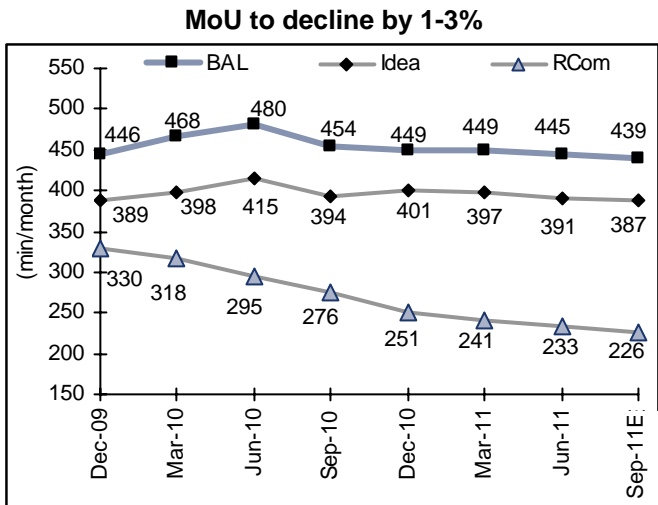


**Chart 3: Idea – Revenue growth likely at 3.5% QoQ**



Source: Company data, I-Sec Research

Chart 4: Wireless KPIs



Source: Company data, I-Sec Research

## Bharti Airtel (Buy)

(QoQ chg: -4.5%; YTD chg: 2.0%)

### Quarterly estimates (India & South Asia)

(Rs mn, year ending March 31)

	Q2FY12E	Q2FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenues	129,827	113,312	14.6	2.8	594,672	418,472	42.1
EBITDA	48,036	42,222	13.8	4.6	199,664	167,633	19.1
PBT	22,183	24,402	(9.1)	6.4	77,131	105,320	(26.8)
PAT	16,637	20,623	(19.3)	6.7	60,691	89,926	(32.5)

Source: Company data, I-Sec Research

### Quarterly estimates (Africa)

	Q2FY12E	Q1FY12	QoQ (%)
Revenues	47,168	43,784	7.7
EBITDA	12,451	11,583	7.5
PBT	(8,651)	(3,175)	NM
PAT	(8,632)	(3,070)	NM

Source: Company data, I-Sec Research

- MoU to decline 150bps QoQ to 439min/month, but will be offset by an increase in ARPM by 1.0% QoQ to Rs0.43.
- India and South Asia revenues to grow at 2.8% QoQ to Rs130bn and an EBITDA of Rs48bn (EBITDA margin: 37%)
- African operations to report revenue growth of 2.9% QoQ in dollar terms and 7.7% QoQ in rupee terms and EBITDA of Rs12.5bn, implying margin of 26.4% QoQ (Q1FY12: 25.2%).
- We expect forex losses to the tune of Rs7bn to bring down profitability significantly.

### Quarterly estimates (consolidated)

	Q2FY12E	Q1FY12	QoQ (%)
Revenues	176,995	169,828	4.2
EBITDA	60,488	57,059	6.0
PBT	13,532	17,195	(21.3)
PAT	8,005	12,152	(34.1)

Source: Company data, I-Sec Research

## Reliance Communications (Sell)

(QoQ chg: -25.4%; YTD chg: -50.0%)

### Quarterly estimates (consolidated)

(Rs mn, year ending March 31)

	Q2FY12E	Q2FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenues	51,293	51,183	0.2	3.8	224,304	214,964	4.3
EBITDA	16,824	16,595	1.4	5.0	84,042	71,846	17.0
PBT	1,911	4,245	(55.0)	(13.5)	15,054	52,603	(71.4)
PAT	1,279	4,459	(71.3)	(19.1)	13,334	46,925	(71.6)

Source: Company data, I-Sec Research

- MoU to decline 3.0% at 226 mins/month. ARPU to drop 2% QoQ to Rs101/month and ARPM to increase 1.0% at Rs0.45.
- Increase in depreciation and amortisation expenses on account of 3G rollout and forex losses due to rupee depreciation will impact profitability.

## Idea Cellular (Add)

(QoQ chg: 20.5%; YTD chg: 36.0%)

### Quarterly estimates (consolidated)

(Rs mn, year ending March 31)

	Q2FY12E	Q2FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenues	46,777	36,593	27.8	3.5	155,033	123,979	25.0
EBITDA	12,349	8,789	40.5	2.6	37,907	33,580	12.9
PBT	2,139	1,941	10.2	(16.1)	9,969	10,437	(4.5)
PAT	1,497	1,799	(16.8)	(15.5)	8,988	9,258	(2.9)

\* April-December; Source: Company data, I-Sec Research

- Revenue to register 3.5% QoQ growth driven by 5.2% increase in the number of subscribers.
- MoU will decline 100bps to 387min/month while ARPM will increase by 1.5% QoQ to Rs0.42. Total minutes on network to increase to 113bn, up 4.3% QoQ.
- EBITDA margin to be flat at 26.4%.
- Depreciation and amortisation expenses to increase led by 3G rollout during the quarter.

## Valuation methodology & risks

**BAL:** We maintain BUY with a target price of Rs437/share based on SoTP of its telecom business, 86% stake in Bharti Infratel (including 42% stake in Indus Towers) and its Africa business. We ascribe Rs91/share to its tower assets based on DCF valuation. We ascribe Rs27/share negative value to account for regulatory risks.

**RCom:** We maintain SELL with a target price of Rs94/share based on DCF valuation.

**Idea:** We retain ADD with a target price of Rs100/share based on SOTP of its mobility business and its stake in Indus Towers. We ascribe Rs94 to the mobile business (based on DCF) and Rs23/share for the stake in Indus Towers. We ascribe Rs17/share negative value to account for regulatory risks.

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*InNew I-Sec investment ratings (all ratings based on absolute return)*

*BUY: >15% return; ADD: 5% to 15% return; REDUCE: Negative5% to positive5% return; SELL: < negative 5% return*

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