

## Jio attempts to monetise...

Reliance Jio came out with a new set of announcements in the event of achieving the 100 million subscriber's milestone. The company would continue to offer voice services free of cost to all its subscribers and has come out with data offers as mentioned hereunder.

### Other highlights

- Jio has reached its initial target of 100 million subscribers in a time span of 170 days. We note that while it is a milestone, it would be key to gauge the subscriber churn on monetisation
- The company carried 100 crore GB of data traffic per month and 200 crore voice and video minutes a day. Jio has emerged as the largest network in terms of data carried globally
- All voice calls on the Jio network will continue to remain free. There would be no roaming or STD charges whatsoever
- Apart from free voice calls, Jio will also provide data tariff plans, which would range from ₹ 149 to ₹ 4999 for long term plans with two additional unique propositions:

a) **Jio Prime membership programme for existing members:** The company is offering Jio Prime membership under which both voice and data (subject to FUP) would be free for a period of a year till March, 2018. The membership would entail a one-time enrolment fee of ₹ 99 and an additional price of ₹ 303/month

b) **Everyday more value offer:** Jio will also allow its subscribers to choose the highest selling tariff plan of any of the leading operator and offer 20% higher data on the same tariffs

### Maintain neutral stance; Bharti better placed

- The addition of 100 million subscriber in a short span is indeed a milestone but retaining users as services are now paid would be the true indicator of Jio's might as an operator of choice
- The Jio tariffs are indicative of the fact that price competition in order to grab the subscriber pie will remain. Consequently, we expect other telecom operators to come out with similar tariff plans
- We note that the industry is moving towards bundled pricing where ARPU would be a key monitorable versus voice or data ARPM tracked earlier. The ₹ 303 per month ARPU, however, serves as an indicator for the positive movement of the sector towards higher per subscriber revenues per month vs. the ₹ 150-180 levels earlier
- Fixed home broadband segment with an ARPU of ~₹ 1000/month could witness a churn towards such plans and users can shift to "Mifi" devices from Jio to experience data on desktop

**We believe Jio's total usage and tempo of subscriber addition would slow down with the end of free usage period. Key monitorable would be the extent of conversion into "Jio Prime" membership plan and any further promotional tariffs if it fails to retain significant subscriber base.** The other incumbents could follow suit with respect to Jio's pricing and control subscriber churn. We have already factored in a 6-8% decline in the ARPU in FY18E in light of the ongoing tariff war. Alternatively, we could also witness a proportion of second SIM user reverting back to incumbents network one free period ends. However, we believe smaller players will find it difficult to sail through the pricing pressure and the industry would see further consolidation towards a three to four major players market. We maintain our **BUY** rating on Bharti and **HOLD** on Idea with a target price of ₹ 410 and ₹ 105, respectively. We highlight that Bharti, with relatively comfortable leverage, superior spectrum portfolio and first mover advantage & leadership, is better poised to tide over this challenging period of extreme competitive intensity.

Rating matrix- Bharti Airtel		
Rating	:	Buy
Target	:	₹ 410
Target Period	:	12 months
Potential Upside	:	13%

What's changed ?- Bharti Airtel	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

Valuation summary- Bharti Airtel				
	FY16	FY17E	FY18E	FY19E
P/E	26.4	35.2	50.5	35.1
Target P/E	29.9	39.7	57.0	39.7
EV / EBITDA	6.8	6.8	7.0	6.3
P/BV	2.2	2.1	2.1	2.1
RoNW (%)	6.1	6.9	4.2	5.9
RoCE (%)	9.4	8.5	7.7	8.8

Rating matrix- Idea Cellular		
Rating	:	Hold
Target	:	₹ 105
Target Period	:	12 months
Potential Upside	:	-3%

What's Changed ?- Idea Cellular	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

Valuation summary- Idea Cellular				
	FY16	FY17E	FY18E	FY19E
P/E	12.7	NA	NA	NA
Target P/E	12.2	NA	NA	NA
EV / EBITDA	6.1	9.2	10.9	9.3
P/BV	1.5	1.5	1.7	1.8
RoNW (%)	12.0	-2.3	-9.3	-7.7
RoCE (%)	9.0	3.1	1.0	2.1

Price performance				
	1M	3M	6M	12M
Bharti Airtel	13.2	21.2	3.4	11.2
RCOM	13.1	-3.7	-29.5	-30.0
Idea	51.7	52.4	15.7	-0.1

### Research Analysts

Bhupendra Tiwary  
bhupendra.tiwary@icicisecurities.com

Sneha Agarwal  
sneha.agarwal@icicisecurities.com

#### Exhibit 1: DCF assumptions- Bharti Airtel

Particulars	Amount
WACC	10.2%
Revenue CAGR over FY17E - FY22E	5.0%
PV of Cash Flow Till Terminal Year	44,767.6
Terminal Growth	3.9%
Present Value of terminal cash flow	207,459.8
PV of firm	252,227.4
Less: Net Debt	88,328.4
Total present value of the Equity (excluding current cash)	163,899.0
Number of Equity Shares outstanding	399.7
DCF - Target price (₹)	410

Source: Company, ICICIdirect.com Research

#### Exhibit 2: Valuations- Bharti Airtel

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	96,619.3	4.9	13.7	5.8	26.5	6.8	6.1	9.4
FY17E	96,807.5	0.2	10.3	-24.8	35.2	6.8	6.9	8.5
FY18E	97,327.9	0.5	7.2	-30.3	50.5	7.0	4.2	7.7
FY19E	105,132.9	8.0	10.3	43.7	35.2	6.3	5.9	8.8

Source: Company, ICICIdirect.com Research

#### Exhibit 3: DCF Assumptions- Idea Cellular

Particulars	Amount
WACC	10.0%
Revenue CAGR over FY16E - FY22E	4.5%
PV of Cash Flow Till Terminal Year	-15,953.2
Terminal Growth	4.0%
Present Value of terminal cash flow	93,626.0
PV of firm	77,672.8
Less: Net Debt	39,949.8
Total present value of the Equity (excluding current cash)	37,723.0
Number of Equity Shares outstanding	360.2
DCF - Target price (₹)	105

Source: Company, ICICIdirect.com Research

#### Exhibit 4: Valuations- Idea Cellular

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	35,981.0	19.1	8.6	49.7	12.7	6.1	12.0	9.0
FY17E	35,821.4	-0.4	-1.6	NA	-66.1	9.2	-2.3	3.1
FY18E	34,509.4	(3.7)	(6.0)	NA	(18.2)	10.9	(9.3)	1.0
FY19E	37,603.1	9.0	-4.6	NA	-23.5	9.3	-7.7	2.1

Source: Company, ICICIdirect.com Research

## Financial summary- Bharti Airtel

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total operating Income	96,619.3	96,807.5	97,327.9	105,132.9	
Growth (%)	4.9	0.2	0.5	8.0	
Employee Expenses	4,911.2	4,328.0	4,618.8	5,036.9	
Marketing Expenses	15,998.7	14,530.6	14,802.9	15,708.3	
Access Charges	10,942.3	10,413.6	10,907.2	11,782.2	
Network Operating	21,166.8	22,204.5	22,910.1	24,628.3	
License Fee	9,492.7	9,368.9	9,386.0	9,982.8	
Other Costs	14.2	0.0	0.0	0.0	
Other expenses	-	13.3	164.6	158.1	
Total Operating Expenditure	62,525.9	60,858.9	62,789.5	67,296.7	
EBITDA	34,093.4	35,948.6	34,538.3	37,836.3	
Growth (%)	8.8	5.4	-3.9	9.5	
Depreciation	17,449.8	19,651.9	19,952.2	21,447.1	
Interest	6,988.9	7,805.1	8,483.6	8,243.6	
Other Income	0.0	0.0	0.0	0.0	
Exceptional Items	(1,450.5)	564.2	-	-	
PBT	11,105.2	7,927.3	6,102.5	8,145.5	
MI / Profit from associates	-315.9	-622.3	-796.0	-808.6	
Total Tax	5,936.8	4,425.3	4,025.4	4,826.4	
PAT	5,484.3	4,124.4	2,873.1	4,127.7	
Growth (%)	5.8	-24.8	-30.3	43.7	
EPS (₹)	13.7	10.3	7.2	10.3	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	1,998.7	1,998.7	1,998.7	1,998.7	
Reserve and Surplus	63,631.4	65,651.1	66,419.6	68,442.7	
Total Shareholders funds	65,630.1	67,649.8	68,418.3	70,441.4	
Total Debt	95,043.0	107,287.0	103,287.0	99,287.0	
Deferred Tax Liability	1,435.6	1,435.6	1,435.6	1,435.6	
Others	15,235.7	15,685.2	15,771.4	15,877.8	
Total Liabilities	177,344.4	192,057.6	188,912.3	187,041.9	
<b>Assets</b>					
Gross Block	290,738.0	324,982.0	346,982.0	368,982.0	
Less: Acc Depreciation	109,011.7	128,663.7	148,615.9	170,063.0	
Net Block	181,726.3	196,318.4	198,366.2	198,919.0	
Investments	14,194.9	14,894.9	15,394.9	15,894.9	
Inventory	169.2	169.5	170.4	184.1	
Debtors	7,310.6	6,630.7	6,399.6	6,912.9	
Loans and Advances	4,883.2	3,669.5	3,504.8	3,596.6	
Other Current Assets	3,796.4	3,803.8	3,824.2	4,130.9	
Cash	3,708.7	3,424.4	2,161.8	2,321.8	
Total Current Assets	19,868.1	17,697.9	16,060.9	17,146.2	
Creditors	38,745.6	37,131.6	39,997.8	43,205.3	
Provisions	232.6	238.6	257.0	277.6	
Other Current Liabilities	8,544.6	8,561.3	9,732.8	10,513.3	
Total Current Liabilities	47,522.8	45,931.5	49,987.6	53,996.2	
Net Current Assets	-27,654.7	-28,233.6	-33,926.7	-36,850.0	
Others Assets	9,078.0	9,078.0	9,078.0	9,078.0	
Application of Funds	177,344.4	192,057.6	188,912.3	187,041.9	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit after Tax	5,484.3	4,124.4	2,873.1	4,127.7	
Add: Depreciation	17,449.8	19,651.9	19,952.2	21,447.1	
Add: Interest Paid	6,988.9	7,805.1	8,483.6	8,243.6	
(Inc)/dec in Current Assets	150.3	1,885.9	374.4	(925.3)	
Inc/(dec) in CL and Provisions	5,218.2	-1,591.3	4,056.1	4,008.7	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	35,291.4	31,876.0	35,739.4	36,901.8	
(Inc)/dec in Investments	4,442.7	-700.0	-500.0	-500.0	
(Inc)/dec in Fixed Assets	-49,032.1	-34,244.0	-22,000.0	-22,000.0	
Others	6,275.2	449.5	86.2	106.5	
CF from investing activities	-38,314.2	-34,494.5	-22,413.8	-22,393.5	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-5,466.6	5,122.0	-4,000.0	-4,000.0	
Dividend paid & dividend tax	-636.1	-2,104.6	-2,104.6	-2,104.6	
Interest Paid	6,988.9	7,805.1	8,483.6	8,243.6	
Others	4,673.4	-8,488.2	-16,967.2	-16,487.2	
CF from financing activities	5,559.7	2,334.2	-14,588.2	-14,348.2	
Net Cash flow	2,536.9	-284.3	-1,262.6	160.0	
Opening Cash	1,171.8	3,708.7	3,424.4	2,161.8	
Closing Cash	3,708.7	3,424.4	2,161.8	2,321.8	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Per share data (₹)</b>					
EPS	13.7	10.3	7.2	10.3	
Cash EPS	57.4	59.5	57.1	64.0	
BV	164.2	169.2	171.2	176.2	
DPS	1.6	5.3	5.3	5.3	
Cash Per Share	9.3	8.6	5.4	5.8	
<b>Operating Ratios</b>					
EBITDA Margin (%)	35.3	37.1	35.5	36.0	
EBIT Margin (%)	17.2	16.8	15.0	15.6	
PAT Margin (%)	4.2	4.8	3.0	3.9	
Inventory days	0.6	0.6	0.6	0.6	
Debtor days	27.6	25.0	24.0	24.0	
Creditor days	146.4	140.0	150.0	150.0	
<b>Return Ratios (%)</b>					
RoE	6.1	6.9	4.2	5.9	
RoCE	9.4	8.5	7.7	8.8	
RoC	10.3	9.2	8.4	9.5	
<b>Valuation Ratios (x)</b>					
P/E	26.4	35.2	50.5	35.1	
EV / EBITDA	6.8	6.8	7.0	6.3	
EV / Net Sales	2.4	2.5	2.5	2.3	
Market Cap / Sales	1.5	1.5	1.5	1.4	
Price to Book Value	2.2	2.1	2.1	2.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	2.8	3.0	3.0	2.6	
Debt / Equity	1.4	1.6	1.5	1.4	
Current Ratio	0.3	0.3	0.3	0.3	
Quick Ratio	0.3	0.3	0.3	0.3	

Source: Company, ICICIdirect.com Research

## Financial summary- Idea Cellular

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total operating Income	35981.0	35821.4	34509.4	37603.1	
Growth (%)	14.0	-0.4	-3.7	9.0	
Employee Expenses	1,659.9	1,793.1	1,780.5	1,959.9	
Roaming & Access Charges	4,643.6	4,351.5	4,261.8	4,613.2	
Network operating expenditure	8,170.7	10,822.4	11,396.4	11,714.5	
License and WPC Charges	4,150.8	4,106.5	3,916.8	4,324.4	
SG&A Expenses	3,353.3	3,598.4	3,625.2	3,913.4	
Other Costs	972.8	1,099.5	965.0	1,050.1	
Total Operating Expenditure	22951.0	25771.4	25945.8	27575.4	
EBITDA	13030.0	10050.0	8563.7	10027.7	
Growth (%)	20.5	-22.9	-14.8	17.1	
Depreciation	6650.8	7701.6	8109.7	8648.7	
Interest	1881.6	4001.2	4371.4	4410.4	
Other Income	227.1	318.5	360.0	360.0	
Non Operating Expenses	0.0	0.0	0.0	0.0	
PBT	4724.7	-1334.2	-3557.4	-2671.4	
MI/ Profit from associates	0.0	-445.8	-524.9	-475.5	
Total Tax	1644.7	-297.9	-889.4	-534.3	
PAT	3079.9	-590.6	-2143.2	-1661.6	
Growth (%)	20.5	-119.2	262.9	-22.5	
EPS (₹)	8.6	-1.6	-6.0	-4.6	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit after Tax	3,079.9	-590.6	-2,143.2	-1,661.6	
Add: Depreciation	6,650.8	7,701.6	8,109.7	8,648.7	
Add: Interest paid	1,881.6	4,001.2	4,371.4	4,410.4	
(Inc)/dec in Current Assets	589.3	491.9	549.4	(74.9)	
Inc/(dec) in CL and Provisions	1,320.4	446.3	-129.8	601.3	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	13,522.1	12,050.4	10,757.5	11,924.0	
(Inc)/dec in Investments	10,153.7	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-40,367.0	-20,798.0	-7,500.0	-7,000.0	
Others	3,498.6	0.0	0.0	0.0	
CF from investing activities	-26,714.8	-20,798.0	-7,500.0	-7,000.0	
Issue/(Buy back) of Equity	2.7	0.0	0.0	0.0	
Inc/(dec) in loan funds	-7,112.0	5,549.0	1,300.0	0.0	
Dividend paid & dividend tax	-260.0	0.0	0.0	0.0	
Interest Paid	-1,881.6	-4,001.2	-4,371.4	-4,410.4	
Others	21,672.1	6,483.3	0.0	0.0	
CF from financing activities	12,421.2	8,031.1	-3,071.4	-4,410.4	
Net Cash flow	-771.5	-716.4	186.2	513.6	
Opening Cash	1,553.7	782.2	65.8	252.0	
Closing Cash	782.2	65.8	252.0	765.6	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	3,600.5	3,600.5	3,600.5	3,600.5	
Reserve and Surplus	22,165.1	21,658.8	19,515.6	17,854.1	
Others	1.9	1.9	1.9	1.9	
Total Shareholders funds	25,767.5	25,261.3	23,118.1	21,456.5	
Total Debt	41,503.5	53,451.5	54,751.5	54,751.5	
Deferred Tax Liability	3,071.4	3,071.4	3,071.4	3,071.4	
Others	3,274.0	3,274.0	3,274.0	3,274.0	
Total Liabilities	73,616.4	85,058.2	84,215.0	82,553.4	
<b>Assets</b>					
Gross Block	98,676.6	119,073.1	126,573.1	133,573.1	
Less: Acc Depreciation	30,384.8	38,086.4	46,196.1	54,844.8	
Net Block	68,291.8	80,986.8	80,377.1	78,728.3	
Capital WIP	6,098.6	6,500.0	6,500.0	6,500.0	
Total Fixed Assets	74,390.4	87,486.8	86,877.1	85,228.3	
Investments	1,378.9	1,378.9	1,378.9	1,378.9	
Inventory	106.5	106.1	102.2	111.3	
Debtors	1,177.6	1,172.4	1,129.5	1,230.7	
Loans and Advances	4,784.8	4,298.6	3,796.0	3,760.3	
Other Current Assets	2.0	2.0	1.9	2.1	
Cash	782.2	65.8	252.0	765.6	
Total Current Assets	6,853.2	5,644.8	5,281.6	5,870.0	
Creditors	7,959.1	8,243.8	8,131.0	8,653.9	
Provisions	1,075.1	1,236.6	1,219.6	1,298.1	
Total Current Liabilities	9,034.1	9,480.4	9,350.6	9,952.0	
Net Current Assets	-2,180.9	-3,835.6	-4,069.1	-4,081.9	
Other Non Current Assets	27.8	27.8	27.8	27.8	
Application of Funds	73,616.4	85,058.2	84,215.0	82,553.4	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Per share data (₹)</b>					
EPS	8.6	-1.6	-6.0	-4.6	
Cash EPS	27.0	19.7	16.6	19.4	
BV	71.6	70.1	64.2	59.6	
DPS	0.7	0.0	0.0	0.0	
Cash Per Share	2.2	0.2	0.7	2.1	
<b>Operating Ratios</b>					
EBITDA Margin (%)	36.2	28.1	24.8	26.7	
EBIT Margin (%)	17.7	6.6	1.3	3.7	
PAT Margin (%)	8.6	-1.6	-6.2	-4.4	
Inventory days	1.1	1.1	1.1	1.1	
Debtor days	11.9	11.9	11.9	11.9	
Creditor days	80.7	84.0	86.0	84.0	
<b>Return Ratios (%)</b>					
RoE	12.0	-2.3	-9.3	-7.7	
RoCE	9.0	3.1	1.0	2.1	
RoC	9.6	3.0	0.6	1.8	
<b>Valuation Ratios (x)</b>					
P/E	12.7	-66.1	-18.2	-23.5	
EV / EBITDA	6.1	9.2	10.9	9.3	
EV / Net Sales	2.2	2.6	2.7	2.5	
Market Cap / Sales	1.1	1.1	1.1	1.0	
Price to Book Value	1.5	1.5	1.7	1.8	
<b>Solvency Ratios</b>					
Debt/EBITDA	3.2	5.3	6.4	5.5	
Debt / Equity	1.6	2.1	2.4	2.6	
Current Ratio	0.7	0.6	0.5	0.5	
Quick Ratio	0.7	0.6	0.5	0.5	

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bharti Airtel (BHAAIR)	363	410	Buy	145,046	13.7	10.3	7.2	26.4	35.2	50.5	6.8	6.8	7.0	9.4	8.5	7.7	6.1	6.9	4.2
Bharti Infratel (BHAINF)	296	350	Buy	54,674	11.8	15.5	16.2	24.9	19.1	18.3	9.6	9.1	8.3	15.1	18.5	20.7	12.2	17.6	18.6
Idea Cellular (IDECEL)	108	105	Hold	39,024	8.6	-1.6	-6.0	12.7	NM	NA	6.1	9.2	10.9	9.0	3.1	1.0	12.0	NM	NM
Tata Comm. (TATCOM)	751	785	Buy	21,392	-7.4	56.0	17.8	NM	13.4	42.1	11.2	11.8	10.0	5.1	5.7	7.6	NA	NA	36.4

Source: Reuters, ICICIdirect.com Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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