

Research Picks

- ➔ India Financials: Q4 Preview: RBI's AQR will continue to haunt sector
- ➔ India Telecom: Q4: Operators steady, TCOM to report better quarter

7 April 2016



6 April 2016

India Financials

Q4 Preview: RBI's AQR will continue to haunt sector

We expect our banking universe PAT to decline by 22% YoY in Q4FY16, led by a poor showing from public sector banks. Slippages from failed restructured cases coupled with AQR-related pain should keep the stress on asset quality elevated. Loan growth is likely to be weak at sub-12% YoY with only retail-centric banks and mid-size private banks expected to fare better. NBFCs could post loan growth and margin expansion due to lower bank borrowing costs, but chinks in asset quality remain.

- ➔ **Yet another painful quarter:** Q4FY16 is likely to be as grim as Q3 in terms of asset quality. Slippages would remain elevated for banks that had spread the impact of the RBI's asset quality review (AQR) over two quarters and recognised only 50-70% of the NPAs in Q3. Retail-centric banks such as HDFCB, IIB and KMB will likely fare better. Credit costs are expected to stay high given the accelerated provisions on troubled assets coupled with ageing NPAs. As such, guidance on FY17 asset health by corporate private banks will be a key factor to watch.
- ➔ **No material change in loan growth:** Despite Q4 being a seasonally strong quarter, we do not expect any material change in loan growth. With no sign of improvement in corporate demand and fresh investments, overall credit growth is likely to stagnate at 11-12% for FY16. As per the latest available data, loan growth for the banking sector was weak at 11% YoY, only a tad better than the previous quarter. The corporate portfolio of lenders like ICICIBC and AXSB is expected to grow below 10%, though their retail books should do well. Private banks would clearly outstrip public banks in credit growth, especially mid-tier names such as IIB and YES which we expect to grow even better than their private peers.
- ➔ **Margins under pressure:** The impact of the latest reduction in base rate was completely factored into Q3 margins. However, margins would remain under pressure given the high interest reversals driven by AQR-related slippages. G-sec yields have declined by ~30bps QoQ in Q4, which should give banks an opportunity to post some treasury gains.
- ➔ **NBFCs should fare relatively better:** NBFCs under our coverage are expected to post 13% YoY PAT growth, as Q4 is a seasonally strong quarter for most of them. Asset quality could deteriorate sharply for Shriram Group companies such as SHTF and SCUF as they migrate from 180dpd to 150dpd NPA recognition norms. In addition, credit costs will stay high for NBFCs that recognise NPAs on 120-150dpd. Margins should stay healthy for NBFCs like CIFC, SHTF and MMFS that have a high reliance on bank borrowings.



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RCML Universe: Recommendation summary

TICKER	CMP (Rs)	TP (Rs)	REC
Pvt. Banks			
AXSB	425	415	SELL
HDFCB	1,062	1,325	BUY
ICICIBC	223	230	SELL
IIB	955	1,125	BUY
YES	834	900	BUY
KMB	668	900	BUY
PSU Banks			
BOB	143	115	SELL
BOI	93	100	SELL
CBK	185	220	SELL
PNB	81	75	SELL
SBIN	184	150	SELL
UNBK	128	115	SELL
NBFCs			
MMFS	234	225	HOLD
SHTF	926	1,150	BUY
SCUF	1,518	2,050	BUY
CIFC	727	850	BUY
POWF	168	195	HOLD
RECL	160	185	HOLD
SKSM	547	345	SELL

Source: Bloomberg, Company, RCML Research

6 April 2016

India Telecom

Q4: Operators steady, TCOM to report better quarter

We expect our telecom universe to report steady QoQ wireless revenue in Q4FY16 led by increased data adoption. Margins are likely to remain range-bound on account of higher network investments and LTE rollouts. For Bharti-Africa, we expect improved revenues and stable margins. TCOM should have a better Q4 both on voice and data. Overall, we maintain our cautious stance on operators and retain our preference for non-operators within the telecom space. TCOM and BHIN are our only BUY-rated names.

- ➔ **India wireless performance under pressure:** We expect Bharti/Idea to report 2.6%/2.4% QoQ growth in India wireless revenues for Q4FY16. Data volumes for these two players are likely to moderate to 13%/8% QoQ and adoption will be the key focus. On a YoY basis, data revenue for Bharti/Idea is projected to grow at 49%/34%. Margins of both players are expected to dip by 30bps QoQ as LTE network rollouts gain momentum.
- ➔ **Expect steady quarter from BHIN, Bharti-Africa revenue contribution to improve:** We expect BHIN to report 7% YoY revenue growth and 3.8% EBITDA growth led by improving tenancies. However, we believe that tenancy addition is likely to be lower than Q3 due to exits. Bharti-Africa's revenues are likely to grow 4.3% QoQ with stable sequential margins.
- ➔ **TCOM – data to drive growth:** We expect TCOM's revenues to improve by 1.1% QoQ – voice revenues are likely to be stable (post the 4% QoQ decline in Q3FY16) while data should grow at 2% QoQ. We further expect data margins to expand to 22%, improving by 30bps QoQ, while voice margins should recover post a sharp decline in Q3. Management's outlook on data growth and margins, along with progress on the data centre stake sale, will be the key for share price performance.
- ➔ **Key issues to monitor during Q4:** Investment towards network rollouts, margin trends and commentary on data adoption and pricing will be key issues to watch for. Further, we would especially monitor management commentary on strategy for the latest spectrum auction and capex guidance for FY17.



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India Telecom: Valuation snapshot

(x)	FY16E	FY17E	FY18E
Bharti Airtel (BHARTI IN)			
EV/EBITDA	5.6	5.5	5.0
P/E	23.0	37.7	32.6
Idea Cellular (IDEA IN)			
EV/EBITDA	4.2	5.9	5.7
P/E	13.7	44.7	83.7
Tata Communications (TCOM IN)			
EV/EBITDA	5.8	5.1	4.5
P/E	NM	23.7	15.7
Bharti Infratel (BHIN IN)			
EV/EBITDA	12.3	11.1	9.9
P/E	30.1	25.7	21.8

Source: RCML Research, Bloomberg

Fig 1 - India Telecom: Q4FY16 preview

(Rs mn)	Sales	QoQ (%)	YoY (%)	EBITDA	QoQ (%)	Margins (%)	PAT	QoQ (%)	YoY (%)	EPS (Rs)
Bharti	249,386	3.6	8.4	86,611	2.9	34.7	15,573	39.4	24.1	3.9
Idea	92,214	2.4	9.5	31,705	1.3	34.4	3,597	(52.9)	(61.8)	1.0
Bharti Infratel	31,420	1.6	6.6	13,803	2.3	43.9	6,342	12.2	13.8	3.3
TCOM	51,562	1.1	7.2	7,934	4.4	15.4	(496)	NM	NM	(1.7)

Source: RCML Research

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