



MSE Financial Services Ltd



SECTORAL OUTLOOK

25 September, 2018

TELECOM, BROADBAND AND DTH TV STOCKS MAY CONTINUE TO SEE FURTHER WEAKNESS

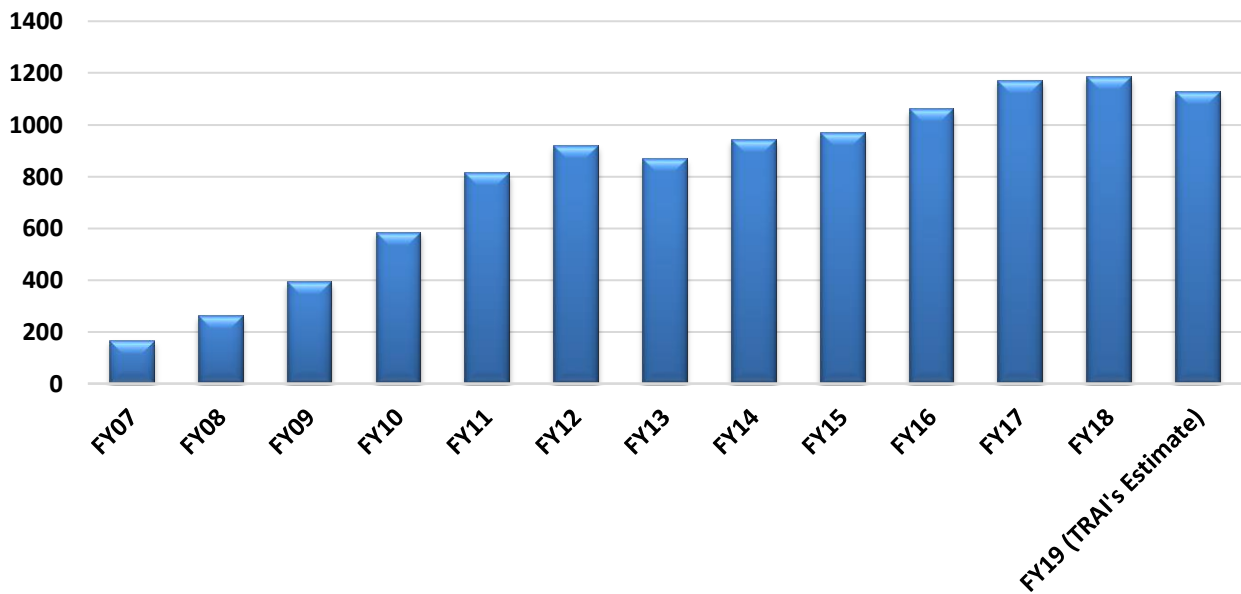
Observations: -

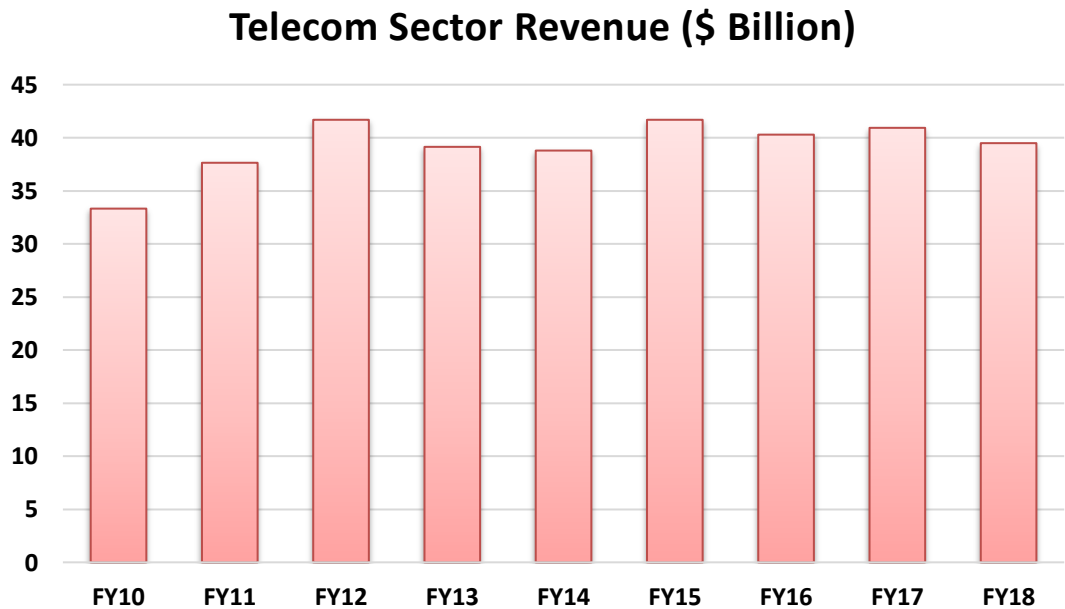
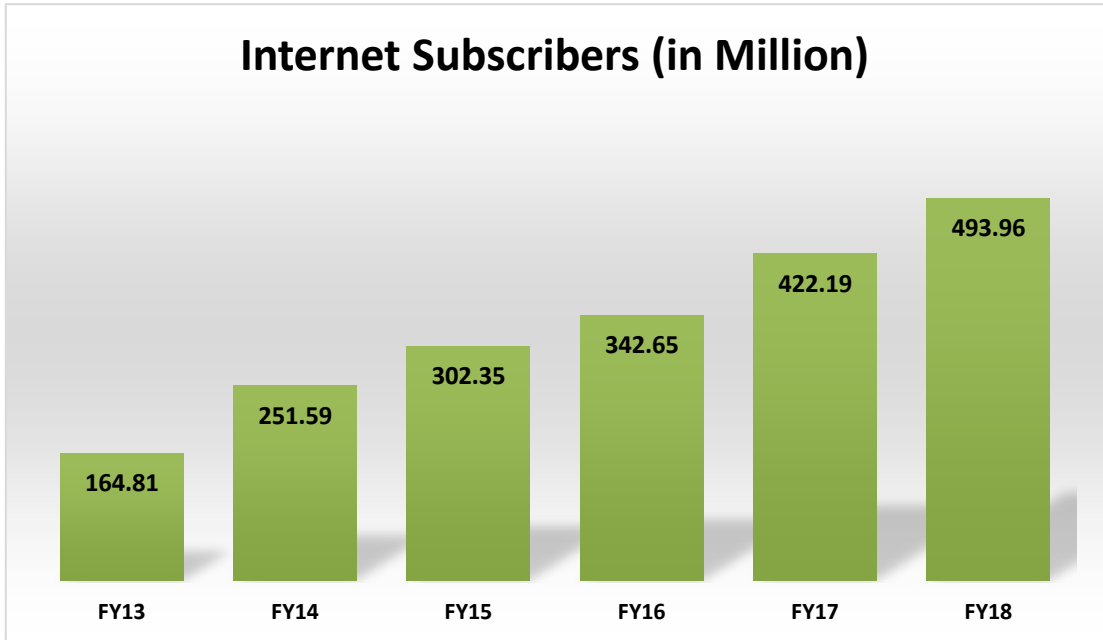
- The Jio effect continues to be a major force for the other telecom players to reckon with and a major pricing pressure due to competition continues to remain to be an overhang on the entire sector.
- Debt levels should continue to rise in the telecom sector given infrastructure improvement related costs, network expansions to meet demand for Broadband, Mobile, and TV related connectivity.
- Interest rates look set to rise by at least another 50bps in FY19 owing to a response to weaker domestic currency rates, rising bond yields and an expected rise in inflation rates due to higher oil prices. Most telecom players in India have an Interest Coverage Ratio of less than 3. This should result in Profit contractions owing to an increased Interest Outgo.
- Margins do not seem to be bottoming out for most players in the sector as Jio's latest venture into DTH and Broadband connectivity should result in price related competition.
- Expect consolidation in the Telecom, Broadband, and DTH TV sector to continue.
- Smaller players in both, the Broadband and DTH TV industry would certainly face stiff financial pressures due to tariff-based wars with their larger peers.
- The pricing erosion seen in the industry looks permanent in nature and thus, tariffs may not be expected to rise substantially in the near future.
- Jio's effect on the Broadband and DTH TV industry has just begun to play out and thus, fundamental contractions on the margins and income of the other companies should begin to show up from Q4FY19 onwards.
- Dividend yields should reduce substantially in the near future with increased investments that are needed to be done in the short term to handle increased data traffic, and improve upon network connectivity in all segments.

- With the entire industry classified as a sensitive sector by the RBI, telecom players are seeing a 200-300bps rise in terms of cost of borrowing. A lot of floating rate loans and newly issued debt instruments are extremely affected in terms of cost of borrowing.
- Rate of volume growth is expected to decline in the future especially in the DTH TV and Mobile Connectivity segments as telecom players are of the opinion that a level of market saturation has been noticed in the industry. A particular player in the industry is of the view that organic volume can only grow at the rate of population growth in India as the industry has noticed a market saturation especially in the Mobile Connectivity and DTH TV segments. However, inorganic volumes may grow substantially through merger and acquisition related activities for the bigger industry players.

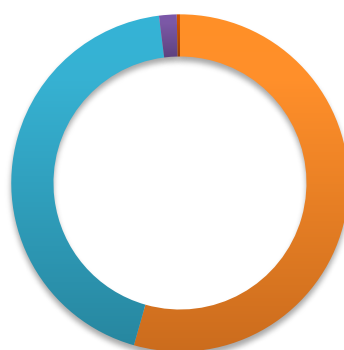
Market Fact Sheet: -

Wireless Subscribers (in Million)





Composition of Telephone Subscribers (FY18)



■ Urban Wireless
 ■ Rural Wireless
 ■ Urban Wireline
 ■ Rural Wireline

Industry Scorecard: -

Company	Market Cap (₹ in Crores)	Revenue (Consolidated) (₹ in Crores) (FY18)	Net Profit (Consolidated) (₹ in Crores) (FY18)
Bharti Airtel	148,103.67	83637.90	1122.60
Reliance Communications	3636.68	4593.00	-23912.00
Bharti Infratel	52010.98	6621.00	1191.20
Vodafone Idea	39701.21	N/A	N/A
Tata Communications	14,242.88	16650.84	-309.31
Dish TV	11,627.73	4634.16	-84.90
Hathway	1976.67	1530.77	-146.99

References

TRAI Telecommunications Report through IBEF (India Brand Equity Foundation) – July 2018

ACE Analyser

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