

Bharti Tele-Ventures Limited

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Buy
Rs32.70

In a rendezvous with the management of Bharti Tele-Ventures' on Saturday, we tried finding out the impact on its long-distance revenues post-IUC and impact of certain cell-to-cell (C2C) calls shifting to BSNL from Bharti Telesonic.

Key takeaways of the meeting are as below:

- Post the new interconnect usage charges (IUC) regime, BTVL's DLD carriage revenues would fall. This would happen on account of:
 - 1) sharp fall in tariffs (not immediately compensated by elasticity)
 - 2) change in the way BTVL would now account for its DLD revenues.
- DLD call charges dropped from Rs9/minute (for most of FY03) to Rs2.99/minute in January 2003. These charges now stand at Rs1.99/2.99/3.99 per minute depending on distance and type of call. However, unlike earlier rates, the new rates are inclusive of airtime, carriage and termination. As a result, the new composite rates are effectively lower by 40-60% over those in January 2003.
- Post-January, BTVL recorded a 35% growth in long-distance calls volume. Though not sufficiently high to neutralise the drop in tariffs, we believe elasticity would have its effects over a slightly longer term.
- Pre-IUC, BTVL shared around 20-30% of its DLD revenues with the cell operators. Post-IUC, we estimate BTVL would retain around 45% of the total DLD call charges. The fallout, revenues would fall.
- For FY03, BTVL's long-distance revenues were gross of revenue sharing. From FY04, they would comprise DLD carriage and termination only. Hence, the reported revenues would be lower.
- In a recent development (Friday), BPL, Idea and the regional operators decided to shift traffic to BSNL. This would negatively impact BTVL's long-distance revenues. The impact would be restricted to about 20% of C2C traffic that Bharti Telesonic currently carries.
- Post-IUC, however BTVL would pay lower termination charges on ILD calls to BSNL. This would improve margins.
- BTVL recorded revenues of Rs8524mn or 28% of total revenues from its long distance operations. We estimate that 43% or Rs3664mn was DLD revenue. Of this, 70-75% was C2C. This part of the revenue would be under pressure in FY04 for the above-mentioned reasons.

We maintain our **Buy** call on BTVL with a price target of Rs44. We strongly believe that BTVL's sound business model can withstand shocks. While IUC would have a one-time impact on long-distance revenues, we believe it should be seen as an industry/structural issue than specific to one company. As such, IUC should not be perceived as a negative. Existence of an IUC today has also made the GSM mobile players more competitive in their tariffs vis-à-vis the WLL operators. IUC has made calling party pays (CPP) a reality, which would drive mobile usage growth in FY04/5. Further, impact of such a one-time structural industry-wide change would be absorbed completely by BTVL in Q1FY04 and somewhat in Q2FY04. Thus, we see little reason to worry beyond that.

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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