

CMP : Rs.81

Reco : HOLD

STOCK INFO

BSE	532822
NSE	IDEA
Bloomberg	IDEA IN
Reuters	IDEA.BO
Sector	Telecom - Services
Equity Capital (Rs mn)	33,100
Face Value (Rs)	10
Mkt Cap (Rs mn)	269,000
52w H/L (Rs)	103/71
Avg Daily Vol (BSE+NSE)	4,384,986

SHAREHOLDING PATTERN

(as on 30th Sep. 2012)

	%
Institutions	22.1
Others, Incl Public	32.0
Promoters	45.9

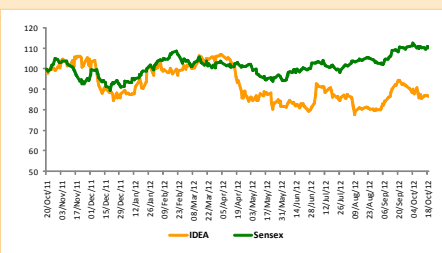
Source: BSE

STOCK PERFORMANCE (%) 1m 3m 12m

	1m	3m	12m
IDEA	5	14	9
SENSEX	7	11	14

Source: Capitaline, IndiaNivesh Research

IDEA v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Result below expectations – Impacted by seasonality and competitive intensity, Maintain, “HOLD”

Key Result Highlights

Idea Cellular Ltd (Idea) Q2FY13 result was below the street expectations due to more than expected impact of seasonal slowdown. During the quarter, top-line went down 3.4% qoq (+15% yoy) to Rs53.1bn against street expectation of Rs54.5bn. Revenue was down due to 1.5% qoq (to 116mn) decline in subscriber base and 2.5% qoq (to Rs148) decline in ARPU. Minutes of use (MoU) per user declined at 359mn mints v/s 379mn mints in Q1FY13 due to 4.0% qoq decline (to 125bn mints v/s 131bn mints in Q1FY13) in voice traffic. Average realization per minutes (ARPM) went up 0.2% QoQ to 41.3 paise v/s 41.2 paise in Q1FY13. EBITDA stood at Rs14.2bn (Bloom est: Rs13.9bn), down 0.9% qoq due to lower revenue base. However, EBITDA margin expanded 69bp qoq to 26.8% v/s 26.1% through cost optimisation. PAT for the quarter stood at Rs2400mn, up 2.5% QoQ above consensus estimate of Rs2069mn, owing to forex gain of Rs180 mn (v/s Rs.245 mn of forex loss in Q1FY13) and decline in interest cost. During the quarter, ABTL (a fully owned subsidiary) received dividend of Rs1,543 mn from Indus -reflected in ‘Standalone’ PAT; however, eliminated in ‘Consolidated’ financials (netted the dividend impact). Excluding forex gain of Rs180mn, Adj.net profit stood at Rs2.2bn v/s Rs2.6 bn in Q1 FY13.

Key Results Takeaway

Operating KPI’s declined, except ARPM

Idea registered decline in subscriber base of 1.7mn resulting in total subscriber base of 116 mn (down 1.5% qoq, up 15.3% yoy). The voice volume growth for the quarter went down by 4.0% qoq (+18.3% yoy) to 125.6bn minutes. As a result, MoU per user decline at 359mn minutes v/s 379 mn minutes in Q1FY13. Share of VAS (non-voice) revenues improved sequentially to 15.6% v/s 14.5% in Q1FY13, signifies the some uptick in 3G and data revenues. The 3G Cell Sites (EOP) increased 8.3% qoq to 14,467 v/s 13,363. Blended churn rate inched up slightly at 10.1% (v/s 9.9% in Q1FY13), however post paid churn rate spiked to 3.7% v/s 3.1% in Q1FY13. During the quarter, ARPU declined to Rs.148 v/s Rs156 in Q1FY13. However, average revenue per minutes (ARPM) grew by 0.2% qoq to 41.3paise v/s 41.2 paise in Q1FY13 owing to increase in mobile data contribution. Idea remains the key gainer in the MNP with net gain of 4.0mn subscribers. Idea’s VLR subscribers (active subscribers) remain highest in the industry at 94.1% (to 109.1 mn subscribers) of total subscribers base.

Established circles EBIDTA Margin expanded

Idea’s revenues in established and new circles de-grew by 3.6% qoq and 2.3% qoq, respectively. EBIDTA from established circles (ESA) decreased 1.4% qoq and losses in new circles (NSA) widened to Rs1.8bn v/s Rs1.69bn in Q1FY13. However, ESA EBITDA margin expanded 69bps qoq to 30.5% due to cost optimization of ‘Subscriber Acquisition & Servicing’ and ‘Advertisement & Business Promotion’ expenditures. The higher losses in NSA was largely attributable to expansion of 3G services in new circles (rolled out 1104 v/s 538 3G cell sites in Q1FY13). We believe losses from the new circles would remain in similar range as company is still in investment phase for 3G expansion.

Indus implied EBITDA margin expanded

Idea's share of 16% of Indus revenues for Q2FY13 was at Rs5.3bn (up 6.8% qoq) v/s Rs5.0 bn in Q1FY13. EBITDA for the quarter went up to Rs1.61 bn v/s Rs1.47 bn in Q1FY13. As a result, Indus implied EBITDA margin expanded to 30.1% (v/s 29.3% in Q1FY13). Further, Indus EBITDA to total revenue went up at 3.0% v/s 2.7% in Q1FY13. The owned towers tenancy ratio for the quarter stood at 1.57 (v/s 1.56 in Q1FY13). During the quarter, Idea rolled out ~1919 2G cell sites v/s ~670 in Q1FY13, taking the total 2G cell site base to ~85,779. Idea owns 11,094 towers and the rest of the sites are rented (45,429 sites to Indus).

Capex Update

Capex during the quarter was Rs9.72bn (net of forex gain) v/s Rs4.1bn in Q1FY13. Despite rupee appreciation v/s USD, management maintains its FY13E capex guidance of Rs35bn. The company's consolidated net debt stood at Rs. 106.6bn with net debt to equity ratio of 0.79x. Net-debt to forward EBITDA is at 1.74x (Rs106.6/Rs60.7bn) for FY13E (Bloomberg est).

3G+Broadband update

Idea's 3G investment plan remains on track. To expand the 3G penetration the company launched 4th Idea branded 3G handset AURUS. High-speed broadband services are available in 3,500 towns. In Q2FY13, over 18.9mn of Idea's subscriber used mobile data services and contributed ~5.4% of overall services revenue.

Valuations and Outlook - maintain HOLD

At CMP of Rs.81/share, the stock is trading at 5.9x FY13E and 5.0x FY14E EV/EBITDA Bloomberg estimates. The recent quarter performance was below street expectations on operational front – MoU and ARPU declined. We maintain our HOLD stance on Idea. Our hold rating reflects (1) regulatory uncertainty, (2) leading subscriber addition and (3) possibility of uptake in data business – due to high ASP spending on 3G. (earlier rating - BUY, TP – Rs102, Achieved).

(contd....)

Income Statement (Conso)							
(Rs Mn)	Q2 FY13	Q1 FY13	QoQ Ch %	Q4FY12	Q3 FY12	Q2 FY12	YoY Ch %
Revenue							
Gross Revenue - ESA	47,064	48,814	-3.6	47,784	45,144	41,579	13.2
Gross Revenue - NSA	6,417	6,568	-2.3	6,251	5,508	4,975	29.0
Revenue - Standalone	53,481	55,382	-3.4	54,035	50,652	46,554	14.9
Indus (@ 16%)	5,348	5,006	6.8	3,317	3,233	3,089	73.1
Spice (@41.09)	-	-	NM	-	-	-	NM
Eliminations	-5,689	-5,351	6.3	-3,656	-3,577	-3,444	65.2
Revenue - Consolidated	53,140	55,037	-3.4	53,696	50,308	46,199	15.0
COGS							
COGS - ESA	32,687	34,239	-4.5	34,113	31,436	29,367	11.3
COGS - NSA	8,179	8,255	-0.9	7,852	7,230	6,751	21.2
COGS - Standalone	40,866	42,494	-3.8	41,965	38,666	36,118	13.1
Spice (@41.09)	-	-	NM	-	-	-	NM
Indus (@ 16%)	3,738	3,539	5.6	1,816	1,773	1,659	125.3
COGS - Consolidated	44,604	46,033	-3.1	43,781	40,439	37,777	18.1
EBITDA							
EBITDA- ESA	14,377	14,575	-1.4	13,671	13,708	12,212	17.7
EBITDA- NSA	-1,762	-1,687	4.4	-1,601	-1,722	-1,776	-0.8
EBITDA - Standalone	12,615	12,888	-2.1	12,070	11,986	10,436	20.9
Indus (@ 16%)	1,610	1,467	9.7	1,501	1,460	1,430	12.6
EBITDA - Consolidated	14,225	14,355	-0.9	13,571	13,446	11,866	19.9
Dep & Amort.							
Dep & Amort.- Standalone	7,881	7,685	2.6	7,211	6,952	6,726	17.2
Dep & Amort.- Indus (@ 16%)	644	639	0.8	633	623	643	0.2
Dep & Amort - Consolidated	8,525	8,324	2.4	7,844	7,575	7,369	15.7
EBIT							
EBIT - Standalone	4,734	5,203	-9.0	4,860	5,035	3,710	27.6
EBIT - Indus (@ 16%)	966	827	16.8	868	837	788	22.6
EBIT - Consolidated	5,700	6,030	-5.5	5,728	5,872	4,498	26.7
Int Cost							
Int Cost - Standalone	2,063	2,208	-6.6	2,135	2,250	2,259	-8.7
Int Income - Standalone	-57	-77	-26.0	-40	-34	-34	67.6
Forex Loss/(Gain) - Standalone	-180	245	-173.5	-135	311	313	-157.5
Int & Fin Cost Standalone	1,826	2,376	-23.1	1,960	2,527	2,538	-28.1
Int & Fin Cost - Indus (@16%)	339	295	14.9	315	354	401	-15.5
Int & Fin Cost- Consolidated	2,165	2,671	-18.9	2,275	2,881	2,939	-26.3
Tax							
Tax- Standalone	933	847	10.2	883	821	379	146.2
Tax - Indus (@16%)	203	172	18.0	179	160	122	66.4
Tax-Consolidated	1,136	1,019	11.5	1,062	981	501	126.7
PAT							
PAT- Standalone	3,519	1,981	77.6	2,016	1,687	793	343.8
PAT- Indus (@16%)	424	361	17.5	373	323	265	60.0
Divident Eliminations	-1,543	-	NM	-	-	-	NM
PAT- Consolidated	2,400	2,342	2.5	2,389	2,010	1,058	126.8
EBITDA Margin %							
Standalone	23.6%	23.3%	31.7	22.3%	23.7%	22.4%	117.1
Consolidated	26.8%	26.1%	68.6	25.3%	26.7%	25.7%	108.4
PAT Margin %							
Standalone	6.6%	3.6%	300.3	3.7%	3.3%	1.7%	487.7
Consolidated	4.5%	4.3%	26.1	4.4%	4.0%	2.3%	222.6
Key Performance Indicators (KPIs)							
Subscriber Base (EoP) - mn	95	100	106	113	117	116	
Average Revenue Per Unit (ARPU)	160	155	159	160	156	148	
Average Minutes of Use Per User (MOU)	391	364	369	379	379	359	
Average Realisation per Minute (ARPM)	41	43	43	42	41.2	41.3	
Total Minutes of Use (million)	1,08,630	1,06,224	1,13,964	1,24,305	1,30,926	1,25,646	
VAS as % of the Revenue	12.1	13.2	13.7	14.3	14.5	15.6	
Total 3G Cell Sites (EoP)	6,989	9,744	10,902	12,825	13,363	14,467	
Total 2G Cell Sites (EoP)	76,291	78,367	80,637	83,190	83,860	85,779	

Source: Company Filings; IndiaNivesh Research



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