

Idea Cellular

BSE SENSEX
16,918

S&P CNX
5,128

CMP: INR81

Under Review

		Year End	Net sales (INR m)	PAT (INR M)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
Bloomberg Equity Shares (m)	IDEA IN	3/11A	155,032	8,986	2.7	-11.6	-	-	7.6	5.2	-	-
52-Week Range (INR)	3,308.8	3/12A	195,412	7,231	2.2	-19.6	37.0	2.1	5.7	5.4	2.0	7.8
1,6,12 Rel. Perf. (%)	104/71	3/13E	231,315	11,707	3.5	61.7	22.9	1.9	8.6	6.6	1.7	6.4
M.Cap. (INR b)	6/-13/4	3/14E	260,293	19,770	6.0	68.8	13.6	1.7	13.0	9.3	1.4	5.0
M.Cap. (USD b)	268.0											
	4.8											

- Idea Cellular's adjusted EBITDA declined ~5% QoQ but grew 19% YoY to INR14.4b (vs est of INR15.5b).
- Revenue grew 22% YoY and 2.5% QoQ to INR55b (est INR55.3b) led by ~5% QoQ traffic growth but offset by 2.5% RPM decline (second consecutive quarter of QoQ decline).
- EBITDA margin stood at 26.1%, down ~200bp QoQ on an adjusted basis. All QoQ comparisons exclude one-time licence fee provision of INR1.5b taken in 4QFY12.
- QoQ margin decline was largely led by network costs (up 100bp) and roaming and access charges (up 60bp). Aggregate operating costs increased 5% QoQ on proforma basis.
- Proforma PAT increased 32% YoY but declined 32% QoQ to INR2.34b (est of INR2.84b). QoQ decline was led by lower EBITDA and higher net finance costs (forex loss impact).
- Consolidated net debt declined 5% QoQ to INR125b largely due to lower capex of INR4.1b (Capex/Sales of 7%). Capex guidance for FY13 remains unchanged at INR35b.
- We downgrade EBITDA estimates by ~8% and PAT by ~22% largely on lower RPM and margin assumptions.
- We now expect consolidated EBITDA CAGR of 20% over FY12-14E driven by 15-16% CAGR in revenue/wireless traffic and stable RPM.
- The stock trades at EV/EBITDA of 6.4x FY13 and 4.9x FY14 excluding any potential liability towards spectrum related pay-outs.
- We are putting our rating **Under Review** pending clarity on regulatory issues and Idea's strategy with respect to participation in the upcoming 2G auction.

Y/E March	FY12				FY13E				FY12	FY13
	1Q	2Q	3Q	4Q#	1Q	2Q	3Q	4Q		
Gross Revenue	45,207	46,199	50,308	53,697	55,037	56,131	58,797	61,349	195,411	231,314
YoY Growth (%)	23.7	26.3	27.2	27.8	21.7	21.5	16.9	14.3	26.0	18.4
QoQ Growth (%)	7.6	2.2	8.9	6.7	2.5	2.0	4.8	4.3		
EBITDA	12,040	11,866	13,446	15,071	14,355	14,409	15,558	16,596	50,924	60,919
YoY Growth (%)	35.5	35.0	41.8	50.2	19.2	21.4	15.7	10.1	34.3	19.6
QoQ Growth (%)	20.0	-1.4	13.3	12.1	-4.8	0.4	8.0	6.7		
Margin (%)	26.6	25.7	26.7	28.1	26.1	25.7	26.5	27.1	26.1	26.3
Net Finance Costs	2,463	2,939	2,880	2,275	2,670	2,368	2,341	2,327	10,557	9,706
Depreciation & Amortization	7,026	7,369	7,575	7,844	8,324	8,509	8,712	8,929	29,814	34,474
Profit before Tax	2,551	1,559	2,991	4,952	3,361	3,532	4,506	5,340	10,553	16,739
Income Tax Exp. / (Income)	778	501	981	1,523	1,019	1,060	1,352	1,602	3,322	5,032
Adj Net Profit / (Loss)	1,773	1,058	2,010	3,429	2,342	2,472	3,154	3,738	7,231	11,707
YoY Growth (%)	-12.0	-41.1	-17.3	69.4	32.1	133.8	56.9	9.0	-19.5	61.9
Margin (%)	3.9	2.3	4.0	6.4	4.3	4.4	5.4	6.1	3.7	5.1
Mobile ARPU (INR/month)	160	155	159	160	156	154	156	158	158	156
QoQ Growth (%)	-0.6	-3.1	2.6	0.6	-2.5	-1.4	1.5	1.0		
Mobile MOU/sub/month	391	364	369	379	379	377	383	389	372	383
QoQ Growth (%)	-1.5	-6.9	1.4	2.7	0.0	-0.6	1.7	1.6		
Mobile Traffic (B Min)	109	106	114	124	131	134	141	148	453	556
QoQ Growth (%)	6.5	-2.2	7.3	9.1	5.3	2.7	5.0	5.0		
Mobile RPM (INR)	0.41	0.43	0.43	0.42	0.41	0.41	0.41	0.40	0.42	0.41
QoQ Growth (%)	0.9	4.1	1.2	-2.0	-2.5	-0.8	-0.2	-0.6		

E: MOSL Estimates; # Adjusted for INR1.5b one-off provision for licence and WPC charges

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Investors are advised to refer through disclosures made at the end of the Research Report.

Idea: 1QFY13 Earnings call highlights

- Revenue growth to remain under pressure in 1H due to 1) Competitive pressures, and 2) Implementation of service delivery platform for VAS which will result in certain disruptions.
- Mobile data volume growing strongly (30% CQGR). 3G roaming arrangements continue for now. 3G subscriber acquisition has picked-up post recent sharp tariff cuts. Data contributes 4.8% to total revenue while overall non-voice contribution is 14.5%.
- QoQ increase in network costs (100bp) largely reflects increase in site base and implementation of annual maintenance contracts for equipment coming out of the warranty period.
- FY13 capex guidance of INR35b remains unchanged despite muted capex in 1QFY13 (INR4.1b). Capex to be back-ended given seasonality of traffic which is stronger in 2H.

Revenue in line; EBITDA below estimates

- Consolidated revenue grew 2.5% QoQ to INR55b (v/s est of INR55.3b). Revenue for established circles grew 2.2% QoQ to INR48.8b.
- New circles reported combined revenue of INR6.6b (v/s INR6.25b in 4QFY12) and EBITDA loss of INR1.69b (v/s INR1.6b in 4QFY12).
- Depreciation and amortization increased 6% QoQ to INR8.3b.
- Net finance cost of INR2.67b was lower than our estimate. Forex loss for the quarter stood at INR245m vs our estimate of INR450m loss.
- Effective tax rate remained steady at ~30%.

Idea cellular 1QFY13: Consolidated P&L and revenue drivers

Consolidated P&L (INR m)	1QFY12	4QFY12#	1QFY13	YoY%	QoQ%	1QFY13E	v/s est (%)
Revenue	45,207	53,697	55,037	21.7	2.5	55,283	-0.4
Adj EBITDA	12,040	15,071	14,355	19.2	-4.8	15,477	-7.3
Adj EBITDA margin (%)	26.6	28.1	26.1	-55bp	-198bp	28.0	-191bp
Depreciation and amortization	7,026	7,844	8,325	18.5	6.1	8,259	0.8
EBIT	5,014	7,227	6,030	20.3	-16.6	7,219	-16.5
EBIT margin (%)	11.1	13.5	11.0	-13bp	-250bp	13.1	-210bp
Net Finance Costs	2,463	2,275	2,670	8.4	17.4	3,162	-15.6
Proforma Profit before Tax	2,551	4,952	3,360	31.7	-32.2	4,056	-17.2
Adj Tax	778	1,523	1,019	31.0	-33.1	1,217	-16.3
Tax rate (%)	30.5	30.8	30.3	-17bps	-43bps	30.0	33bps
Proforma Profit after Tax	1,773	3,429	2,341	32.1	-31.7	2,839	-17.6

Adjusted for INR1.5b one-off provision for licence and WPC charges

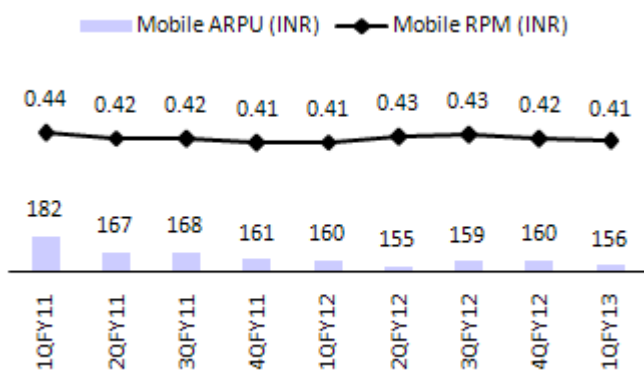
Revenue drivers	1QFY12	4QFY12#	1QFY13	YoY%	QoQ%	1QFY13E	v/s est (%)
Subscribers (m)	95.1	112.7	117.2	23.2	4.0	117.9	-0.6
ARPU (INR/month)	160	160	156	-2.5	-2.5	157	-0.5
Total minutes	109	124	131	20.5	5.3	132	-0.6
Minutes of use/sub/month	391	379	379	-3.1	0.0	381	-0.5
Revenue per min (paisa)	40.9	42.2	41.2	0.7	-2.4	41.2	0.1

Source: Company/MOSL

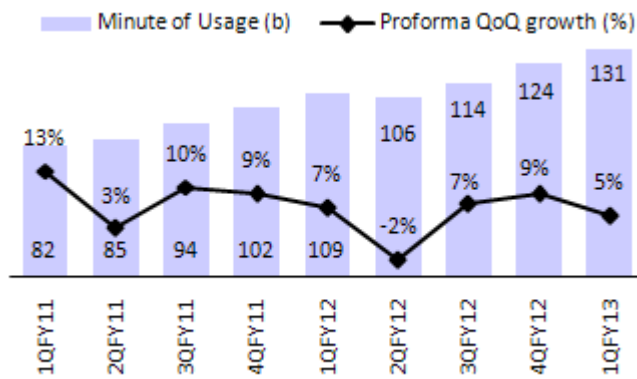
Second consecutive quarter of RPM decline; traffic growth off 4Q highs

- Idea reported 1QFY13 ARPU of INR156 (est of INR157), down 2.5% YoY/QoQ.
- RPM grew 0.7% YoY but declined 2.4% QoQ to 41.2p likely due to impact of relatively higher aggression/discounting from some of the large operators and regulatory uncertainty.
- Total volumes carried on the network grew 21% YoY and 5.3% QoQ to 131b minutes (v/s est of 132b minutes).
- Minutes of use per subscriber remained flat QoQ at 379.
- Monthly churn declined remained flat QoQ at 9.9% , well above comfort level.

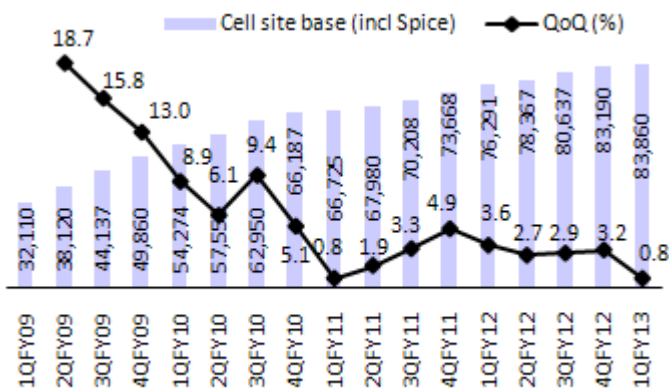
RPM down 2% QoQ to 41.2p (INR)



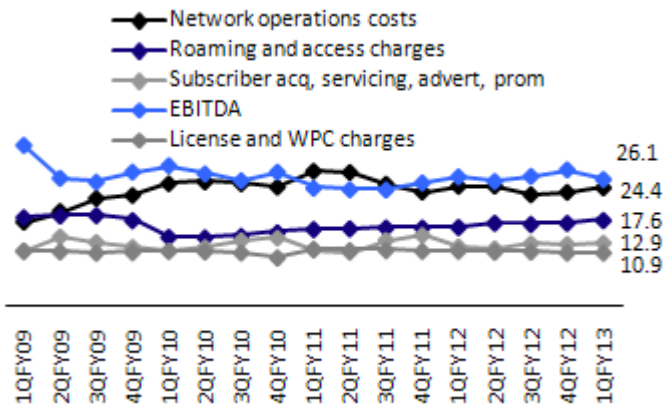
Total minutes grew 5.3% QoQ; broadly in line



Cell site base up 1% QoQ – lowest growth since 1QFY11



Margin decline led by higher network and access costs



Source: Company/MOSL

Indus EBITDA down 2% QoQ; active 3G subs at 3.1 vs 2.6m

- Idea’s share of 16% of Indus revenues for the quarter was INR5b while revenue eliminations for the quarter was INR5.35b.
- EBITDA share from Indus declined 2% QoQ to INR1.47b.
- During 1QFY13, Idea rolled out only 670 2G cell sites – lowest addition in last nine quarters.
- Idea’s 3G cell site base has increased to ~13,500 (16% of 2G site base) – QoQ addition of ~500 sites.
- Idea has an active 3G subscriber base of 3.1m vs 2.6m as of 4QFY12.

Consolidated net debt down 5% QoQ to INR125b

- Idea incurred capex of INR4.1b in 1QFY13, much below run-rate required to achieve its FY13 capex guidance of INR35b (guidance remains unchanged)
- Consolidated net debt declined 5% QoQ to INR125b largely due to lower capex.
- Idea has one of the strongest balance sheets in the sector with net debt /annualized EBITDA of 2.2x and net debt/equity of 0.95x at the consolidated level.

Downgrading EBITDA by 8%; rating Under Review

- We downgrade EBITDA estimates by ~8% and PAT by ~22% largely on lower RPM and margin assumptions.
- Management expects revenue growth to remain under pressure in the near-term due to high competition as well as certain transformations being undertaken in the VAS business.
- We are downgrading our FY13 EBITDA margin estimate from 28.8% to 26.3% given higher-than-expected 1QFY13 cost base.
- We now expect consolidated EBITDA CAGR of 20% over FY12-14E driven by 15-16% CAGR in revenue/wireless traffic and stable RPM.
- At CMP of INR80, the stock trades at EV/EBITDA of 6.4x FY13 and 4.9x FY14 excluding any potential liability towards spectrum related pay-outs.
- We are putting our rating Under Review pending clarity on regulatory issues and Idea's strategy with respect to participation in the upcoming 2G auction.

KPI Trend

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13
Minute of Usage (b)	82.3	84.8	93.5	102.0	108.6	106.2	114.0	124.3	130.9
Mobile ARPU (INR)	182	167	168	161	160	155	159	160	156
MOU (per sub)	415	394	401	397	391	364	369	379	379
Mobile RPM (INR)	0.44	0.423	0.42	0.41	0.41	0.427	0.433	0.422	0.412
VAS (% of ARPU)	12.6%	12.9%	13.0%	12.1%	12.1%	13.2%	13.7%	14.3%	14.5%
VAS ARPU (INR)	22.9	21.5	21.8	19.5	19.4	20.5	21.8	22.9	22.6
Voice ARPU (INR)	159	145	146	142	141	135	137	137	133
Voice RPM (INR)	0.38	0.37	0.36	0.36	0.36	0.37	0.37	0.36	0.35
EBITDA/min (INR)	0.09	0.09	0.09	0.09	0.10	0.10	0.10	0.09	0.10
EBITDA/sub (INR)	39	34	35	36	37	35	38	36	36
Prepaid (% of subs)	95.9	96.1	96.3	96.4	96.5	96.5	96.6	96.5	96.5
Monthly Churn - Prepaid (%)	8.4	8.2	10.3	11.0	9.8	10.1	10.7	10.1	10.1
Monthly Churn - Postpaid (%)	2.9	2.9	2.8	2.7	3.0	3.0	2.9	2.8	3.1
Monthly Churn - Blended (%)	8.2	8.0	10.0	10.7	9.8	9.9	10.4	9.9	9.9
QoQ Growth									
Minute of Usage * (%)	13.0	3.1	10.2	9.0	6.5	-2.2	7.3	9.0	5.3
Mobile ARPU (%)	-1.6	-8.2	0.6	-4.2	-0.6	-3.1	2.6	0.6	-2.5
MOU (%)	4.3	-5.1	1.8	-1.0	-1.5	-6.9	1.4	2.7	0.0
Mobile RPM (%)	-5.7	-3.5	-1.0	-3.1	1.0	4.1	1.4	-2.5	-2.4

Source: Company/MOSL

Estimate change summary

	FY13E	FY14E
Revenue (INR b)		
Old	231	262
Actual/New	231	260
Change (%)	0.0	-0.7
EBITDA (INR b)		
Old	67	80
Actual/New	61	73
Change (%)	-8.4	-8.5
EBITDA margin (%)		
Old	28.8	30.4
Actual/New	26.3	28.0
Change (bp)	-243bp	-239bp
Depreciation & amortization (INR b)		
Old	34.1	34.9
Actual/New	34.5	36.0
Change (%)	1.2	3.1
Net finance cost (INR b)		
Old	10.9	8.6
Actual/New	9.7	8.7
Change (%)	-10.8	1.6
Tax rate (%)		
Old	30.0	30.0
Actual/New	30.1	30.0
Change (bp)	6bp	0bp
Net Profit (INR b)		
Old	15.1	25.4
Actual/New	11.7	19.8
Change (%)	-22.4	-22.1
EPS (INR)		
Old	4.6	7.7
Actual/New	3.5	6.0
Change (%)	-22.4	-22.1

Source: Company/MOSL

Key assumptions and others data

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Subs (m)	64	90	113	129	142
YoY (%)	48	40	26	14	10
Average subs (m)	53	77	101	121	135
YoY (%)	70	44	32	19	12
Netadds per month ex acquisition (m)	1.7	2.1	1.9	1.3	1.1
YoY (%)	40	23	-10	-31	-19
Total mobile traffic (b min)	225	363	453	556	616
YoY (%)	46	45	25	23	11
Average Rev Per User (INR/month)	207	165	158	156	157
YoY (%)	-21	-20	-5	-1	0
Minutes of Use/Sub/Month	388	394	372	383	380
YoY (%)	-5	2	-6	3	-1
Mobile RPM (INR)	0.53	0.42	0.42	0.41	0.41
YoY (%)	-18	-21	1	-4	1
Mobile EBITDA/min. (INR)	0.15	0.10	0.11	0.11	0.12
YoY (%)	-19	-30	8	-3	8
Capex (INRb)	33	88	39	33	26
Capex / Sales (%)	27	57	20	14	10
Consolidated revenue break-up (INR b)					
13 established service areas	118	142	174	202	222
9 new service areas	8	15	21	27	33
Idea standalone (ex-3G)	126	156	195	229	255
Proportionate revenue - Indus	8	11	13	20	22
Incremental 3G revenue		0	1	4	6
Eliminations	-11	-12	-14	-22	-24
Consolidated revenue	124	155	195	231	260
YoY growth (%)	22	25	26	18	13
Consolidated EBITDA break-up (INR b)					
13 established service areas	35	39	51	60	69
9 new service areas	-4	-5	-6	-7	-6
Idea standalone (ex-3G)	31	33	45	53	64
Proportionate EBITDA - Indus	3	5	6	6	7
Incremental 3G EBITDA		0	0	1	3
Consolidated EBITDA	34	38	51	61	73
Consolidated EBITDA margin (%)	27	24	26	26	28
YoY growth (%)	20	11	34	20	20
Revenue mix					
13 established service areas	87	85	83	80	78
9 new service areas	6	9	10	11	12
Incremental 3G revenue	0	0	1	1	2
Proportionate revenue - Indus	6	7	6	8	8
EBITDA mix					
13 established service areas	104	102	101	99	95
9 new service areas	-12	-14	-13	-11	-8
Incremental 3G EBITDA	0	0	1	2	4
Proportionate revenue - Indus	8	12	11	10	9

Source: Company, MOSL

Idea Cellular: an investment profile

Company description

Idea Cellular, an Aditya Birla Group company, is India's fifth largest wireless operator with a revenue market share of ~15%. Idea operates in all the 22 telecom circles of which 13 are classified as established service areas and 9 recently launched circles as new service areas.

Key investment arguments

- Idea's strong execution in established as well as new circles will drive subscriber CAGR of 12% over FY12-14E. We expect consolidated EBITDA CAGR of 20% over FY12-14E largely driven by traffic growth, higher data revenue contribution and operating leverage.
- Strong incumbency advantage in 8 established circles and spectrum allocation in the 900MHz band in 9 circles.
- The company has 3G Spectrum in 11 circles. We expect incremental 3G revenue to contribute 2.5% of wireless revenues by FY14E.

Investment risks

- The regulatory environment remains uncertain with the government yet to decide on issues like spectrum pricing and details on the Supreme Court mandated 2G auction

- Ongoing uncertainty pertaining to 3G roaming arrangements.

Recent developments

- The Supreme Court cancelled 122 licences issued in 2008 by the DoT including seven operational licences of Idea
- The Delhi High Court asked the telecom tribunal TDSAT to resolve the dispute on the transfer of UAS licenses of Spice to Idea which got amalgamated in 2008. The transfer of UAS licenses would be dealt by the TDSAT.

Valuations and view

- We downgrade EBITDA estimates by ~8% and PAT by ~22% largely on lower RPM and margin assumptions.
- We now expect consolidated EBITDA CAGR of 20% over FY12-14E driven by 15-16% CAGR in revenue/wireless traffic and stable RPM.
- At CMP of INR81, the stock trades at EV/EBITDA of 6.3x FY13 and 4.9x FY14 excluding any potential liability towards spectrum related pay-outs.
- We are putting our rating Under Review pending clarity on regulatory issues and Idea's strategy with respect to participation in the upcoming 2G auction.

Comparative valuations

		Idea	RCOM	Bharti
P/E (x)	FY13E	22.9	12.5	22.6
	FY14E	13.6	10.5	15.7
EV/EBITDA (x)	FY13E	6.4	7.5	6.9
	FY14E	5.0	6.2	5.6
EV/Sales (x)	FY13E	1.7	2.4	2.3
	FY14E	1.4	2.0	2.0
P/BV (x)	FY13E	1.9	0.4	2.1
	FY14E	1.7	0.4	1.8

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	46.0	46.0	46.0
Domestic Inst	6.9	6.2	8.0
Foreign	44.8	45.2	43.0
Others	2.4	2.6	3.0

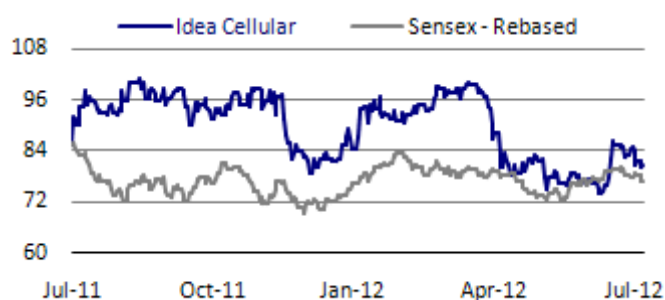
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	3.5	3.9	-10.3
FY14	6.0	5.9	1.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
81	-	-	Under Review

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Revenues	155,032	195,412	231,315	260,293	
Change (%)	24.5	26.0	18.4	12.5	
Total Expenses	117,127	144,489	170,397	187,317	
EBITDA	37,906	50,924	60,919	72,976	
% of Gross Sales	24.5	26.1	26.3	28.0	
Depn.&Amortization	23,973	29,814	34,474	36,023	
EBIT	13,933	21,110	26,445	36,953	
Net Interest	3,965	10,557	9,706	8,709	
PBT	9,968	10,553	16,739	28,244	
Tax	982	3,322	5,032	8,473	
Rate (%)	9.9	31.5	30.1	30.0	
Adjusted PAT	8,986	7,231	11,707	19,770	
Change (%)	-5.8	-19.5	61.9	68.9	
PAT after EO	8,986	7,231	11,707	19,770	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	33,033	33,088	33,097	33,097	
Additional Paid up Capital	139,406	139,406	139,406	139,406	
Reserves	-49,440	-41,994	-30,334	-10,563	
Net Worth	122,999	130,501	142,170	161,940	
Loans	120,228	133,372	124,050	100,035	
Other Liabilities	3,099	6,273	7,129	7,129	
Capital Employed	246,326	270,146	273,349	269,104	
Gross Block	373,505	418,016	455,316	480,181	
Less : Depreciation	112,128	141,040	175,514	211,537	
Net Block	261,377	276,976	279,802	268,644	
Other Non-Current Assets	0	0	0	0	
Curr. Assets	42,378	36,192	58,823	65,737	
Inventories	542	688	1,136	1,278	
Debtors	4,057	5,144	10,324	11,618	
Cash & Bank Balance	14,777	2,497	3,632	3,632	
Other Current Assets	23,002	27,863	43,731	49,210	
Curr. Liab. & Prov.	57,429	43,022	65,277	65,277	
Net Curr. Assets	-15,051	-6,830	-6,454	460	
Appl. of Funds	246,326	270,146	273,349	269,104	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	2.7	2.2	3.5	6.0	
Cash EPS	10.0	11.2	14.0	16.9	
Book Value	37.2	39.5	43.0	48.9	
DPS	0.0	0.0	0.0	0.0	
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	0.0	
Valuation (x)					
P/E		37.0	22.9	13.6	
Cash P/E		7.2	5.8	4.8	
EV/EBITDA		7.8	6.4	5.0	
EV/Sales		2.0	1.7	1.4	
Price/Book Value		2.1	1.9	1.7	
Dividend Yield (%)		0.0	0.0	0.0	
Profitability Ratios (%)					
RoE	7.6	5.7	8.6	13.0	
RoCE	5.2	5.4	6.6	9.3	
Turnover Ratios					
Debtors (Days)	10	10	16	16	
Asset Turnover (x)	0.75	0.78	0.86	0.97	
Leverage Ratio					
Debt/Equity Ratio(x)	1.0	1.0	0.9	0.6	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Op.Profit/(Loss) bef Tax	37,906	50,924	60,919	72,976	
Other Income	0	0	0	0	
Interest Paid	-3,965	-10,557	-9,706	-8,709	
Direct Taxes Paid	-25	-148	-4,176	-8,473	
(Inc)/Dec in Wkg. Cap.	23,098	-20,156	712	-6,914	
CF from Op.Activity	57,014	20,063	47,748	48,879	
(inc)/Dec in FA + CWIP	-98,145	-45,413	-37,300	-24,865	
(Pur)/Sale of Investments	0	0	0	0	
CF from Inv.Activity	-98,145	-45,413	-37,300	-24,865	
Issue of Shares	69	-74	9	0	
Inc/(Dec) in Debt	41,635	13,144	-9,322	-24,015	
Other Financing Activities	-2	-2	-2	-2	
CF from Fin.Activity	41,704	13,070	-9,313	-24,015	
Inc/(Dec) in Cash	573	-12,280	1,135	0	
Add: Opening Balance	14,204	14,777	2,497	3,632	
Closing Balance	14,777	2,497	3,632	3,632	

E: MOSL Estimates

N O T E S

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