

Idea Cellular

Performance highlights

(₹ cr) - Consl	2QFY13	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)
Net revenue	5,314	5,504	(3.4)	4,620	15.0
EBITDA	1,423	1,436	(0.9)	1,187	19.9
EBITDA margin (%)	26.8	26.1	69bp	25.7	108bp
PAT	240	234	2.5	106	127.0

Source: Company, Angel Research

For 2QFY2013, Idea Cellular (Idea) reported mixed results with revenue coming in lower than expectations while operating margin surprised positively. The company's total network minutes declined by 4.0% qoq to 125.6bn minutes due to seasonal slowdown in 2Q and increase in rural subscriber proportion, but its average revenue per minute (ARPM) remained almost stable qoq at ₹0.41/min, which the company managed by increasing share of non-voice services in revenue. The worrying thing is that Idea remains surrounded by regulatory issues of 2G auction, spectrum re-farming and one time spectrum fee. **We maintain our Neutral view on the stock.**

Quarterly highlights: For 2QFY2013, Idea reported consolidated revenue of ₹5,314cr, down 3.4% qoq, on the back of a sharp qoq decline in minutes of usage (MOU) to 359min, down 5.3%. The EBITDA margin increased by 69bp qoq to 26.8%, primarily led by a 21% qoq decline in subscriber acquisition, advertisement and promotion expenses. The PAT came in at ₹240cr, up 2.5% qoq, as the qoq operational profit decline was offset by forex impact (₹18cr gain in 2QFY2013 vs. ₹24cr loss in 1QFY2013).

Outlook and valuation: We expect volume growth to pick-up going forward led by seasonal strength and net subscriber additions coming back to positive territory. The management indicated that revenue growth for the industry will come back in 2HFY2013 on account of the festive season. Aggressive marketplace battle in terms of voice tariff would remain a concern going ahead. With growing share of VAS as a percentage of total revenue and stable ARPM, we expect the revenue to witness a 11.2% CAGR over FY2012-14E. Idea remains surrounded by a lot of regulatory uncertainties after the cancellation of its licenses in seven circles. The auction is slated to start from November 12, 2012, in which Idea has already filed an application. To regain its licenses in the auction, the company will have to incur additional costs, which will, in turn, hinder the company's overall profitability. Debt funding towards spectrum payouts would further leverage the balance sheet. **Hence, we maintain our Neutral rating on the stock.**

Key financials (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Net revenue	12,447	15,503	19,541	22,234	24,161
% chg	22.9	24.6	26.0	13.8	8.7
Net profit	954	864	723	1,092	1,628
% chg	8.3	(9.4)	(16.3)	51.0	49.1
EBITDA margin (%)	27.4	24.5	26.1	26.9	27.7
EPS (₹)	2.9	2.7	2.2	3.3	4.9
P/E (x)	28.2	29.9	37.2	24.6	16.5
P/BV (x)	2.3	2.2	2.1	1.9	1.7
RoE (%)	8.0	7.0	5.5	7.7	10.3
RoCE (%)	7.0	5.5	7.8	10.0	12.2
EV/Sales (x)	2.8	2.4	2.0	1.7	1.5
EV/EBITDA (x)	10.1	9.9	7.9	6.1	5.3

Source: Company, Angel Research

NEUTRAL

CMP	₹81
Target Price	-

Investment Period	-
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Stock Info	
Sector	Telecom
Market Cap (₹ cr)	26,895
Net debt (₹ cr)	10,524
Beta	0.6
52 Week High / Low	103/71
Avg. Daily Volume	359,142
Face Value (₹)	10
BSE Sensex	18,710
Nifty	5,691
Reuters Code	IDEA.BO
Bloomberg Code	IDEA@IN

Shareholding Pattern (%)	
Promoters	45.9
MF / Banks / Indian Fls	6.3
FII / NRIs / OCBs	15.8
Indian Public / Others	32.0

Abs. (%)	3m	1yr	3yr
Sensex	10.9	11.5	11.3
Idea	1.3	(10.9)	38.5

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Exhibit 1: 2QFY2013 – Financial performance (Consolidated, Indian GAAP)

(₹ cr)	2QFY13	1QFY12	% chg (qoq)	2QFY12	% chg (yoy)	1HFY13	1HFY12	% chg(yoy)
Net revenue	5,314	5,504	(3.4)	4,620	15.0	10,818	9,141	18.3
Operating expenditure	3,891	4,068	(4.3)	3,433	13.3	7,960	6,750	17.9
EBITDA	1,423	1,436	(0.9)	1,187	19.9	2,858	2,391	19.6
Dep. and amortization	853	832	2.4	737	15.7	1,685	1,439	17.1
EBIT	570	603	(5.5)	450	26.7	1,173	951	23.3
Interest charges	216	267	(19.0)	294	(26.4)	483	540	(10.5)
Other income	-	-	-	-	-	-	-	-
PBT	354	336	5.2	156	126.9	690	411	67.8
Income tax	114	102	11.4	50	126.6	215	128	68.5
PAT	240	234	2.5	106	127.0	474	283	67.5
Minority interest	-	-	-	-	-	-	-	-
Adj. PAT	240	234	2.5	106	127.0	474	283	67.5
EPS (₹)	0.7	0.7	2.5	0.3	127.0	1.4	0.9	67.5
EBITDA margin (%)	26.8	26.1	69bp	25.7	108bp	26.4	26.2	27bp
EBIT margin (%)	10.7	11.0	(23)bp	9.7	99bp	10.8	10.4	44bp
PAT margin (%)	4.5	4.3	(26)bp	2.3	(223)bp	4.4	3.1	129bp

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – KPI data for the mobility business

	2QFY13	2QFY13E	Var. (%)	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)
ARPM (₹/min)	0.41	0.41	0.6	0.41	0.2	0.43	(3.3)
MOU (min)	359	372	(3.4)	379	(5.3)	364	(1.4)
ARPU (₹/month)	148	153	(3.0)	156	(5.1)	155	(4.5)
Subscriber base (mn) – EoP	116	117	(1.3)	117	(1.5)	100	15.3
EPM (₹/min)	0.11	0.11	2.9	0.11	4.4	0.11	2.0

Source: Company, Angel Research

Exhibit 3: 1QFY2013 – Actual vs Angel estimates

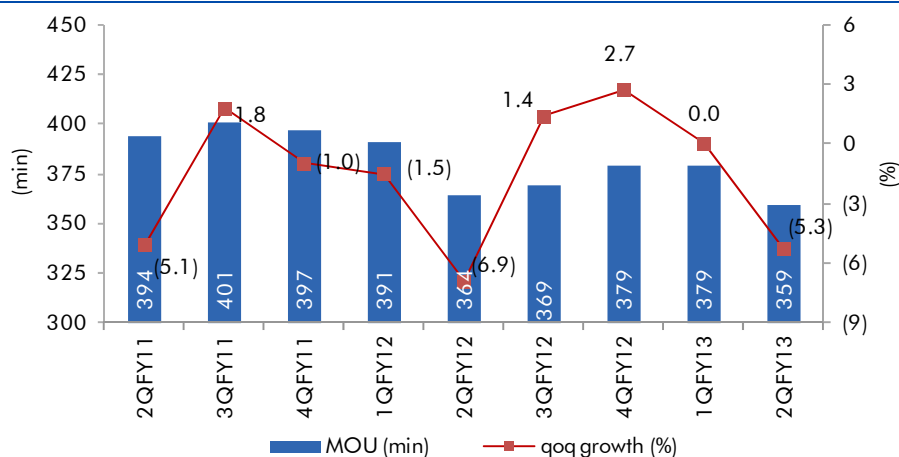
(₹ cr)	Actual	Estimate	% Var.
Net revenue	5,314	5544	(4.1)
EBITDA margin (%)	26.8	26.0	81bp
PAT	240	250	(3.8)

Source: Company, Angel Research

Mixed results

Idea's consolidated revenue came in at ₹5,314cr, down 3.4% qoq. The mobility segment's revenue declined by 3.8% qoq to ₹5,256cr, because of a decline in the overall network traffic minutes by 4.0% qoq to 125.6bn minutes. MOU declined by 5.3% qoq to 359min due to seasonal slowdown seen in 2Q as well as increased proportion of rural subscribers. The ARPM surprised positively, growing by 0.2% qoq to ₹0.41/month after undergoing two consecutive quarters of sequential decline. Idea's subscriber base declined by 1.5% qoq with the end of period (EoP) subscriber base standing at 116mn. During 2QFY2013, Idea rolled out 1,919 2G cell sites as against 670 in 1QFY2013. Idea's 3G cell site base has increased to ~14,500 (17% of 2G site base), a qoq addition of ~1,100 sites.

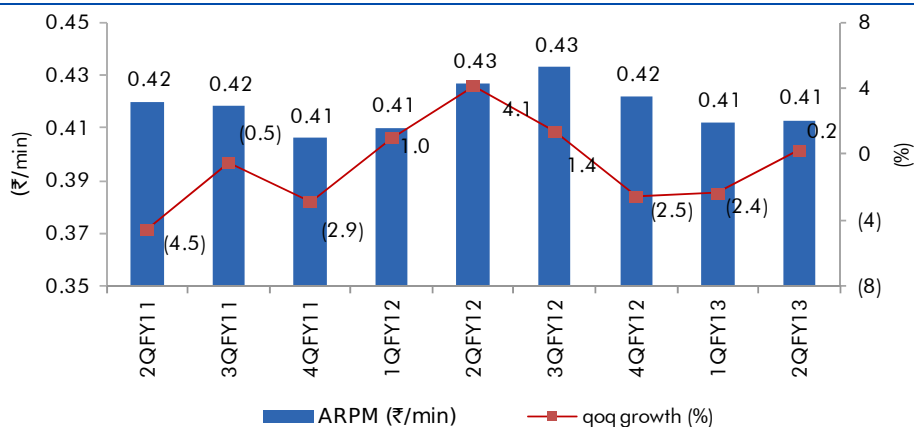
Exhibit 4: Trend in MOU



Source: Company, Angel Research

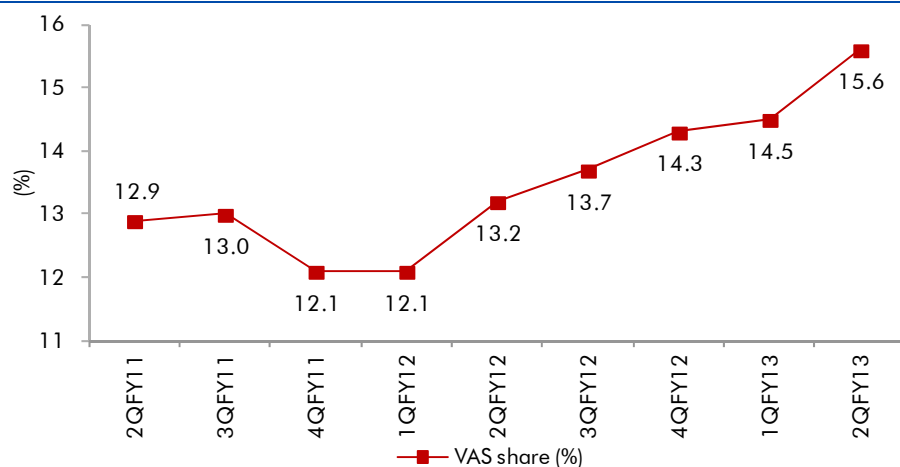
The management indicated that the voice ARPM has not improved since the previous quarter because of TRAI's consumer protection regulation and increase in service tax. In a falling voice ARPM market, Idea managed to keep its ARPM stable on the back of increase in mobile data contribution. The company has managed to increase its non-voice revenue contribution to 15.6% from 14.5% in 1QFY2013. Idea has consistently been able to increase the value added services (VAS)' share to total revenue since the past six quarters (unlike Bharti Airtel). The VAS revenue increased as volume pick up happened of data services after a sharp tariff cut executed by telecom companies in May 2012.

Exhibit 5: Trend in ARPM



Source: Company, Angel Research

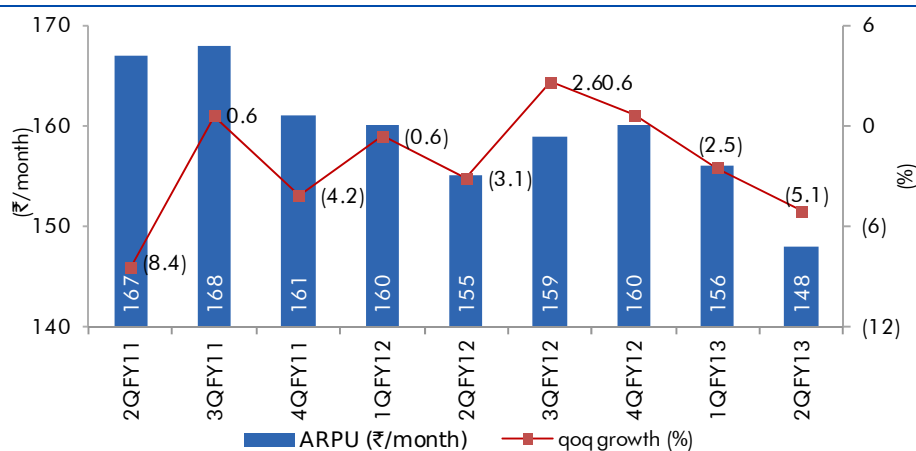
Exhibit 6: Trend in VAS share in mobility revenue



Source: Company, Angel Research

Thus, declining MOU, higher VAS share and stable ARPM slightly arrested the downfall in average revenue per user (ARPU), which was negatively affected by the sharp decline in the MOU. The ARPU declined by 5.1% qoq to ₹148/month, an all time low. The monthly churn also increased to 10.1% from 9.9% earlier, which is well above comfort levels.

Exhibit 7: Trend in ARPU



Source: Company, Angel Research

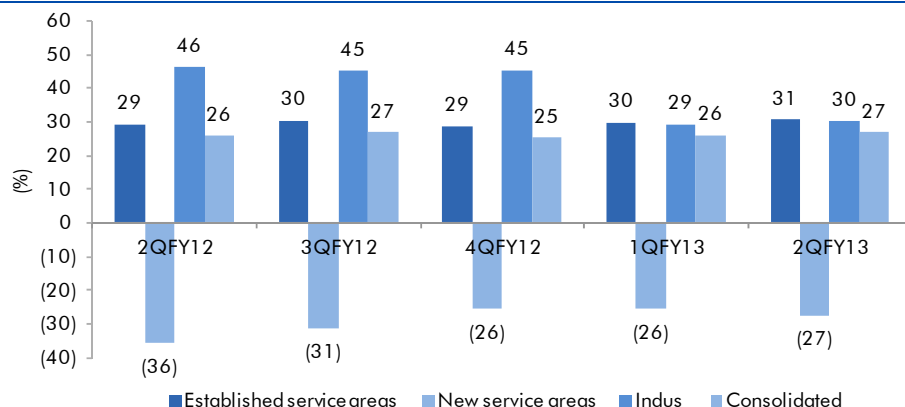
EBITDA margin enhances

For 2QFY2013, despite having revenue decline, Idea's EBITDA margin increased by 69bp qoq to 26.8%. The EBITDA margin expansion was primarily led by a 21% qoq decline in subscriber acquisition, advertisement and promotion expenses. 2QFY2013 was a quarter of consolidation for the industry as operators reduced their channel commissions to control the subscriber acquisition costs and rotational churn.

During the quarter, the revenue from established service areas (ESA) stood at ₹4,706cr, down 3.6% qoq and revenue from new service areas (NSA) stood at ₹642cr, down 2.3% qoq. The EBITDA margin of ESA improved by 69bp qoq to 30.5%. EBITDA losses of NSA increased qoq to ₹176cr from ₹169cr in 1QFY2013.

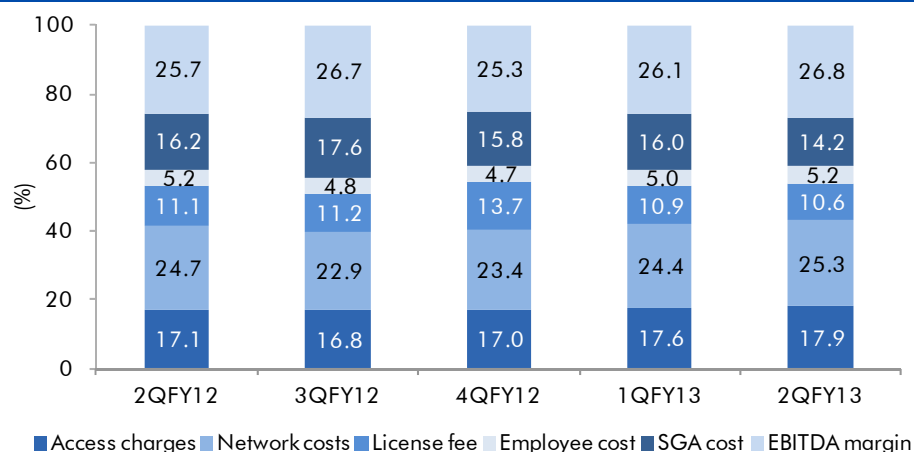
EBITDA losses from the new circles would continue as the company indicated that near term EBITDA break-even in the new circles is not anticipated. In addition, Idea's EBITDA share from Indus increased to ₹161cr in 2QFY2013 from ₹147cr in 1QFY2013.

Exhibit 8: Trend in EBITDA margin



Source: Company, Angel Research

Exhibit 9: Opex breakup



Source: Company, Angel Research

Outlook and valuation

2QFY2013 was a quarter of consolidation for the industry as operators reduced their channel commissions to control the subscriber acquisition costs and rotational churn. We expect volume growth to pick-up going forward led by seasonal strength and net subscriber additions coming back to positive territory. The consolidated net debt declined 7% qoq to ₹10,524cr, aided by favorable forex fluctuation. Idea incurred a capex of ₹972cr in 2QFY2013. 1HFY2013 capex stood at ~₹1,400cr vs full year capex guidance of ₹3,500cr (remains unchanged; does not include payment for spectrum).

The management indicated that revenue growth for the industry will come back in 2HFY2013 on account of the festive season. With growing VAS share as a percentage of total revenue and stable ARPM, we expect revenues to witness an 11.2% CAGR over FY2012-14E.

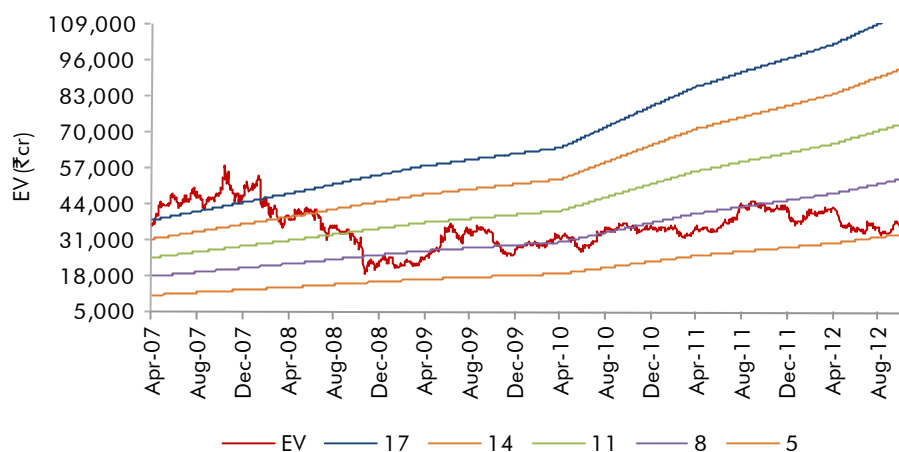
Idea remains surrounded by a lot of regulatory uncertainties after the cancellation of its licenses in seven circles. The auction is slated to start from November 12, 2012, in which Idea has already filed an application. To regain its licenses in the auction, the company will have to incur additional costs, which will, in turn, hinder the company's overall profitability. Debt funding towards spectrum payouts would further leverage the balance sheet. **Hence, we maintain our Neutral rating on the stock.**

Exhibit 10: Assumptions for KPIs

	FY2011	FY2012	FY2013E	FY2014E	% CAGR
ARPM (₹/min)	0.42	0.42	0.42	0.43	1.4
MOU (min)	395	374	367	356	(2.5)
ARPU (₹/month)	166	158	154	155	(1.1)
Subscriber base (mn) – EoP	89.5	112.7	120.3	130.5	7.6

Source: Company, Angel Research; Note: EoP refers to end of period.

Exhibit 11: One-year forward EV/EBITDA



Source: Company, Angel Research

Exhibit 12: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2011-14E EPS CAGR (%)	FY2014E RoCE (%)	FY2014E RoE (%)
Bharti Airtel	Neutral	271	-	-	1.7	18.0	(1.8)	10.6	9.7
Idea Cellular	Neutral	81	-	-	1.7	16.5	21.9	12.2	10.3
Reliance Communication	Neutral	59	-	-	0.3	10.3	(3.8)	4.6	3.1

Source: Company, Angel Research

Company background

Idea Cellular (Idea), part of the Aditya Birla Group, is the third largest telecommunication service provider in India in terms of revenue. The company provides mobile services in all the 22 circles of the country and has 116mn subscribers. Idea had won 3G licenses in 11 out of the 22 circles in India and is currently providing 3G services in 20 circles (in seven circles by 3G roaming agreements). The company also holds a 16% stake in Indus Towers, which is a JV with Bharti Airtel, Vodafone and Idea.

Profit and loss account (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales	12,447	15,503	19,541	22,234	24,161
Network operating expenditure	3,127	4,013	4,669	5,515	5,876
<i>% of net sales</i>	25.1	25.9	23.9	24.8	24.3
License and WPC charges	1,347	1,773	2,323	2,419	2,757
<i>% of net sales</i>	10.8	11.4	11.9	10.9	11.4
Roaming and access charges	1,800	2,475	3,280	3,912	3,973
<i>% of net sales</i>	14.5	16.0	16.8	17.6	16.4
Other expenses	2,766	3,451	4,176	4,405	4,864
Total expenditure	9,040	11,713	14,449	16,251	17,470
<i>% of net sales</i>	72.6	75.5	73.9	73.1	72.3
EBITDA	3,407	3,791	5,093	5,983	6,691
<i>% of net sales</i>	27.4	24.5	26.1	26.9	27.7
Dep. and amortization	2,015	2,432	2,981	3,438	3,468
EBIT	1,392	1,359	2,111	2,545	3,223
<i>% of net sales</i>	11.2	8.8	10.8	11.4	13.3
Interest expense	401	396	1,056	947	829
Other income, net	84	-	-	-	-
Profit before tax	1,075	963	1,055	1,598	2,394
Provision for tax	121	98	332	506	766
<i>% of PBT</i>	11.3	10.2	31.5	31.7	32.0
PAT	954	864	723	1,092	1,628
Share in earnings of associate	-	-	-	-	-
Minority interest	-	-	-	-	-
Profit after minority interest	954	864	723	1,092	1,628
EPS (₹)	2.9	2.7	2.2	3.3	4.9

Balance sheet (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Liabilities					
Share capital	3,300	3,303	3,309	3,309	3,309
Reserves and surplus	8,530	8,947	9,705	10,796	12,424
Additional paid up capital	-	-	-	-	-
Stock option outstanding	44	48	35	35	35
Total shareholders' funds	11,874	12,298	13,048	14,140	15,768
Convertible preference shares	2	2	2	2	2
Total debt	7,859	12,071	13,337	10,558	9,958
Deferred tax liabilities	214	310	627	627	627
Other liabilities	-	-	-	-	-
Total liabilities	19,950	24,680	27,015	25,327	26,355
Assets					
Gross block - fixed assets	27,059	33,698	41,092	45,092	48,592
Accumulated depreciation	8,891	11,213	14,104	17,542	21,010
Net block	18,168	22,485	26,988	27,549	27,582
Capital WIP	547	3,647	704	300	300
Total fixed assets	18,714	26,132	27,692	27,849	27,882
Net intangible assets	-	-	-	-	-
Other non-current assets	1,130	-	-	-	-
Goodwill on consolidation	6	6	6	6	6
Non compete fees	-	-	-	-	-
Current assets					
Inventories	54	60	65	65	65
Debtors	466	555	696	731	794
Cash	290	1,478	250	751	1,342
Loans and advances	2,556	3,560	4,342	3,706	4,673
Other current assets	298	434	1,164	500	500
Total current assets	3,663	6,086	6,517	5,753	7,374
Less:- current liab.	3,845	7,280	6,888	7,836	8,424
Less:-provisions	223	264	313	445	483
Net current assets	(405)	(1,457)	(683)	(2,528)	(1,533)
Profit and loss account	504	-	-	-	-
Total assets	19,950	24,680	27,015	25,327	26,355

Cash flow statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Pre tax profit from operations	992	963	1,055	1,598	2,394
Depreciation	2,015	2,432	2,981	3,438	3,468
Expenses (deferred)/written off	-	-	-	-	-
Pre tax cash from operations	3,007	3,394	4,037	5,037	5,861
Other income/prior period ad	84	-	-	-	-
Net cash from operations	3,090	3,394	4,037	5,037	5,861
Tax	121	98	332	506	766
Cash profits	2,969	3,296	3,705	4,530	5,095
(Inc)/dec in					
Current assets	(1,091)	(1,236)	(1,659)	1,266	(1,031)
Current liabilities	32	3,476	(343)	1,080	626
Net trade working capital	(1,059)	2,240	(2,002)	2,346	(404)
Cashflow from operating actv.	1,910	5,536	1,702	6,877	4,691
(Inc)/dec in fixed assets	(4,062)	(9,849)	(4,541)	(3,596)	(3,500)
(Inc)/dec in intangibles	-	-	-	-	-
(Inc)/dec in investments	915	1,130	-	-	-
(Inc)/dec in net deferred tax asset	101	96	317	-	-
(Inc)/dec in minority interest	-	-	-	-	-
(Inc)/dec in profit and loss account	23	504	-	-	-
(Inc)/dec in other non-current assets	2,240	-	-	-	-
Cashflow from investing actv.	(784)	(8,119)	(4,224)	(3,596)	(3,500)
Inc/(dec) in debt	(1,053)	4,211	1,267	(2,780)	(600)
Inc/(dec) in equity/premium	(2,869)	(441)	27	(0)	0
Dividends					
Cashflow from financing actv.	(3,923)	3,771	1,294	(2,780)	(600)
Cash generated/(utilized)	(2,797)	1,188	(1,228)	501	591
Cash at start of the year	3,086	290	1,478	250	751
Cash at end of the year	290	1,478	250	751	1342

Key Ratios

Y/E March	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation ratio (x)					
P/E (on FDEPS)	28.2	29.9	37.2	24.6	16.5
P/CEPS	9.1	8.2	7.3	5.9	5.3
P/BVPS	2.3	2.2	2.1	1.9	1.7
Dividend yield (%)	-	-	-	-	-
EV/Sales	2.8	2.4	2.0	1.7	1.5
EV/EBITDA	10.1	9.9	7.9	6.1	5.3
EV/Total assets	1.7	1.5	1.5	1.4	1.3
Per share data (₹)					
EPS (Fully diluted)	2.9	2.7	2.2	3.3	4.9
Cash EPS	9.0	10.0	11.2	13.7	15.4
Dividend	0.0	0.0	0.0	0.0	0.0
Book value	36.0	37.2	39.5	42.8	47.8
DuPont analysis					
Tax retention ratio (PAT/PBT)	0.9	0.9	0.7	0.7	0.7
Cost of debt (PBT/EBIT)	0.8	0.7	0.5	0.6	0.7
EBIT margin (EBIT/Sales)	0.1	0.1	0.1	0.1	0.1
Asset turnover ratio (Sales/Assets)	0.6	0.6	0.7	0.9	0.9
Leverage ratio (Assets/Equity)	1.7	2.0	2.1	1.8	1.7
Operating ROE	8.0	7.0	5.5	7.7	10.3
Return ratios (%)					
RoCE (pre-tax)	7.0	5.5	7.8	10.0	12.2
Angel RoIC	7.3	7.0	8.1	10.5	13.0
RoE	8.0	7.0	5.5	7.7	10.3
Turnover ratios (x)					
Asset turnover (fixed assets)	0.7	0.6	0.7	0.8	0.9
Receivables days	12	12	13	12	12
Payable days	156	173	174	176	176

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Disclosure of Interest Statement	Idea Cellular
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	