

Idea Cellular

Performance highlights

(₹ cr) - Consl	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)
Net revenue	5,504	5,370	2.5	4,235	30.0
EBITDA	1,436	1,357	5.8	1,075	33.5
EBITDA margin (%)	26.1	25.3	81bp	25.4	69bp
PAT	234	239	(2.0)	275	(14.7)

Source: Company, Angel Research

For 1QFY2013, Idea Cellular's (Idea) results came in lower than street expectations. The company's total network minutes grew modestly by 5.3% qoq, but its average revenue per minute (ARPM) declined by 2.4% qoq to ₹0.42/min, which the company said was due to marketplace battle. The worrying thing is that the current round of tariff wars is being fought among incumbents, with an eye on revenue market share. Idea remains surrounded by regulatory uncertainties. **We maintain our Neutral view on the stock.**

Quarterly highlights: For 1QFY2013, Idea reported consolidated revenue of ₹5,504cr, up 2.5% qoq, on the back of qoq flat minutes of usage (MOU) and subscriber growth of 4.0% qoq with end-of-period (EoP) subscriber base standing at 117.4mn. Reported EBITDA margin increased by 81bp qoq to 26.1%. Reported EBITDA from established circles grew by ~7% qoq, however EBITDA losses from new circles stood at ₹1,687cr vs. ₹1,601cr in the last quarter.

Outlook and valuation: Management indicated that revenue growth for the industry will remain muted in 1HFY2013. Considerable decline in ARPM and aggressive marketplace battle in terms of tariff would increase the pricing pressure in industry. Further, slowdown in subscriber addition would also impact revenue growth going forward. With growing VAS share as a percentage of total revenue, stable ARPM and rising number of subscribers for 3G services, we expect revenue to witness a 13.9% CAGR over FY2012-14E. Idea remains surrounded by lot of regulatory uncertainties after the cancellation of its licenses in nine circles. As per the recent media articles, government has recommended for ₹14,111-₹15,111cr spectrum reserve price for 5MHz spectrum on pan India basis, which is lower from ~₹18,000cr previously recommended by Trai (but still remains high). 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 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	22,988	25,333
% chg	22.9	24.6	26.0	17.6	10.2
Net profit	954	864	723	1,144	1,613
% chg	8.3	(9.4)	(16.3)	58.2	41.0
EBITDA margin (%)	27.4	24.5	26.1	26.4	26.9
EPS (₹)	2.9	2.7	2.2	3.5	4.9
P/E (x)	27.9	29.6	36.8	23.3	16.5
P/BV (x)	2.2	2.2	2.0	1.9	1.7
RoE (%)	8.0	7.0	5.5	8.1	10.2
RoCE (%)	7.0	5.5	7.8	10.4	12.2
EV/Sales (x)	2.7	2.4	2.0	1.6	1.4
EV/EBITDA (x)	10.0	9.8	7.8	5.9	5.1

Source: Company, Angel Research

NEUTRAL

CMP	₹81
Target Price	-
Investment Period	-
<hr/>	
Stock Info	
Sector	Telecom
Market Cap (₹ cr)	26,631
Net debt (₹ cr)	10,377
Beta	0.5
52 Week High / Low	104/71
Avg. Daily Volume	643,345
Face Value (₹)	10
BSE Sensex	16,918
Nifty	5,128
Reuters Code	IDEA.BO
Bloomberg Code	IDEA@IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian FIs	6.9
FII / NRIs / OCBs	14.8
Indian Public / Others	32.4

Abs. (%)	3m	1yr	3yr
Sensex	(1.7)	(9.6)	10.0
Idea	0.6	(5.5)	(1.1)

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

(₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)	FY2012	FY2011	% chg(yoy)
Net revenue	5,504	5,370	2.5	4,235	30.0	19,541	15,503	26.0
Operating expenditure	4,068	4,013	1.4	3,160	28.8	14,449	11,713	23.4
EBITDA	1,436	1,357	5.8	1,075	33.5	5,093	3,791	34.3
Dep. and amortization	832	784	6.1	657	26.7	2,981	2,432	22.6
EBIT	603	573	5.3	418	44.3	2,111	1,359	55.3
Interest charges	267	227	17.4	85	212.6	1,056	396	166.3
Other income	-	-	-	-	-	-	-	-
PBT	336	345	(2.7)	333	1.0	1,055	963	9.6
Income tax	102	106	(4.1)	58	75.6	332	98	238.4
PAT	234	239	(2.0)	275	(14.7)	723	864	(16.3)
Minority interest	-	-	-	-	-	-	-	-
Adj. PAT	234	239	(2.0)	275	(14.7)	723	864	(16.3)
EPS (₹)	0.7	0.7	(2.0)	0.8	(14.7)	2.2	2.7	(19.6)
EBITDA margin (%)	26.1	25.3	81bp	25.4	69bp	26.1	24.5	161bp
EBIT margin (%)	11.0	10.7	29bp	9.9	109bp	10.8	8.8	204bp
PAT margin (%)	4.3	4.5	(20)bp	6.5	(223)bp	3.7	5.6	(187)bp

Source: Company, Angel Research

Exhibit 2: 1QFY2013 – KPI data for the mobility business

	1QFY13	1QFY13E	Var. (%)	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)
ARPM (₹/min)	0.41	0.42	(1.0)	0.42	(2.4)	0.41	0.5
MOU (min)	379	383	(1.0)	379	-	391	(3.1)
ARPU (₹/month)	156	159	(2.1)	160	(2.5)	160	(2.5)
Subscriber base (mn) – EoP	117	117	0.0	113	4.0	95	23.2
EPM (₹/min)	0.11	0.11	2.0	0.11	(0.2)	0.11	(2.2)

Source: Company, Angel Research

Exhibit 3: 1QFY2013 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimate	% Var.
Net revenue	5,504	5503	0.0
EBITDA margin (%)	26.1	25.6	52bp
PAT	234	228	2.8

Source: Company, Angel Research

In-line results

Idea's consolidated revenue came in at ₹5,504cr, up 2.5% qoq. The mobility segment's revenue grew by 2.8% qoq to ₹5,463cr, on the back of modest traffic growth with overall network minutes growing by 5.3% qoq to 130.9bn minutes. MOU remained flat qoq at 379min as against expectation of its growing by ~1% qoq, while ARPM, as expected, declined by 2.4% qoq to ₹0.41/min. Idea's subscriber base grew by ~4% qoq with EoP subscriber base standing at 117.2mn.

During 1QFY2013, Idea rolled out only 670 2G cell sites, lowest addition in last nine quarters.

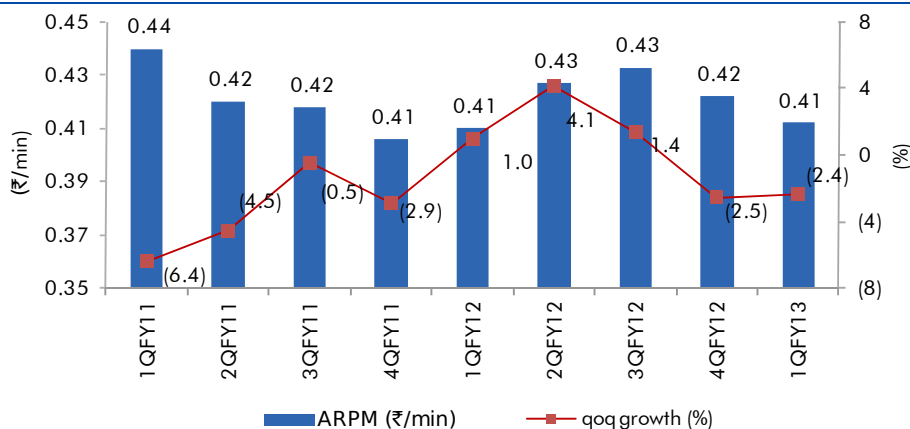
Exhibit 4: Trend in MOU



Source: Company, Angel Research

Management indicated that the decline in ARPM was due to intense competition, Trai’s consumer protection regulation and increase in service tax. The company (inline with its peers) has cut in 3G tariff has the management indicated that it is a positive move for the sector and company has started seeing uptick in the volumes. Data currently contributes ~4.8% of the revenue. The worrying thing is that the current round of tariff wars is being fought among incumbents, with an eye on revenue market share.

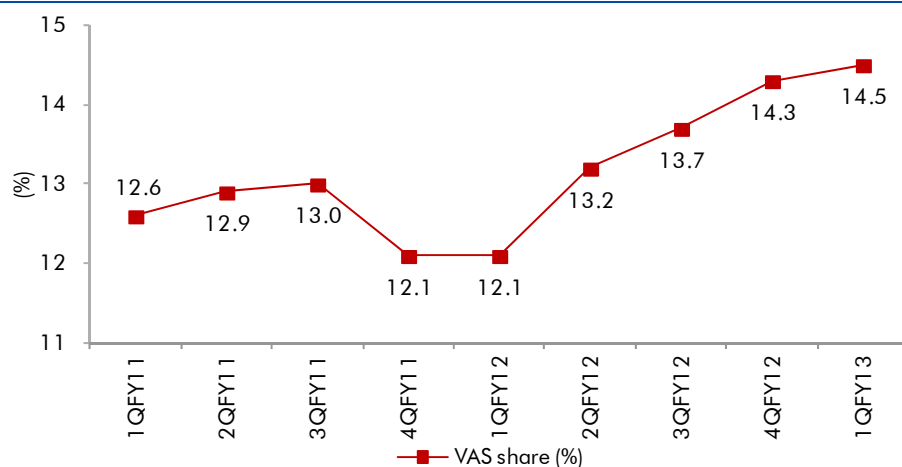
Exhibit 5: Trend in ARPM



Source: Company, Angel Research

Idea has consistently been able to increase its VAS as a share of total revenue since the past five quarters (unlike Bharti Airtel). Idea’s VAS share increased to 14.5% in 1QFY2013 from 14.3% in 4QFY2012. VAS revenue includes SMS termination charges from current fiscal and inclusion of SMS termination charges has aided VAS share at 14.5%. Otherwise, there would have been slight decline in the VAS share. Idea has currently got 3.1mn active 3G subscribers, which is merely ~2.6% of its overall subscriber base.

Exhibit 6: Trend in VAS share in mobility revenue

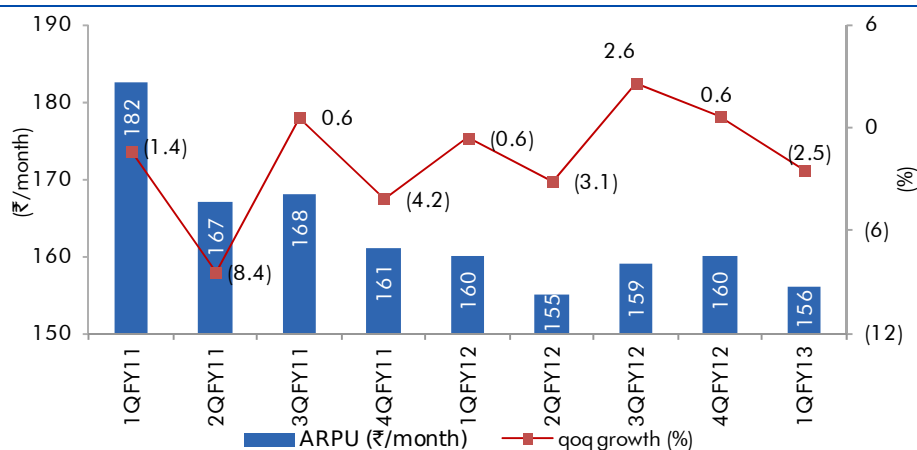


Source: Company, Angel Research

Idea reported net subscriber addition of 4.4mn subscribers in 1QFY2013, with the company’s total subscriber base, as of EoP June 2012, standing at 117.4mn.

Thus, flat MOU, higher VAS share and modest subscriber net additions in 1QFY2013 slightly arrested the downfall in average revenue per user (ARPU), which was negatively affected by declining APRM. ARPU declined by 2.5% qoq to ₹156/month during the quarter. - Monthly churn remained flat qoq at 9.9%, well above comfort level.

Exhibit 7: Trend in ARPU



Source: Company, Angel Research

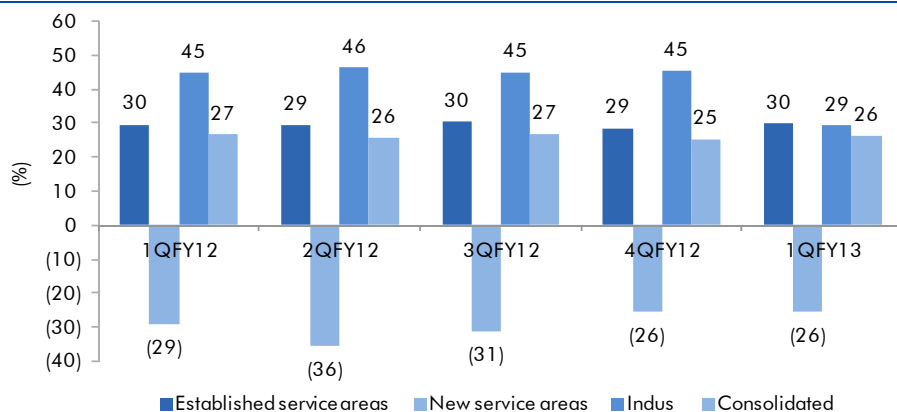
EBITDA margin enhances

For 1QFY2013, Idea’s EBITDA margin increased by 81bp qoq to 26.1%. EBITDA margin, adjusted for one-time costs in the last quarter, declined by ~200bp qoq to 26.1%. EBITDA margin decline qoq was largely led by network costs (up 83bp) and roaming and access charges (up 50bp).

During the quarter, revenue from established service areas (ESA) stood at ₹4,881cr, up 2.2% qoq and revenue from new service areas (NSA) stood at ₹657cr, up 5.1% qoq. EBITDA margin of ESA improved by 125bp qoq to 29.9%.

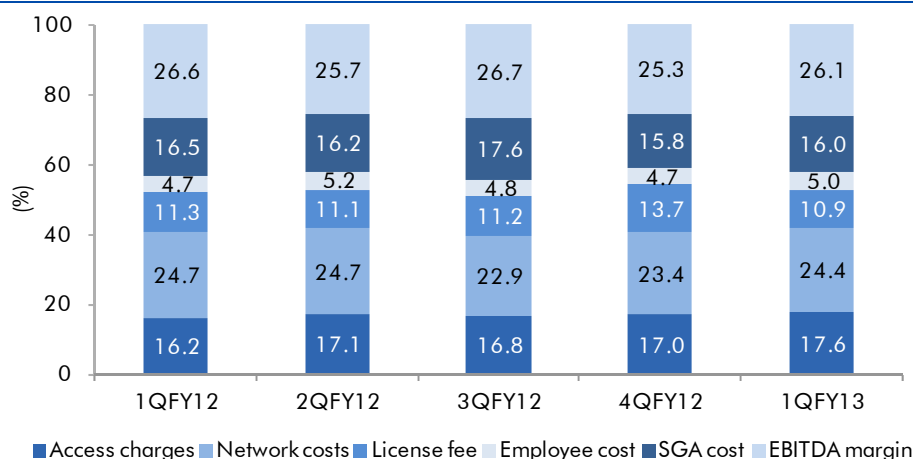
EBITDA losses of NSA remained almost flat qoq at ₹169cr in 1QFY2013. EBITDA losses from the new circles would continue as company indicated that near term EBITDA break-even in the new circles is not anticipated. In addition, Idea's EBITDA share from Indus declined by 2% qoq to ₹147cr.

Exhibit 8: Trend in EBITDA margin



Source: Company, Angel Research

Exhibit 9: Opex breakup



Source: Company, Angel Research

Outlook and valuation

Management indicated that revenue growth for the industry will remain muted in 1HFY2013. Considerable decline in ARPM and aggressive marketplace battle in terms of tariff would increase the pricing pressure in industry as operators are aggressively trying to gain revenue market share. Further, slowdown in subscriber addition would also impact revenue growth going forward. With growing VAS share as a percentage of total revenue, stable ARPM and rising number of subscribers for 3G services, we expect revenue to witness a 13.9% CAGR over FY2012-14E.

Idea remains surrounded by lot of regulatory uncertainties after the cancellation of its licenses in nine circles. The things are moving very slowly on the regulatory front. As per the recent media articles, government has recommended for ₹14,111-₹15,111cr spectrum reserve price for 5MHz spectrum on pan India basis,

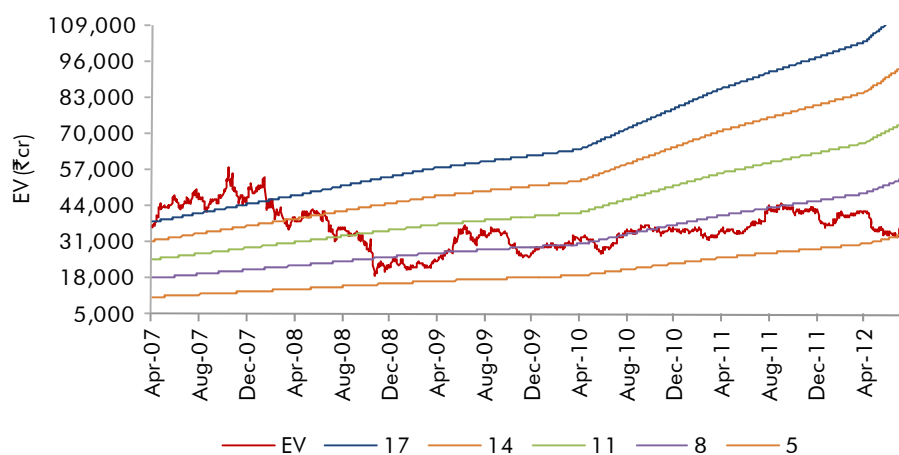
which is lower from ~₹18,000cr previously recommended by Trai (but still remains high). To regain its licenses in the auction, the company will have to incur additional costs, which will, in turn, hinder the company's overall profitability. Debt funding towards spectrum payouts would further leverage 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	0.41	0.42	(0.6)
MOU (min)	395	374	377	369	(0.7)
ARPU (₹/month)	166	158	155	154	(1.2)
Subscriber base (mn) – EoP	89.5	112.7	126.8	138.2	10.7

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	308	-	-	1.9	15.5	7.6	12.1	11.9
Idea Cellular	Neutral	81	-	-	1.7	16.5	21.5	12.2	10.2
Reliance Communication	Neutral	60	-	-	0.3	10.3	(3.3)	4.4	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 117mn 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, 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	22,988	25,333
Network operating expenditure	3,127	4,013	4,669	5,555	6,061
<i>% of net sales</i>	25.1	25.9	23.9	24.2	23.9
License and WPC charges	1,347	1,773	2,323	2,568	2,891
<i>% of net sales</i>	10.8	11.4	11.9	11.2	11.4
Roaming and access charges	1,800	2,475	3,280	3,927	4,167
<i>% of net sales</i>	14.5	16.0	16.8	17.1	16.4
Other expenses	2,766	3,451	4,176	4,862	5,391
Total expenditure	9,040	11,713	14,449	16,912	18,509
<i>% of net sales</i>	72.6	75.5	73.9	73.6	73.1
EBITDA	3,407	3,791	5,093	6,077	6,823
<i>% of net sales</i>	27.4	24.5	26.1	26.4	26.9
Dep. and amortization	2,015	2,432	2,981	3,443	3,636
EBIT	1,392	1,359	2,111	2,633	3,187
<i>% of net sales</i>	11.2	8.8	10.8	11.5	12.6
Interest expense	401	396	1,056	959	815
Other income, net	84	-	-	-	-
Profit before tax	1,075	963	1,055	1,674	2,372
Provision for tax	121	98	332	530	759
<i>% of PBT</i>	11.3	10.2	31.5	31.7	32.0
PAT	954	864	723	1,144	1,613
Share in earnings of associate	-	-	-	-	-
Minority interest	-	-	-	-	-
Profit after minority interest	954	864	723	1,144	1,613
EPS (₹)	2.9	2.7	2.2	3.5	4.9

Balance sheet (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Liabilities					
Share capital	3,300	3,303	3,309	3,309	3,309
Reserves and surplus	8,530	8,947	9,705	10,848	12,461
Additional paid up capital	-	-	-	-	-
Stock option outstanding	44	48	35	35	35
Total shareholders' funds	11,874	12,298	13,048	14,192	15,805
Convertible preference shares	2	2	2	2	2
Total debt	7,859	12,071	13,337	10,390	9,790
Deferred tax liabilities	214	310	627	627	627
Other liabilities	-	-	-	-	-
Total liabilities	19,950	24,680	27,015	25,212	26,225
Assets					
Gross block - fixed assets	27,059	33,698	41,092	45,092	48,592
Accumulated depreciation	8,891	11,213	14,104	17,547	21,184
Net block	18,168	22,485	26,988	27,545	27,408
Capital WIP	547	3,647	704	300	300
Total fixed assets	18,714	26,132	27,692	27,845	27,708
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	756	833
Cash	290	1,478	250	923	1,744
Loans and advances	2,556	3,560	4,342	3,831	4,900
Other current assets	298	434	1,164	400	400
Total current assets	3,663	6,086	6,517	5,975	7,942
Less:- current liab.	3,845	7,280	6,888	8,155	8,925
Less:-provisions	223	264	313	460	507
Net current assets	(405)	(1,457)	(683)	(2,639)	(1,490)
Profit and loss account	504	-	-	-	-
Total assets	19,950	24,680	27,015	25,212	26,225

Cash flow statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Pre tax profit from operations	992	963	1,055	1,674	2,372
Depreciation	2,015	2,432	2,981	3,443	3,636
Expenses (deferred)/written off	-	-	-	-	-
Pre tax cash from operations	3,007	3,394	4,037	5,117	6,008
Other income/prior period ad	84	-	-	-	-
Net cash from operations	3,090	3,394	4,037	5,117	6,008
Tax	121	98	332	530	759
Cash profits	2,969	3,296	3,705	4,587	5,249
(Inc)/dec in					
Current assets	(1,091)	(1,236)	(1,659)	1,216	(1,146)
Current liabilities	32	3,476	(343)	1,414	817
Net trade working capital	(1,059)	2,240	(2,002)	2,630	(328)
Cashflow from operating actv.	1,910	5,536	1,702	7,217	4,921
(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	(2,947)	(600)
Inc/(dec) in equity/premium	(2,869)	(441)	27	(0)	0
Dividends					
Cashflow from financing actv.	(3,923)	3,771	1,294	(2,947)	(600)
Cash generated/(utilised)	(2,797)	1,188	(1,228)	674	821
Cash at start of the year	3,086	290	1,478	250	923
Cash at end of the year	290	1,478	250	923	1,744

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Valuation ratio (x)					
P/E (on FDEPS)	27.9	29.6	36.8	23.3	16.5
P/CEPS	9.0	8.1	7.2	5.8	5.1
P/BVPS	2.2	2.2	2.0	1.9	1.7
Dividend yield (%)	-	-	-	-	-
EV/Sales	2.7	2.4	2.0	1.6	1.4
EV/EBITDA	10.0	9.8	7.8	5.9	5.1
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	3.5	4.9
Cash EPS	9.0	10.0	11.2	13.9	15.9
Dividend	0.0	0.0	0.0	0.0	0.0
Book value	36.0	37.2	39.5	43.0	47.9
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	1.0
Leverage ratio (Assets/Equity)	1.7	2.0	2.1	1.8	1.7
Operating ROE	8.0	7.0	5.5	8.1	10.2
Return ratios (%)					
RoCE (pre-tax)	7.0	5.5	7.8	10.4	12.2
Angel RoIC	7.3	7.0	8.1	11.0	13.2
RoE	8.0	7.0	5.5	8.1	10.2
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%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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