

Idea Cellular Ltd.

Rs.91

Forex loss hit the profitability...

HOLD

Inline revenue growth, however forex loss hit the bottom line...

Idea Cellular reported revenue was inline with our estimates however net profit was below estimates due to higher interest cost. The company posted net revenues of Rs 4620cr which is up 2% on q-o-q and a robust growth of 21% on y-o-y. EBITDA stood at Rs 1187crrc which is down by 1% over Q1FY12 and up by 26% over Q2FY11. EBITDA margin stood at 25.7%. Net profit for the quarter was Rs 106cr which is down by 40% over q-o-q and 42% over y-o-y. Net profit margin for the quarter was 2.3%. In spite of growth in EBITDA margin, the net profit margin was hit by higher interest outgo mainly because of forex loss of Rs 31cr. We believe incremental revenue will drive net revenues on upward trend however increase in interest expenses will hit the margins.

Robust subscriber addition coupled with improved ARR boost the revenues

Idea's subscriber base increased from 95.1mn in Q1FY12 to 100.2mn in Q2FY12. Also the company had incremental realized rate of Rs 0.427 from Rs 0.410 in last quarter. This lead to healthy top line growth. ARPU declined slightly from Rs 160 to Rs 155 sequentially. However slowdown in VLR had a negative impact on MoUs which declined 2% on q-o-q to 106.2bn minutes.

Pick up in 3G and incremental voice revenue will drive the revenues..

The management guided 3G services to up once handset prices become affordable. The company has plans to launch 3G enabled low price handsets in the market so as to make 3G available to mass market. We believe this will lead to higher data revenue in years to come. Also on the voice revenue front, steady growth in subscribers will lead to increase in ARPUs.

Interest cost to drag the net margins..

In spite of healthy growth in revenues, net profit margins will be impacted due to increase in depreciation owing to 3G spectrum fees; higher interest outgo. Also the company will pay tax at 30% due to end of tax holidays in the circles which started operations before 1999. This will have a negative impact on the margins.

Our View:

Telecom segment is going through a transformational phase where in data will take the lead over voice. Combined data and voice together, revenues will grow at a healthy rate of 22%-25% in FY12E and FY13E. Idea is adding new subscribers steadily. Increase in ARPUs driven by higher realized rate, improvement in traffic and 3G being operational, Idea is on track of growth. We estimate the company's top line to grow by 27% and 25% respectively in FY12E and FY13E. In spite of increase in operating margins, net margins to decline due to higher interest expenses. Currently the stock is trading at 7.9x and 6.3x EV/EBITDA to FY12E and FY13E earnings. We recommend 'Hold' on the stock with a target price of Rs 104 by assigning 7x EV/EBITDA to FY13E earnings.

Exhibit 1: Key Financial

Particulars, Rs Cr	FY10	FY11	FY12E	FY13E
Revenue	12447	15503	19689	24611
EBITDA	3407	3791	5085	6248
Pat	954	899	672	975
EBITDA Margin %	27.4%	33.9%	33.0%	35.0%
NPM %	21.9%	10.2%	8.9%	11.9%
EV/Ebitda, x	11.0	11.0	7.9	6.3
RoE, %	8%	7%	5%	6%

Source: Company data, KRChoksey Research



Target Price (Rs): 104

Potential upside:14%

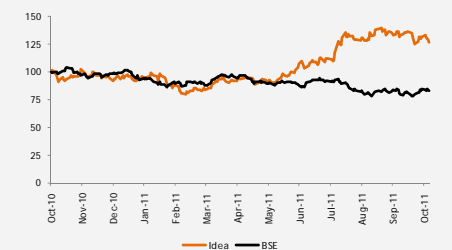
Previous TP (Rs): 112

Market Data

Shares outs (Cr)	330.3
Equity Cap (Rs. Cr)	3303
Mkt Cap (Rs. Cr)	30,057
52 Wk H/L (Rs.)	103.65/55.65
Avg Vol (1yr Avg)	58,24,870
Face Value (Rs.)	10
Bloomberg Code	IDEA IN

Market Info:

SENSEX	16,785
NIFTY	5,050

Price Performance**Share Holding pattern (%)**

Particulars	Sept-11	Jun-11	% Chg
Promoter	46.00	46.03	-0.1
FII	11.82	10.14	16.6
DII	8.72	7.98	9.3
Others	33.46	35.85	-6.7
Total	100	100	

Source: BSE

Analyst:

Archana Shivane

archana.shivane@krchoksey.com

☎ 91-22-6696 5508

www.krchoksey.com

☎ 91-22-6696 5555

☎ 91-22-6691 9569

Other key highlights

- Idea Cellular has subscriber base of 100.2mn subscribers at the end of Q2FY12.
- MVAS contributed 13.2% to total revenue in the quarter.
- Indus contribution to net revenues was Rs 308.9cr.
- Blended churn increased sequentially from 9.6% to 9.9% in Q2FY12.
- The company guided total capex of Rs 40bn in FY12.
- Idea had robust traffic growth of 25% over y-o-y to 106bn minutes from 85bn minutes.
- Decline in MoUs was due to VLR slowdown in the quarter.
- The company plans to launch Idea branded handsets to promote 3G in mass market.

Exhibit 2: Q2FY12 Result Key Financials

Particulars	Q2FY12	Q1FY12	q-o-q	Q2FY11	y-o-y
Total revenue	4619.9	4521	2%	3659	21%
Cost of trading goods	24.17	19	29%	10	77%
Personnel expenditure	241.69	211	15%	216	12%
Network operating expenditure	1142.26	1116	2%	1009	12%
Licence & WPC charges	513.24	512	0%	418	19%
Roaming & access charges	787.72	732	8%	582	28%
Subscriber acquisition & promotional charges	542.15	549	-1%	401	26%
Other expenditure	182.06	178	2%	144	21%
EBITDA (Excl OI)	1187	1204	-1%	879	26%
EBITDA margin	25.7%	26.6%	-40bps	24.0%	60bps
Depreciation & Amortization	736.87	703	5%	582	22%
EBIT	450	501	-10%	297	30%
Interest expense	293.89	246	19%	103	78%
PBT	156	255	-39%	194	-15%
Tax	50.11	78	-36%	14	46%
PAT	106	177	-40%	180	-42%
NPM	2.3%	3.9%	-160bps	4.9%	-260bps

Source: Company data, KRChoksey Research

Exhibit 3: Profit & Loss Account

Particulars (Rs Cr)	FY10	FY11	FY12	FY13E
Total Income	12447	15503	19689	24611
Cost of Trading Goods Sold	30	41	66	74
Personnel Expenditure	645	806	986	1232
Network Operating Expenditure	3127	4013	4615	5728
Licence and WPC Charges	1347	1773	2127	2832
Roaming and Access Charges	1800	2475	3214	3941
Subscriber Acquisition and Servicing Expenditure	1582	1974	2798	3571
Advertisement and Business Promotion Expenditure	0	630	798	985
Total Expenditure	9040	11713	14604	18363
EBITDA	3407	3791	5085	6248
EBITDA Margin %	27%	24%	26%	25%
Depreciation	2015	2397	3192	3831
Finance and Treasury Charges (Net)	401	396	932	1025
PBT	1075	997	961	1392
Tax expense	121	98	288	418
PAT	954	899	672	975

Source: Company data, KRChoksey Research

Exhibit 4: Balance sheet

Particulars, (Rs Cr)	FY10	FY11	FY12E	FY13E
Sources of funds				
Share Capital	3300	3303	3303	3303
Reserves and Surplus	8530	8947	10014	12056
Loan Funds	7859	12023	11422	10279
Deferred Tax Liability (Net)	214	310	310	310
Total	19950	24633	25049	25949
Application of funds				
Net Block	18168	22485	24728	26563
Capital Work-in-Progress	546	3647	2021	1860
Goodwill on Consolidation	6	6	6	6
Investments	1130	904	1085	1175
Inventories	54	65	80	74
Sundry Debtors	466	535	679	682
Cash and Bank Balances	290	574	398	828
Other Current Assets	298	343	426	434
Loans and Advances	2556	2939	3711	4093
Less: Current Liabilities	3845	6536	7686	9301
Less: Provisions	223	329	398	465
Net Current Assets	-405	-2983	-2791	-3655
Profit and Loss Account	504	0	0	0
Total	19950	24633	25049	25949

Source: Company data, KRChoksey Research

Exhibit 5: Cash Flow

Particulars (Rs Cr.)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	870	899	750	966
Operating profit before working capital changes	3443	3843	5023	5299
Net cash from operating activities	2458	740	3184	3709
Net cash from/(used in) investing activities	-2953	-3190	-3356	-3157
Net cash from / (used in) financing activities	-2401	2734	1740	-1701
Net increase/(decrease) in cash and cash equivalent	-2896	284	1568	-1149
Cash and cash equivalent at the beginning	3086	290	574	2142
Cash and cash equivalent at the end	206	574	2142	993

Source: Company data, KRChoksey Research

Exhibit 6: Ratios

Particulars	FY10	FY11	FY12E	FY13E
EBITDA Margin (%)	27.4%	24.5%	25.8%	25.4%
Net Profit Margin (%)	7.7%	5.8%	3.4%	4.0%
EPS, Rs	2.9	2.7	2.0	3.0
PE, (x)	31.5	33.4	44.7	30.8
P/BV, (x)	2.5	2.5	2.3	2.0
RoE (%)	8.1%	7.3%	5.0%	6.3%
EV/EBITDA, x	11.0	11.0	7.9	6.3

Source: Company data, KRChoksey Research



Rajiv Choksey	Director	rajiv.choksey@krchoksey.com	+91-22-6696 5555
Anuj Choksey	Head-Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Kunal Dalal	Head-Institutional Research	kunal.dalal@krchoksey.com	+91-22-6696 5574

Idea Cellular Ltd.

	CMP (Rs)	TP (Rs)	Recommendation
22-October-2011	91	104	HOLD
1-August-2011	98	112	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 - 5%
Sell	Less than 0%

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.
 Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 053.
 Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.