

# Idea Cellular

30 January 2013

Reuters: IDEA.BO; Bloomberg: IDEA IN

## Lower Margin, Forex Loss Dent Net Profit

Idea Cellular's 3QFY13 revenue was above our/consensus estimates by 2%/1.1%, respectively, at Rs55.8bn (up 5% QoQ). This was led by a 5.2% QoQ rise in minutes of usage (MoU). However, revenue per minute (RPM) declined 0.5% QoQ on lower non-voice revenue. Margin declined 36bps QoQ to 26.4%, below our/consensus estimates by 89bps/76bps, respectively, due to higher network, roaming and SG&A costs. This, along with a forex loss of Rs133mn led net profit to fall 4.8% QoQ to Rs2.29bn (well below our/consensus estimates by 12.2%/14.9%, respectively). The stock has surged as much as 36% over the past three months even as voice revenue slows (below 10% YoY in 3QFY13), debt stays high and regulatory issues remain a bug bear, with the likelihood of higher spectrum costs for licence renewal, free roaming and critical issue of re-farming. At the CMP, the stock trades at 6.4x EV/EBITDA on FY14E EBITDA. We have retained our Sell rating on the stock with a target price of Rs93.

**MoU growth healthy, but RPM decline a negative surprise:** Idea Cellular's 3QFY13 top-line grew 5% QoQ to Rs55.8bn, slightly above our and consensus estimates. This was led by a healthy 5.2% QoQ rise in MoU to 132.2bn. MoU/user rose 7% QoQ to 384/month (359 in 2QFY13). However, RPM declined 0.5% QoQ to 41.1 paise owing to a fall in non-voice contribution to 14.6% (15.6%) due to new value added services (VAS) regulations. VAS revenue declined 1.8% QoQ. However, data revenue grew by a healthy 10.8% QoQ, with data average revenue/user (ARPU) rising 4% QoQ. Voice revenue grew by a healthy 6.2% QoQ, with voice RPM up 1% QoQ at 36.3 paise. Voice ARPU rose 7.7% QoQ (Rs139/month versus Rs129) as the subscriber base fell 1.4% QoQ to 113.9mn, a decline of 1.6mn.

**Lower margin, forex loss reduce net profit:** Idea Cellular posted a 36bps QoQ fall in 3QFY13 margin (89bps/76bps below our/consensus estimates, respectively), due to higher network (because of higher diesel prices), roaming and SG&A costs. This, along with a forex loss of Rs133mn (compared with a Rs180mn gain in 2QFY13) led net profit to fall 4.8% QoQ to Rs2.29bn (a significant 12.2%/14.9% below our/consensus estimates, respectively).

**Retain Sell, stock surge leaves little comfort on valuation:** Idea Cellular's stock price has surged by as much as 36% over the past three months even as voice revenue slows (below 10% YoY in 3QFY13), debt stays high and regulatory issues persist, particularly higher spectrum costs, free roaming and re-farming. At the CMP, the stock trades at 6.4x EV/EBITDA on FY14E EBITDA. **We have retained our Sell rating on the stock with a target price of Rs93.**

## SELL

Sector: Telecom

CMP: Rs114

Target Price: Rs93

Downside: 18%

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### Key Data

Current Shares O/S (mn)	3,311.9
Mkt Cap (Rsbn/US\$bn)	377.2/7.0
52 Wk H / L (Rs)	124/66
Daily Vol. (3M NSE Avg.)	3,549,162

### Price Performance (%)

	1 M	6 M	1 Yr
IDEA	9.6	42.2	20.8
Nifty Index	2.4	18.6	16.2

Source: Bloomberg

Y/E March (Rsmn)	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)	9MFY12	9MFY13	Chg (%)
Net revenue	50,308	53,140	55,786	5.0	10.9	141,715	163,963	15.7
Operating expenditure	36,862	38,915	41,052	5.5	11.4	104,362	120,648	15.6
Operating profit (EBITDA)	13,446	14,225	14,734	3.6	9.6	37,352	43,315	16.0
Depreciation & amortisation	7,575	8,526	8,836	3.6	16.6	21,970	25,686	16.9
EBIT	5,871	5,700	5,898	3.5	0.5	15,383	17,629	14.6
Interest charges (net)	2,880	2,164	2,416	11.7	(16.1)	8,283	7,250	(12.5)
Income before income tax	2,991	3,536	3,482	(1.5)	16.4	7,100	10,379	46.2
Tax	981	1,136	1,196	5.3	21.9	2,260	3,351	48.3
Net income	2,010	2,400	2,285	(4.8)	13.7	4,840	7,028	45.2
Diluted EPS (Rs)	0.6	0.7	0.7	(4.2)	13.1	1.5	2.1	45.2
EBITDA margin (%)	26.7	26.8	26.4	-	-	26.4	26.4	-
EBIT margin (%)	11.7	10.7	10.6	-	-	10.9	10.8	-
Net profit margin (%)	4.0	4.5	4.1	-	-	3.4	4.3	-
Mobile ARPU (Rs/month)	159	148	158	6.8	(0.6)	159	159	(0.4)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Key financials

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	123,979	154,384	194,887	222,576	251,632
YoY (%)	22.4	24.5	26.2	14.2	13.1
EBITDA	33,579	37,260	50,399	58,745	69,165
EBITDA (%)	27.1	24.1	25.9	26.4	27.5
Adj. PAT	9,539	8,987	7,230	9,786	15,757
YoY (%)	8.2	(5.8)	(19.6)	35.4	61.0
FDEPS (Rs)	2.9	2.7	2.2	3.0	4.8
RoE (%)	7.7	7.6	5.7	7.2	10.6
RoCE (%)	5.8	5.7	6.0	6.7	8.6
P/E (x)	39.4	41.8	51.9	38.4	23.8
EV/EBITDA (x)	13.1	12.6	9.6	8.0	6.4

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Actuals versus our estimates, Bloomberg consensus estimates

(3QFY13)	Actuals	NBIE estimates	BBG consensus estimates	% variation from NBIE estimates	% variation from BBG consensus
Revenue (Rsmn)	55,786	54,688	55,203	2.0	1.1
EBITDA (Rsmn)	14,734	14,931	14,997	(1.3)	(1.8)
EBITDA margin (%)	26.4	27.3	27.2	(89)bps	(76)bps
EBIT (Rsmn)	5,898	6,149	6,494	(4.1)	(9.2)
EBIT margin (%)	10.6	11.2	11.8	(67)bps	(119)bps
Net profit (Rsmn)	2,285	2,603	2,687	(12.2)	(14.9)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Operating highlights

- Idea Cellular's consolidated top-line stood at Rs55.8bn, up 5% QoQ; this was 2%/1.1% below our/consensus estimates, respectively.
- Total MoU on the network rose by a healthy 5.2% QoQ as the telecom major was able to win back minutes after a seasonally weak September quarter.
- However, due to a lower proportion of VAS revenue, RPM declined 0.5% QoQ to 41.1 paise.
- EBITDA margin declined 36bps QoQ to 26.4%, mainly owing to higher network costs (due to higher diesel prices), roaming and SG&A costs; **we had mentioned in 2QFY13 about lack of sustainability of the fall in SG&A costs during the quarter in the wake of intensely competitive market and they have again risen in 3QFY13.**
- EBITDA margin was below our estimate by 89bps and below consensus estimates by 76bps.
- Net profit stood at Rs2.29bn, down 4.8% QoQ, mainly due to the decline in margin and forex loss; it **was well below our estimate by 12.2% and below consensus estimates by 14.9%.**
- Voice revenue grew 6.2% QoQ, with voice ARPU up 7.7% QoQ and voice RPM up 1% QoQ.
- Data metrics were heartening, with total data customers at 21.8mn, or 19.1% of the subscriber base.
- VAS revenue declined 1.8% QoQ owing to new VAS regulations, but data revenue rose 10.8% QoQ while non-data VAS revenue (such as text messaging, or SMS) declined 8.4% QoQ.
- Data ARPU rose 4% QoQ to Rs52/month.

## Valuation

Idea Cellular's stock has surged by as much as 36% over the past three months even as voice revenue slows (below 10% YoY in 3QFY13), debt stays high and regulatory issues persist, particularly higher spectrum costs, free roaming and re-farming. At the CMP, the stock trades at 6.4x EV/EBITDA on FY14E EBITDA. **We have retained our Sell rating on the stock with a target price of Rs93.**

**Exhibit 3: Mobility business (standalone) operating metrics**

Particulars	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)
Revenue (Rsmn)	50,652	53,481	56,135	5.0	10.8
Mobile subscriber base (mn)	106.4	115.5	113.9	(1.4)	7.1
Gross mobile ARPU (Rs/month)	159	148	158	6.8	(0.6)
Total minutes of usage (mn)	113,964	125,646	132,181	5.2	16.0
Minutes of use per user/month	369	359	384	7.0	4.1
Revenue per minute (Rs)	0.43	0.41	0.41	(0.5)	(5.1)
EBITDA (Rsmn)	11,986	12,615	13,174	4.4	9.9
EBITDA margin (%)	23.7	23.6	23.5	(12)bps	(20)bps
EBITDA/minute (Rs)	0.11	0.10	0.10	(0.7)	(5.2)

Source: Company

**Exhibit 4: Revenue, profitability break-up**

(Rsmn)	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)
<b>Revenue</b>					
Established circles	45,144	47,064	49,309	4.8	9.2
Newer circles	5,508	6,417	6,826	6.4	23.9
<b>Sub-total</b>	<b>50,652</b>	<b>53,481</b>	<b>56,135</b>	<b>5.0</b>	<b>10.8</b>
Proportionate revenue from JVs - Indus	3,233	5,348	5,387	0.7	66.6
Inter-segment eliminations	3,577	5,689	5,737		
<b>Total</b>	<b>50,308</b>	<b>53,140</b>	<b>55,785</b>	<b>5.0</b>	<b>10.9</b>
<b>EBITDA</b>					
Established circles	13,708	14,377	14,967	4.1	9.2
Newer circles	(1,722)	(1,762)	(1,793)	-	-
<b>Sub-total</b>	<b>11,986</b>	<b>12,615</b>	<b>13,174</b>	<b>4.4</b>	<b>9.9</b>
Proportionate EBITDA from JVs - Indus	1,460	1,610	1,561	(3.0)	6.9
<b>Total</b>	<b>13,446</b>	<b>14,225</b>	<b>14,735</b>	<b>3.6</b>	<b>9.6</b>
<b>EBITDA margin (%)</b>					
Established circles	30.4	30.5	30.4	(19)bps	(1)bp
Newer circles	(31.3)	(27.5)	(26.3)	119bps	500bps
<b>Sub-total</b>	<b>23.7</b>	<b>23.6</b>	<b>23.5</b>	<b>(12)bps</b>	<b>(20)bps</b>
Proportionate EBITDA margins from JVs - Indus	45.2	30.1	29.0	(113)bps	(1,618)bps
<b>Total</b>	<b>26.7</b>	<b>26.8</b>	<b>26.4</b>	<b>(36)bps</b>	<b>(31)bps</b>

Source: Company

**Exhibit 5: Voice operating metrics**

Particulars	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)
Voice revenue (Rsmn)	43,713	45,138	47,939	6.2	9.7
Voice % of mobile revenue	86.3	84.4	85.4	1.0	(0.9)
Mobile subscriber base (mn)	106.4	115.5	113.9	(1.4)	7.1
Voice ARPU (Rs/user/month)	141	129	139	7.7	(1.2)
Total minutes of usage (mn)	113,964	125,646	132,181	5.2	16.0
Voice revenue per minute (Rs)	0.384	0.359	0.363	1.0	(5.4)

Source: Company

**Exhibit 6: Data operating metrics**

Particulars	2QFY13	3QFY13	QoQ (%)
Data revenue (Rsmn)	2,888	3,200	10.8
Data customer base (mn)	18.9	21.8	15.0
Data customers as % of total customer base	16.4	19.1	2.7
Data ARPU (Rs/user/month)	50	52	4.0
Total TBs on the network (mn)	8,339	9,575	14.8
Data realisation/MB (Rs)	0.317	0.305	(3.8)

Source: Company

## Rating history

Date	Rating	Market price (Rs)	Target price (Rs)
9 January 2012	Sell	82	75
19 January 2012	Sell	87	75
23 January 2012	Sell	87	81
19 April 2012	Sell	90	81
27 April 2012	Sell	83	81
9 July 2012	Sell	85	81
24 July 2012	Sell	81	76
4 October 2012	Sell	83	76
23 October 2012	Sell	81	79
7 January 2013	Sell	110	93

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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