

January 25, 2011

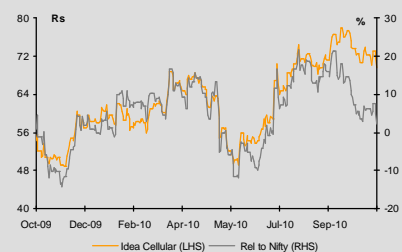
Reco	Previous Reco
Sell	Sell
CMP	Target Price
Rs71	Rs60
EPS change FY11E/12E (%)	8.7/ -
Target Price change (%)	NA
Sensex	18,970
Nifty	5,687

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(5)	2	12
Rel. to Nifty	3	0	(3)	(2)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	IDEA@IN
Equity Capital (Rs mn)	33016
Face Value(Rs)	10
No of shares o/s (mn)	3302
52 Week H/L	80/49
Market Cap (Rs bn/USD mn)	229/5,020
Daily Avg Volume (No of sh)	4451511
Daily Avg Turnover (US\$m)	6.8

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	47.0	47.0	47.0
FII/NRI	42.9	40.5	40.1
Institutions	7.0	7.8	7.7
Private Corp	0.5	2.0	1.9
Public	2.7	2.8	3.3

Source: Capitaline

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- **Q3FY11 PAT at Rs2.4bn (v/s our est. Rs1.8bn) and EBIDTA at Rs9.5bn (v/s our est. 9.1bn), festive season drives volume growth but higher opex keeps the EBITDA margin flat qoq**
- **Strong revenue growth of 8.1% qoq to Rs39.6 bn v/s our estimate of Rs38.1bn**
- **Robust 10.2% rise in traffic on network. ARPU improves to Rs168 v/s Rs 167 in Q2FY11. MOUs rise to 401 v/s 394 in Q2FY11**
- **Valuations expensive at 9.7x & 8.2x EV/EBIDTA for FY11E & FY12E respectively. Prefer Bharti Airtel available at 6.9x FY12E EV/EBIDTA. Retain SELL rating with target Rs60**

Revenue growth, profits ahead of estimates

On account of festive season, Idea registered robust subscriber addition of 7.8mn and 10.2% qoq rise in traffic on network. Con. revenue grew by 8.1% qoq, the growth was led by stabilization in KPI's. ARPU stood at Rs 168 v/s 167 in Q2FY11, ARPM flat at Rs0.42 and MoU at 401. Despite of healthy revenue growth EBITDA margins remained flat at 24% qoq due to rise in SG&A cost and other exp. PAT at Rs2.4bn was higher than estimate of Rs 1.8bn and Rs2.0bn, respectively, aided by one-off item of Rs110mn in interest cost and one time other income in Indus also boosted the share of profit from Indus to Rs222mn from Rs168mn in Q2FY11.

Festivities support stable KPI's

Strong subscriber growth of 10.2% and improvement in MoU resulted in 10.1% qoq rise in traffic on network to 93.5bn minutes v/s 84.8bn minutes. ARPU at Rs168 improved qoq v/s 8.2% qoq decline in Q2FY11. Stable tariffs restricted decline in ARPM that stood at Rs 0.42.

Absolute EBIDTA grows by 8% QoQ but margins remain flat

EBITDA grew by 8% qoq to Rs 9.5bn v/s our estimate of Rs 9.1bn. Sequentially, revenue grew by 7% and 17% from existing and new circles, respectively. However, EBITDA margin in existing circles declined by 30bps and absolute losses from new circle remain flat qoq. This was due to 33% and 21% qoq rise in SG&A and other expenses, owing to higher advertisement cost and one time expense of Rs75mn in other expenditure. SG&A is likely to remain high due to impending launch of 3G services.

Capex guidance reduced to Rs30bn for FY11E

Idea has reduced its capex guidance from Rs 40bn to Rs 30bn for FY11E. The lowered guidance is on account of some spill over to coming quarter and savings against earlier estimates. Net-debt during Q3FY11 remained flat qoq at Rs93bn, we expect it to increase to Rs124bn for FY11E, which implies net-debt/EBIDTA of 3.4x for FY11E.

Valuations 7.8x FY12E EV/EBIDTA expensive v/s Bharti – Retain SELL

On account of lower tax rate we have revised our FY11E EPS estimates upward by 8.7% to Rs2.6. At CMP of Rs72, Idea trades at 9.7x and 8.2x EV/EBIDTA and 28x and 27x estimated EPS of Rs2.6 and Rs2.7 for FY11E and FY12E respectively. We maintain SELL rating on the stock with target price of Rs60.

Financial Snapshot

	Rs Mn									
Y/E-	Net	EBITDA		PAT	EPS	EPS	ROE	EV/		
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(%)	P/E	EBITDA	P/BV
FY09	101313	28134	27.8	8811	2.7	-32.5	10.5	26.8	10.9	1.8
FY10	123979	33579	27.1	9211	2.8	4.5	7.3	25.6	9.3	2.0
FY11E	154019	37460	24.3	8418	2.6	-8.6	7.1	28.0	9.7	2.0
FY12E	178035	44536	25.0	8746	2.7	3.9	7.2	27.0	8.2	1.9

Quarterly financials

	Q310	Q410	Q111	Q211	Q311	QoQ %	YoY %	YTD '10	YTD '11	YoY %
Revenues										
Mobile	29,261.4	31,234.5	33,116.0	36,535.6	36,355.9	-0.5%	24.2%	59,358.2	72,891.5	22.8%
NLD	2,690.3	3,638.1	4,151.3	4,403.3	4,765.3	8.2%	77.1%	4,846.0	9,168.6	89.2%
(inter segment)	(2,212.6)	(3,377.9)	(3,789.3)	(4,401.9)	(4,529.3)			(4,706.1)	(8,931.2)	
Net sales	29,739.1	31,494.7	33,478.0	36,537.0	36,591.9	0.2%	23.0%	59,498.1	73,128.9	22.9%
Cost of trading goods	74.3	74.5	82.9	86.2	97.5			147.4	183.7	
% of sales	0.2	0.2	0.2	0.2	0.3			0.2	0.3	
Personnel exp	1,662.6	1,784.3	1,736.9	1,714.7	2,155.1	25.7%	29.6%	3,108.5	3,869.8	24.5%
% of sales	5.6	5.7	5.2	4.7	5.9			5.2	5.3	
Network optng exp	7,613.8	7,936.6	8,563.5	10,158.8	10,091.0	-0.7%	32.5%	15,119.6	20,249.8	33.9%
% of sales	25.6	25.2	25.6	27.8	27.6			25.4	27.7	
License & WPC chgs	3,319.6	3,452.3	3,577.6	4,242.2	4,177.5	-1.5%	25.8%	6,688.2	8,419.7	25.9%
% of sales	11.2	11.0	10.7	11.6	11.4			11.2	11.5	
Roaming & access chg	4,184.0	4,532.8	5,064.0	5,761.2	5,824.8	1.1%	39.2%	8,404.5	11,586.0	37.9%
% of sales	14.1	14.4	15.1	15.8	15.9			14.1	15.8	
Subs acq & advt exp	3,567.4	4,241.1	4,677.0	4,224.0	4,014.7	-5.0%	12.5%	6,899.4	8,238.7	19.4%
% of sales	12.0	13.5	14.0	11.6	11.0			11.6	11.3	
Other exp	1,222.0	1,331.7	1,319.5	1,466.1	1,443.0	-1.6%	18.1%	2,436.0	2,909.1	19.4%
% of sales	4.1	4.2	3.9	4.0	3.9			4.1	4.0	
Total operating exp	21,712.4	23,423.2	25,092.2	27,724.9	27,875.6	0.5%	28.4%	42,939.3	55,600.5	29.5%
EBIDTA	8,026.7	8,071.5	8,385.8	8,812.1	8,716.3	-1.1%	8.6%	16,558.8	17,528.4	5.9%
Depreciation	4,796.5	5,130.5	5,666.7	5,655.8	5,820.1	2.9%	21.3%	9,351.9	11,475.9	22.7%
EBIT	3,230.2	2,941.0	2,719.1	3,156.3	2,896.2	-8.2%	-10.3%	7,206.9	6,052.5	-16.0%
Interest & fin chg	1,057.2	937.9	1,140.9	1,141.5	1,027.9	-10.0%	-2.8%	1,926.4	2,169.4	12.6%
PBT (core)	2,173.0	2,003.1	1,578.2	2,014.8	1,868.3	-7.3%	-14.0%	5,280.5	3,883.1	-26.5%
Other income	373.6	136.5	519.4	0.0	0.0			384.3	0.0	
PBT	2,546.6	2,139.6	2,097.6	2,014.8	1,868.3	-7.3%	-26.6%	5,664.8	3,883.1	-31.5%
Tax provision	357.1	371.9	281.3	72.5	142.9	97.1%	-60.0%	561.0	215.4	-61.6%
PAT	2,189.5	1,767.7	1,816.3	1,942.3	1,725.4	-11.2%	-21.2%	5,103.8	3,667.7	-28.1%

Margin analysis	Q310	Q410	Q111	Q211	Q311	bps	bps	YTD '10	YTD '11	bps
EBIDTA %	27.0	25.6	25.0	24.1	23.8	-29.8	-317.0	27.8	24.0	-386.2
EBIT %	10.9	9.3	8.1	8.6	7.9	-72.4	-294.7	12.1	8.3	-383.6
PAT %	7.4	5.6	5.4	5.3	4.7	-60.1	-264.7	8.6	5.0	-356.3
ETR %	14.0	17.4	13.4	3.6	7.6	405.1	-637.4	9.9	5.5	-435.6

KPI's

KPIs	Q309	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311
Subscribers ('000)	38,012	43,022	47,088	51,454	57,611	63,824	68,886	74,213	81,778
QoQ %	11.9%	13.2%	9.5%	9.3%	12.0%	10.8%	7.9%	7.7%	10.2%
ARPU (Rs)	266	255	232	209	200	185	182	167	168
(% QoQ)	1.9	-4.1	-9.0	-9.9	-4.3	-7.5	-1.6	-8.2	0.6
MOU (mins)	416	402	399	375	389	398	415	394	401
(% QoQ)	-1.2	-3.4	-0.7	-6.0	3.7	2.3	4.3	-5.1	1.8
RPM (Rs)	0.64	0.63	0.58	0.56	0.51	0.46	0.44	0.42	0.42
(% QoQ)	3.1	-0.8	-8.3	-4.1	-7.8	-9.6	-5.7	-3.3	0.0
Total traffic (mn)	40,254	44,224	48,729	50,339	57,841	68,275	82,274	84,828	93,503
(% QoQ)	10.8	9.9	10.2	3.3	14.9	18.0	20.5	3.1	10.2

Financials

Profit & Loss

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Net Sales	101,313	123,979	154,019	178,035
<i>Growth (%)</i>	50.8	22.4	24.2	15.6
Employee cost	5,245	6,451	8,075	9,151
Marketing expenses	12,991	16,123	19,331	23,565
Roaming and access chg	18,442	18,001	24,452	28,486
Network operating exp	21,078	31,270	40,593	44,613
License fee	11,239	13,468	17,681	20,385
Adimistrative expenses	4,183	5,087	6,428	7,299
Total expenditure	73,179	90,400	116,559	133,499
EBITDA	28,134	33,579	37,460	44,536
<i>Growth (%)</i>	24.9	19.4	11.6	18.9
Depreciation	14,032	20,161	23,798	28,165
Other non-operating exp.	0	0	0	0
EBIT	14,101	13,419	13,662	16,371
EBIT margin (%)	13.9	10.8	8.9	9.2
Other Income	231	1,011	0	80
Interest expenses	4,945	4,005	4,654	6,944
PBT	9,387	10,425	9,008	9,506
Tax	576	1,214	590	761
<i>Effective tax rate (%)</i>	6.1	11.3	6.6	8.0
PAT	8,811	9,211	8,418	8,746

Cash Flow Statement

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
PBT	9,156	9,414	9,008	9,426
Depreciation	14,032	20,161	23,798	28,165
Interest	4,945	4,005	4,654	6,944
Other Non-Cash items	84,049	-24,244	-10,000	0
Chg in working cap	1,042	-10,590	19,953	109
Tax paid	-576	-1,214	-590	-761
Operating Cashflow	112,649	-2,469	46,823	43,884
Capital expenditure	-73,539	-41,345	-95,000	-33,500
Free Cash Flow	39,110	-43,814	-48,177	10,384
Other income	231	1,011	0	80
Investments	-37,288	31,544	0	0
Investing Cashflow	-110,596	-8,790	-95,000	-33,420
Equity Capital Raised	4,811	2,259	4	0
Loans Taken / (Repaid)	23,968	-10,529	50,000	0
Interest Paid	-4,945	-4,005	-4,654	-6,944
Dividend paid (incl tax)	0	0	0	0
Financing Cashflow	23,834	-12,275	45,350	-6,944
Net chg in cash	25,888	-23,534	-2,827	3,520

Balance Sheet

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Equity share capital	31,001	32,998	33,002	33,002
Reserves & surplus	101,648	85,865	84,283	93,029
Net worth	132,649	118,863	117,285	126,031
Loan Funds	89,122	78,593	128,593	128,593
Net deferred tax liability	1,130	2,142	2,142	2,142
Total Liabilities	222,901	199,598	248,020	256,766
Gross Block	205,232	270,583	367,047	400,547
Less: Depreciation	59,971	88,194	111,991	140,157
Net block	145,261	182,389	255,056	260,391
Capital work in progress	21,409	5,465	4,000	4,000
Investment	42,909	11,365	11,365	11,365
Current Assets	53,684	41,059	39,609	42,863
Inventories	521	536	778	741
Sundry debtors	3,618	4,656	4,206	4,574
Cash & bank balance	30,863	7,329	4,502	8,022
Loans & advances	16,821	25,559	27,089	26,321
Other current assets	1,861	2,979	3,034	3,205
Current lia & Prov	40,361	40,680	62,009	61,853
Current liabilities	38,637	38,447	58,606	58,458
Provisions	1,724	2,233	3,403	3,395
Net current assets	13,323	379	-22,401	-18,990
Total Assets	222,901	199,598	248,020	256,766

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	27.8	27.1	24.3	25.0
Net Margin	13.1	9.6	8.3	8.5
ROCE	8.8	6.8	6.1	6.5
ROE	10.5	7.3	7.1	7.2
RoIC	12.6	8.2	6.8	7.1
Per Share Data (Rs)				
EPS (adjusted)	2.7	2.8	2.6	2.7
CEPS	6.9	8.9	9.8	11.2
BVPS	40.2	36.0	35.5	38.2
Valuations (x)				
PER	26.8	25.6	28.0	27.0
P/CEPS	10.3	8.0	7.3	6.4
P/BV	1.8	2.0	2.0	1.9
EV / Sales	3.0	2.5	2.4	2.0
EV / EBITDA	10.9	9.3	9.7	8.2
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.6	1.1	1.0
Net Debt/EBIDTA	3.2	2.3	3.4	2.9

Recommendation History: Idea Cellular – IDEA IN

Date	Reports	Reco	CMP	Target
26/10/2010	Idea Q2FY11 Result Update	Sell	72	60
26/07/2010	Idea Q1FY11 Result Update	Sell	69	60
24/04/2009	Idea Cellular Q4FY09 Update	Sell	57	53
23/01/2009	Idea Cellular Q3FY09 Update	UR	42	UR

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/01/2011	HT Media Q3FY11 Result Update	Buy	145	175
18/01/2011	Tulip Telecom Event Update	Buy	168	240
19/11/2010	Reliance Communication Q2FY11 Result Update	Reduce	154	135
16/11/2010	Deccan Chronicle Q2FY11 Result Update	Buy	129	175

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