

October 26, 2010

Reco	Previous Reco
Sell	Sell
CMP	Target Price
Rs72	Rs60

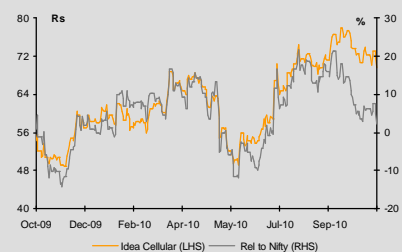
EPS change FY11E/12E (%)	-
Target Price change (%)	-
Sensex	20,221
Nifty	6,082

Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	3	7	23
Rel. to Nifty	(11)	(8)	(7)	0

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	IDEA@IN
Equity Capital (Rs mn)	33010
Face Value(Rs)	10
No of shares o/s (mn)	3301
52 Week H/L	80/47
Market Cap (Rs bn/USD mn)	230/5,176
Daily Avg Volume (No of sh)	5887173
Daily Avg Turnover (US\$m)	9.4

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	47.0	47.0	47.0
FII/NRI	40.5	40.1	41.4
Institutions	7.8	7.7	7.5
Private Corp	2.0	1.9	0.8
Public	2.8	3.3	3.2

Source: Capitaline

Sumit Modi

Sumit.modi@emkayglobal.com
+91 22 6612 1288

- **Q2FY11 PAT at Rs1.8bn (v/s our est. Rs22bn) and EBIDTA at Rs8.8bn (v/s our est. 9.2bn) misses our estimates due to absence of sequential revenue growth**
- **ARPU falls by sharp 8.3% QoQ to Rs167 as MOUs drop by 5.1% to 394 minutes. Traffic growth muted at just 3% QoQ**
- **Net debt reduces on lower capex in 1H due to lack of equipment imports. But 2H capex to compensate**
- **Valuations expensive at 9.4x & 7.8x EV/EBIDTA for FY11E & FY12E respectively. Prefer Bharti Airtel available at 6.9x FY12E EV/EBIDTA. Retain SELL rating with target Rs60**

Revenue growth absent, profits miss estimates

Idea Q2FY11 cons. PAT of Rs1.8bn was lower than our and consensus estimate of Rs2bn. The revenues remained flat sequentially at Rs36.6bn due to sharp 8.3% fall in ARPU. EBIDTA declined by 1% QoQ to Rs8.8bn v/s estimate of Rs9.2bn. EBIDTA margins declined by 30bps QoQ due to higher employee costs. Cons. PAT declined by 10.8% QoQ to Rs1.8bn. Poor revenue show which is partially explained by a weak quarter has been the key disappointment during the quarter.

ARPU falls by sharp 8.3% on 5% fall in MOU

Although the subscriber growth remained healthy at 8.7% QoQ, the ARPU fall of 8.3% resulted in flat revenues sequentially. ARPU fall was due to 5.1% fall in MOU and 3.3% decline in RPM to Re0.42/ minute. Overall traffic growth for the quarter was subdued at just 3% QoQ v/s that of 18-20% witnessed during the last two quarters.

Established circles EBIDTA declines 3% QoQ

Idea's revenues in established circles have decreased by 1% QoQ while the EBIDTA in the same has witnessed 3% decline sequentially. The EBIDTA margins of the established circles have reduced by 60bps QoQ to 27%. Moreover, despite 10% QoQ revenue growth in new circles, the EBIDTA losses in new circles increased by 2%.

H2 to see high capex of Rs32bn

While Idea has kept its FY11E capex guidance at Rs40bn, it has spent just Rs8bn in H1 due to issues pertaining to equipment imports. Hence Idea would witness capex of ~Rs32bn in H2 which would increase its net-debt from current level of Rs93bn as it generates ~Rs7bn of cash profits every quarter. We estimate Idea's net-debt to increase from Rs93bn in Q2FY11 to Rs115bn by Q4FY11, which implies net-debt/ EBIDTA of 3.1x for FY11E.

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

Although we maintain our FY11E estimates factoring recovery in subsequent quarters, we await consensus downgrades to follow. At CMP of Rs72, Idea trades at 9.4x and 7.8x EV/EBIDTA and 30.7x and 26.9x estimated EPS of Rs2.3 and Rs2.7 for FY11E and FY12E respectively. We maintain SELL rating on the stock with target price of Rs60, on expensive valuations and relatively higher balance sheet risks. We like Bharti Airtel as preferred play in India telecom sector given superior return profile and cheaper valuations of 6.9x EV/EBIDTA FY12E.

Financial Snapshot

Rs Mn

Y/E-	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (%)	EV/EBITDA	P/BV	P/E
Mar										
FY09	101,313	28,134	27.8	8,816	2.7	(32.4)	10.5	10.5	1.8	27.0
FY10	123,979	33,580	27.1	9,222	2.8	4.6	7.5	9.3	2.1	25.8
FY11E	155,368	37,624	24.2	7,744	2.3	(16.0)	6.6	9.4	2.0	30.7
FY12E	176,990	44,622	25.2	8,824	2.7	13.9	7.0	7.8	1.8	26.9

Quarterly financials

	Q210	Q310	Q410	Q111	Q211	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	Q210	Q310	Q410	Q111	Q211	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	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111	Q211
Subscribers ('000)	30,380	34,211	38,889	42,769	46,758	52,264	63,800	68,300	74,214
QoQ %	11.7	12.6	13.7	10.0	9.3	11.8	22.1	7.1	8.7
ARPU (Rs)	261	266	255	232	209	200	185	182	167
(% QoQ)	-6.1	1.9	-4.1	-9.0	-9.9	-4.3	-7.5	-1.6	-8.2
MOU (mins)	421	416	402	399	375	389	398	415	394
(% QoQ)	-2.3	-1.2	-3.4	-0.7	-6.0	3.7	2.3	4.3	-5.1
RPM (Rs)	0.62	0.64	0.63	0.58	0.56	0.51	0.46	0.44	0.42
(% QoQ)	-3.9	3.1	-0.8	-8.3	-4.1	-7.8	-9.6	-5.7	-3.3
Total traffic (mn)	36,315	40,254	44,224	48,729	50,339	57,841	68,275	82,274	84,828
(% QoQ)	9.8	10.8	9.9	10.2	3.3	14.9	18.0	20.5	3.1

Financials**Profit & Loss**

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Net Sales	101,313	123,979	155,368	176,990
<i>Growth (%)</i>	50.8	22.4	25.3	13.9
Personnel exp	5,245	6,451	7,147	7,788
Network optg exp	21,078	31,270	43,192	48,849
License & WPC charges	11,239	13,468	18,023	20,531
Roaming & Access chg	18,442	18,001	24,393	26,725
Subs acq & advt exp	12,843	15,818	18,597	21,182
Admin & other exp	4,183	5,087	6,215	7,080
EBITDA	28,134	33,580	37,624	44,622
<i>EBITDA %</i>	27.8	27.1	24.2	25.2
Depreciation	14,028	20,149	24,285	29,472
EBIT	14,106	13,430	13,340	15,150
<i>EBIT %</i>	13.9	10.8	10.8	12.2
Interest	4,945	4,005	4,835	4,869
Other Income	231	1,011	100	100
PBT	9,391	10,437	8,604	10,381
Taxes	576	1,214	860	1,557
PAT	8,816	9,222	7,744	8,824
E/O items	0	0	0	0
Net profit	8,816	9,222	7,744	8,824
<i>Growth (%)</i>	-15.4	4.6	-16.0	13.9

Cash Flow Statement

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
EBT	14,106	13,747	13,340	15,150
Depreciation	14,028	20,149	24,285	29,472
Interest (Net)	(666)	(324)	(4,835)	(4,869)
Tax Paid	(1,463)	(1,214)	(860)	(1,557)
Change in WC	(4,133)	(7,504)	17,582	8,253
Others	770	567	100	100
Operating cash flow	22,642	25,421	49,611	46,550
Net Capex	(62,157)	(41,580)	(100,000)	(41,000)
Free cash flow	(39,515)	(16,159)	(50,389)	5,550
Invst & Others	(38,078)	12,049	11,304	0
Investing cash flow	(100,235)	(29,532)	(88,696)	(41,000)
Equity Issue	72,945	23	0	0
Net Borrowings	15,974	(24,034)	40,000	(1,000)
Others	13,109	157	0	0
Financing cash flow	102,027	(23,854)	40,000	(1,000)
Incr/(decr) in cash	24,434	(27,964)	914	4,550
Opening Cash	6,429	30,864	2,900	3,814
Closing Cash	30,864	2,900	3,814	8,364

Balance Sheet

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Equity Capital	31,183	33,443	33,443	33,443
Reserves & surplus	106,714	85,299	85,299	85,299
P&L a/c	(5,263)	(5,038)	2,706	11,531
Net worth	132,634	113,704	121,448	130,272
Total Debt	89,122	78,593	118,593	117,593
Deferred tax	1,149	2,161	2,161	2,161
Capital Employed	222,905	194,459	242,203	250,027
Gross Block	205,234	270,585	314,585	395,585
Less Depreciation	59,971	88,907	113,191	142,663
Net Fixed Assets	145,263	181,679	201,394	252,922
Goodwill	22,457	61	61	61
CWIP	21,409	5,465	61,465	21,465
Current assets				
Inventory	521	536	426	485
Debtors	3,618	4,656	4,257	4,849
Cash and Bank	30,864	2,900	3,814	8,364
Other CA	1,861	2,979	637	725
Loans & Adv	16,821	25,559	21,229	19,344
Total Cur. Assets	53,685	36,630	30,363	33,767
Current Liabilities	40,361	40,680	51,080	58,188
Net Current Assets	13,324	(4,050)	(20,717)	(24,421)
Capital Deployed	202,453	183,155	242,203	250,027

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA %	27.8	27.1	24.2	25.2
NPM %	8.7	7.4	5.0	5.0
ROCE %	8.7	6.4	6.1	6.2
ROE %	10.5	7.5	6.6	7.0
ROIC %	10.0	7.0	6.2	6.3
Per Share Data (Rs)				
EPS	2.7	2.8	2.3	2.7
Cash EPS	6.9	8.9	9.7	11.6
Book Value	40	34	37	39
Valuations (x)				
PE (x)	27.0	25.8	30.7	26.9
Cash PE (x)	10.4	8.1	7.4	6.2
P/BV (x)	1.8	2.1	2.0	1.8
EV/Sales (x)	2.9	2.5	2.3	2.0
EV/EBITDA	10.5	9.3	9.4	7.77
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.7	0.9	0.8
Net Debt/ EBITDA	2.1	2.3	3.1	2.4

Recommendation History: Idea Cellular – IDEA IN

Date	Reports	Reco	CMP	Target
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
07/11/2008	Idea Cellular Q2FY09 Update	Hold	48	57

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/10/2010	LMW Q2FY11 Result Update	Hold	2,766	2,660
21/10/2010	Sterlite Tech Q2FY11 Result Update	Hold	92	100
27/08/2010	Bharti Airtel Company Update	Hold	316	346
16/08/2010	Reliance Communication Q1FY11 Result Update	Hold	168	180

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.