


**Q3FY10 Result Update**

February 05, 2010

Idea recently declared its Q3FY10 results. It reported consolidated revenues of Rs.3,135.8 cr up by 14.9% Y-o-Y and up by 5.6% Q-o-Q. EBIDTA for the quarter increased by 16.8% Y-o-Y to Rs.814.1 cr. It reported a consolidated PAT of Rs.170.1 cr for Q3FY10 (compared to Rs.219.5 cr for Q3FY09 and Rs.220.2 cr for Q2FY10). PAT margins contracted by 260 bps Y-o-Y and dipped by 200 bps Q-o-Q to 5.4%. The consolidated performance includes proportionate line by line consolidation of 41% stake in Spice JV and proportionate consolidation of 16% stake in Indus JV.

**Quarterly Financials - Consolidated**

	Rs.Cr.							
Rs. Cr.	Q3FY10	Q3FY09	% Chg	Q2FY10	% Chg	9MFY10	9MFY09	% Chg
Net Sales	3135.8	2728.6	14.9%	2968.2	5.6%	9078.9	7201.2	26.1%
Other Operating Income	13.7	1.9	603.6%	5.7	140.7%	20.4	10.7	90.6%
Total Revenue	3149.5	2730.5	15.3%	2973.9	5.9%	9099.3	7211.9	26.2%
Operating Expenses								
- Cost of Trading Goods	7.5	5.2	42.7%	7.4	0.3%	22.2	7.7	188.6%
- Personnel Exp	178.4	145.7	22.4%	166.3	7.3%	489.3	380.2	28.7%
- Network Opex	793.7	605.5	31.1%	761.4	4.2%	2305.6	1429.6	61.3%
- Licence & WPC Charges	345.2	298.3	15.7%	332.0	4.0%	1014.1	800.0	26.8%
- Roaming & Access Charges	453.3	508.3	-10.8%	418.4	8.3%	1293.7	1331.0	-2.8%
- Subs Acq, Servicing, Advt & Bus Prom Expenses	424.1	356.8	18.9%	356.7	18.9%	1114.1	931.1	19.7%
- Other Opex	133.2	113.8	17.0%	122.2	9.0%	376.8	308.6	22.1%
Total Opex	2335.3	2033.6	14.8%	2164.4	7.9%	6615.7	5188.2	27.5%
<b>EBIDTA</b>	<b>814.1</b>	<b>696.9</b>	<b>16.8%</b>	<b>809.5</b>	<b>0.6%</b>	<b>2483.6</b>	<b>2023.7</b>	<b>22.7%</b>
<i>EBIDTA Margins %</i>	<i>26.0%</i>	<i>25.5%</i>		<i>27.3%</i>		<i>27.4%</i>	<i>28.1%</i>	
Other Income	0.0	0.6	-100.0%	31.7	-100.0%	31.7	0.9	3628.2%
Interest	93.8	87.4	7.4%	105.7	-11.3%	286.4	389.7	-26.5%
Depreciation	513.1	393.7	30.3%	479.7	7.0%	1448.2	971.8	49.0%
PBT	207.3	216.4	-4.2%	255.9	-19.0%	780.6	663.1	17.7%
<i>PBTM %</i>	<i>6.6%</i>	<i>7.9%</i>		<i>8.6%</i>		<i>8.6%</i>	<i>9.2%</i>	
Tax	37.2	-3.1	-1299.7%	35.7	4.1%	93.3	36.5	155.8%
<i>Effective Tax Rate %</i>	<i>17.9%</i>	<i>-1.4%</i>	<i>-1352.1%</i>	<i>14.0%</i>	<i>28.5%</i>	<i>11.9%</i>	<i>5.5%</i>	<i>117.3%</i>
<b>PAT</b>	<b>170.1</b>	<b>219.5</b>	<b>-22.5%</b>	<b>220.2</b>	<b>-22.7%</b>	<b>687.3</b>	<b>626.6</b>	<b>9.7%</b>
<i>PATM %</i>	<i>5.4%</i>	<i>8.0%</i>		<i>7.4%</i>		<i>7.6%</i>	<i>8.7%</i>	
Equity*	3299.3	3100.1	6.4%	3299.3	0.0%	3299.3	3100.1	6.4%
<b>EPS</b>	<b>0.5</b>	<b>0.7</b>	<b>-27.2%</b>	<b>0.7</b>	<b>-17.8%</b>	<b>2.1</b>	<b>2.0</b>	<b>3.1%</b>

\*Assumed to be diluted post Spice merger

(Source: Company Press Release)

**Quarterly Financials – Consolidated Segmental**

	Rs.Cr.							
Segment Revenue	Q3FY10	Q3FY09	% Chg	Q2FY10	% Chg	9MFY10	9MFY09	% Chg
Mobility	3123.5	2736.4	14.1%	2926.1	6.7%	9047.4	7198.9	25.7%
Long Distance	363.8	192.9	88.6%	269.0	35.2%	858.0	472.5	81.6%
Passive Infrastructure	248.1	22.8	988.6%	224.7	10.4%	692.8	31.5	2101.3%
Total	3735.4	2952.2	26.5%	3419.8	9.2%	10598.1	7702.9	37.6%
Inter Segment Eliminations	599.5	223.6	168.1%	451.6	32.8%	1519.2	501.7	202.8%
<b>Net Sales</b>	<b>3135.8</b>	<b>2728.6</b>	<b>14.9%</b>	<b>2968.2</b>	<b>5.6%</b>	<b>9078.9</b>	<b>7201.2</b>	<b>26.1%</b>
<b>Segment Results</b>								
Mobility	98.3	290.2	-66.1%	251.0	-60.8%	631.8	1032.0	-38.8%
Long Distance	175.4	39.0	350.1%	97.5	79.9%	352.5	57.8	510.3%
Passive Infrastructure	27.4	-25.4	-207.9%	13.1	109.7%	82.7	-37.0	-323.7%
PBIT	301.1	303.7	-0.9%	361.6	-16.7%	1067.0	1052.8	1.4%
Interest	93.8	87.4	7.4%	105.7	-11.3%	286.4	389.7	-26.5%
<b>PBT</b>	<b>207.3</b>	<b>216.4</b>	<b>-4.2%</b>	<b>255.9</b>	<b>-19.0%</b>	<b>780.6</b>	<b>663.1</b>	<b>17.7%</b>
<b>Capital Employed</b>								
Mobility	13940.2	15143.0	-7.9%	14008.4	-0.5%	13940.2	15143.0	-7.9%
Long Distance	564.9	68.3	727.4%	389.7	45.0%	564.9	68.3	727.4%
Passive Infrastructure	3324.6	617.5	438.4%	3234.7	2.8%	3324.6	617.5	438.4%
Unallocated	3723.2	8601.9	-56.7%	3529.3	5.5%	3723.2	8601.9	-56.7%
<b>Total</b>	<b>21552.8</b>	<b>24430.6</b>	<b>-11.8%</b>	<b>21162.0</b>	<b>1.8%</b>	<b>21552.8</b>	<b>24430.6</b>	<b>-11.8%</b>

(Source: Company Press Release)

**Some of the key highlights of the results are as follows:**

- Idea on a standalone basis added 5.5 mn subscribers in Q3FY10 taking the total number to 52.3 mn. Spice has a total subscriber base of 5.35 mn subscribers as on December 2009. On a consolidated basis, the total number of subscriber base is 57.65 mn in end of Q3FY10 with a national market share of 11%.
- On a consolidated basis, revenue for the quarter stood at Rs.3,135.8 cr, up by 14.9% y-o-y and up by 5.6% q-o-q. Idea reported wireless revenue of Rs.2,822.6 cr in 11 old circles, up by 9.7% y-o-y and up by 4.2% q-o-q on a standalone basis. In the 3 new service areas, Idea recorded revenues of Rs.238.4 cr in Q3FY10 up by 30.8% q-o-q. NLD revenues grew sharply by 88.6% y-o-y and up by 35.2% q-o-q to Rs.363.8 cr. Long Distance witnessed the best PBIT level in atleast 10 quarters. Passive infrastructure recorded revenues of Rs.248.1 cr in Q3FY10. Total revenues for Q3FY10 grew by 14.9%.
- Revenue growth from recharge fee (due to migration of existing subscribers to lower price points) is lower than average revenue growth and hence was not significant contributor to Q3FY10 revenue.
- MOUs in Idea standalone were up from 375 in Q2FY10 and down from 410 in Q3FY09 to 389 in Q3FY10, down by 5.1% y-o-y and up by 3.7% q-o-q. According to the management, the sharp uptick in usage was due to elasticity to tariff cuts and seasonality. Revenue per minute (RPM) fell down from 56p to 51p on a q-o-q basis. Drop in MOUs and RPMs led to fall in ARPUs by 25.4% y-o-y and 4.3% q-o-q to Rs.200/user/month. This segment witnessed the lowest PBIT in atleast 10 quarters.
- Market share of Idea standalone in 11 old service areas fell to 15.5% in Q3FY10 falling for the fourth consecutive quarter. Prepaid churn rate in Idea standalone also rose to 9.4% in Q3FY10 vs. 4.4% in Q3FY09. This reflects rising competition activity. However, VAS as a percentage of revenues rose to 11.2%, highest in atleast 6 quarters.
- Idea has witnessed price erosion of 15% in the last 9 months on account of intensifying competition. It launched services in 7 circles in 9MFY10 and in 4 circles in Q3FY10 namely J&K, West Bengal, Kolkatta and Assam.
- EBITDA margin for the quarter stood at 26%, down 130 bps on a q-o-q basis, due to higher EBITDA losses in the newly launched service areas. Margin in the 11 old service areas was flat at 30.1%. The launch of J&K, West Bengal, Kolkatta and Assam in Q3FY10 increased the EBITDA losses for the new service areas. EBITDA contribution from Spice increased sequentially to Rs.149 cr vs. Rs.140 cr in Q2FY10.
- Spice witnessed revenue improvement as whole. However, there was severe pressure seen in the Karnataka circle and this coupled with new network rollouts has led to weaker margins in Q3FY10 to 11.2%. The management has indicated the coming quarters to witness improvement in operating performance as all the new rollouts have been completed.
- In Q3FY10, Idea modified price of stock options granted under its employee stock option schemes leading to one-off expense of INR 199mn in Q3FY10 which is included in the employee cost
- Idea trimmed down its capex from Rs.45 bn (post Q2FY10) to Rs.40 bn for FY10 (earlier Rs 60bn post Q4FY09 results) on account of lower MOU growth, lower traffic growth and to increase the productivity of existing cell-sites.
- Idea (incl. Spice) rolled out 5,392 cell sites during Q3FY10, taking the total cell sites to 62,950. Total addition to the gross block including CWIP during the quarter for Idea (standalone) and Spice (@ 100%) was around Rs.9 bn.
- Idea standalone reported forex gain of Rs.12 cr this quarter vs. forex loss of Rs.3.8 cr in Q2FY10. Effective tax rate jumped to 17.9% in Q3FY10 from 14% in Q2FY10. There is no current tax due to carry forward losses and Section 80IA exemptions. The increase in deferred tax provision mostly reflects the impact of de-merger of passive cellular infrastructure to ICTIL (100% subsidiary of ABTL) from Idea. The deferred tax could increase gradually going forward due to the restructuring activities being undertaken by Idea.
- Idea reported PAT of Rs.170.1 cr lower by 22.5% y-o-y and down by 20.7% q-o-q on account of incremental losses of new circles, absence of one-time income in Q2FY10 and incremental charge made in case of ESOP pre-pricing during the quarter.
- Net debt as of Q3FY10 was Rs.37.5 bn and cash on hand was Rs.21 bn.
- As per the management, Idea sees greater headroom for capacity utilization as its cell sites are comparatively new and its operating expenditure are not in line with the increase in sites.
- Also, elasticity is being witnessed more among the rural consumers than the high income group people and the management doesn't see the volumes rising too sharply going forward.
- We expect the revenue to be sluggish for the next few quarters giving the entry of new operators with aggressive pricing.

### Concerns

- Competitive pricing pressures (including from new players) to put pressure of MOUs and ARPU's.
- New rollouts could lead to dip in margins.
- Overbidding for 3G.
- Faster rollout of MNP could pose a threat to Idea.

### Conclusion

Idea is a unique wireless play in a tough industry environment with superior spectrum profile, as well as a new entrant capitalising on new growth opportunities. As Idea enters new circles, net adds could increase and revenues could get a boost. However, this may happen only in FY11 as new circles mean initial losses and could take a few quarters to break even. As per the management, further pricing pressure could lead to faster consolidation in the industry.

Idea reported poor performance at the PAT level but showed improvement in revenues despite aggressive pricing pressure due to the entry of new operators in the industry. The management has indicated that the peak losses were reported in Q3FY10 but the full impact of the same could be felt in Q4FY10 and this could bring further pressure on the margins. However, with four new launches in Q3FY10, we expect the losses to continue for a few more quarters and impact the financials of the company in FY11 also. While the impact of price competition is visible in revenue per minute, the MoU may take more time to expand.

We are maintaining our FY10 quick estimates and introducing FY11 estimates. In our report dated October 30, 2009, we had stated that Idea could trade in the Rs.44 to 59 band for the next quarter. Post the issue of the report, the stock touched a high of Rs.63 on December 24, 2009 and a low of Rs.47.1 on November 11, 2009. At the CMP, the stock is trading at 21.3x FY10E earnings of Rs.2.8 and 32.6x FY11E earnings of Rs.1.8. This compares with Bharti, which is available at 12.3x FY10E EPS and 14.2x FY11E EPS. While part of this discount is justified because the growth rate in topline in Idea's case could be more than that of Bharti for the next few years, the difference is still large.

We think the stock could trade in the Rs.51 (28x FY11E EPS) – Rs.62 (34x FY11E EPS) band for the next quarter.

Particulars (Rs in Crs)	FY08	FY09	FY10 (E)*	FY11 (E)*
Operating income	6720.0	10125.2	12009.6	13570.8
PBIDT	2269.3	2835.3	3286.3	3433.6
PBIDTM (%)	33.8%	28.0%	27.4%	25.3%
Profit after Tax	1042.4	900.9	910.2	593.6
PATM (%)	15.5%	8.9%	7.6%	4.4%
EPS	4.0	2.9	2.8	1.8
P/E (x)	14.8	20.2	21.3	32.6

\*E- Estimates

(Source: Company, HDFC Sec Estimates)

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