

26th July 2010

Key Data	INR
CMP	69
Target Price	76
Bloomberg Code	IDEA IN
Reuters Code	IDEA.BO
BSE Code	532822
NSE Code	IDEA
Face Value (INR)	10
Market Cap (INR Bn)	233
52 Week High (INR)	84
52 Week Low (INR)	47
Avg. Daily Volume (6m)	6965847
F & O	
Market Lot	4000
Turnover (INR Mn)	1679

Shareholding	%
Promoters	47.0
Mutual Funds / Bank/ FI	5.5
Foreign Institutional Investors	6.1
Insurance Companies	2.3
Others	39.3
Total	100.0

Idea Cellular Ltd

Idea Cellular Ltd (Idea) reported 1Q FY11 results. It recorded 68.9 million customers as on June 2010. The revenue market share (RMS) for the company, including the Punjab and Karnataka service areas, for Q4FY10 stands at 12.6%, while for the Established service areas the RMS is at 17.3%. In the recently concluded 3G spectrum auction, Idea won spectrum in 11 out of 22 service areas, covering ~80% of its existing revenue.

KEY HIGHLIGHTS FOR 1Q FY11

- Idea' consolidated total revenue grew by 23% YoY and 9% QoQ. This is mainly on account of full quarter consolidation of Spice and strong minutes growth. Idea's overall minutes grew by 14 billion in June quarter and were up 21% QoQ to 82.3bn. The ARPU has fallen by 1.6% to INR182, the lowest decline in the past few quarters.
- EBITDA margin declined sharply to 24.3%, from 27.6% in the previous quarter. Decline in EBITDA is mainly due to provision for higher spectrum charges and amalgamation of Spice as Spice has lower margins compared to Idea.
- Idea's net profit declined 32.2% YoY. This is mainly on account of lower EBITDA and higher interest cost.
- The capex guidance for FY11 has been revised from INR30 billion to INR40-45 billion including capex for 3G.

VALUATION AND RECOMMENDATION

Idea's traffic growth during the first quarter offset the tariff decline thereby leading to growth in revenues. The margins were however under pressure on account of higher spectrum charges and consolidation of Spice. Going forward we expect the revenues to improve for the company in view of the robust subscriber growth and MOU elasticity witnessed by the company. Further we believe that contribution from Indus will also boost the revenues for Idea.

Further we also expect the net profits to be under pressure on account of higher depreciation and interest due to 3G.

In view of this, we maintain our "HOLD" recommendation with a revised price target of INR76. Based on our SOTP valuation on DCF method, we have valued Idea Cellular as under

SOTP Valuation	DCF target
Core business	53
Indus Towers	23
Total	76

Source: ACMIIL research.

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Segment Financials

INR Mn	Jun-10	Jun-09	Chg.	Mar-10	Chg.
Gross revenue	36536	29760	22.8	33477.8	9.1
Established circles	33833	28815	8.4	31239.4	8.3
New Launches	3063	1427	93.5	2761.4	10.9
Indus	2554	1990	17.3	2335	9.4
<i>Inter segment eliminations</i>	-2914	-2472	-	-2858	2.0
Ebitda	8883	8600	3.3	9236	-3.8
Established circles	9337	8639	8.1	9823	-4.9
New Launches	-1401	-644	117.5	-1422	-1.5
Indus	947	605	-	835	13.4
Ebitda Margin	24.3	28.9	-4.6	27.6	-3.3
Established circles	27.6	30.0	-2.4	31.4	-3.8
New Launches	-45.7	-45.1	-	-51.5	5.8
Indus	37.1	30.4	6.7	35.8	1.3
PAT	2014	2971	-32.2	2666	-24.5
Pat Margin	5.5	10.0	-4.5	8.0	-2.5

Source: Company

Established Circles (Incumbent as well as new circles of HP, Rajasthan and UP-East and Spice circles)

The established circles continue to contribute major share, as high as 93%, to total revenues of Idea. These circles recorded 17.4% YoY growth and 8.3% growth sequentially in 1QFY11 to earn INR33, 833 million in June 2010. With the merger of Spice circles the established circles revenues also include revenues from the Spice circles. Further on account of provision of higher spectrum charges and the impact of Spice amalgamation for the full quarter the margins for the established circles reduced from 30% in March 2010 to 27.6% in June 2010. March 2010. Idea continues to experience declining market share in its established circles.

New Launches

After achieving pan India presence, Idea's subscriber base in the new launches has gone up from 7.3 million subscribers in March 2010 to 8.5 million subscribers in June 2010.

The new launches have registered robust growth in revenues, mainly led by launch in all remaining circles. Also EBITA losses have been contained during the quarter for the new launches.

Financials

Interim Results					INR Mn
Particulars	1QFY11	1QFY10	%YoY Chg.	4QFY10	%QoQ Chg.
Net Sales	33478.0	29364.9	14.0	31494.7	6.3
Total expenditure	24242.4	20415.6		23353.3	
Operating Profits	9235.6	8949.3		8141.4	
Other Income	519.4	0		0.0	
EBIDT	9755.0	8949.3	20.3	8141.4	19.8
Depreciation	5666.7	5162.5		5130.5	
EBIT	4088.3	3786.8		3010.9	
Interest	1140.9	1046.5		937.9	
Earnings Before Tax	2947.4	2740.3		2073	
Tax	281.3	-2.3		371.9	
Net Profits	2666.1	2742.6	-2.8	1701.1	56.7
Equity Share capital	32998.4	31001.0		31001.0	
EPS (Rs.)	0.8	0.9		0.5	
CEPS (Rs.)	2.5	2.3		2.2	
Profitability					
EBIDT (%)	29.1%	27.6%		25.9%	
PATM (%)	8.0%	9.3%		5.4%	

Source: Company

- Idea' consolidated total revenue grew by 23% YoY and 9% QoQ. This is mainly on account of full quarter consolidation of Spice and strong minutes growth
- Idea's overall minutes grew by 14 billion in June quarter and were up 21% QoQ to 82.3bn. Some of this growth can be attributed to the full quarter impact of Spice .The ARPU has fallen by 1.6% to INR182, the lowest decline in the past few quarters.
- EBITDA margin declined sharply to 24.3%, from 27.6% in the previous quarter. Decline in EBITDA is mainly due to provision for higher spectrum charges and amalgamation of Spice as Spice has lower margins compared to Idea.
- Idea's net profit declined 32.2% YoY. This is mainly on account of lower EBITDA and higher interest cost.
- The capex guidance for FY11 has been revised from INR30 billion to INR40-45 billion including capex for 3G.

Revision in our Estimates

- We have revised our topline estimates for Idea mainly on account of its robust subscriber growth and MOU elasticity being registered by the company in its established circles as well as through new launches. Further contribution from Indus will also add to the revenues for Idea.
- We expect network cost to remain high due to network cost being incurred on 3G, higher spectrum charges and consolidation of Spice. However we expect that EBITDA losses from the new circles to peak in FY11 which would contain the decline in margins in FY12.
- We raise our depreciation and interest cost estimates for Idea to account for higher capex on account of 3G and debt cost. We believe that the balance sheet may be stretched in case of 3G auctions.

Particulars	FY11			FY12		
	Original Estimates	Revised Estimates	% Change	Original Estimates	Revised Estimates	% Change
Revenues	146636.9	153745.6	4.8	153717.2	176599.1	14.9
EBITDA	37829.2	38607.7	2.1	39477	45292.0	14.7
Net Profit	6516.2	5418.6	-16.8	5332.9	5096.0	-4.4
EBITDA Margin	25.8%	25.1%	-0.7	25.7%	25.6%	-0.1
NPM	4.4%	3.5%	-0.9	3.5%	2.9%	-0.6
EPS	2.0	1.6	-17.9	1.6	1.5	-3.5

Source: ACMIL Research.

VALUATION AND RECOMMENDATION

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Earnings Summary				INR Mn
Particulars	FY09	FY10	FY11E	FY12E
Net Sales	101312.9	124470.8	153745.6	176599.1
Total Expenditure	73179.4	90399.3	115599.1	131836.9
Operating Profits	28133.5	34071.3	38146.5	44762.2
Other income	230.9	836.3	461.2	529.8
EBDIT	28364.4	34907.6	38607.7	45292.0
Depreciation	14027.9	20149.1	25371.8	30466.8
EBIT	14336.5	14758.5	13235.9	14825.2
Interest	4945.2	4005.2	6861.1	8830.0
PBT	9391.3	10753.3	6374.8	5995.2
Taxes	575.6	1214.1	956.2	899.3
Net Profits	8815.7	9539.4	5418.6	5096.0
Growth in sales (%)	50.8%	22.9%	23.5%	14.9%
Operating Profits Growth (%)	24.9%	21.1%	12.0%	17.3%
PAT Growth (%)	-15.4%	8.2%	-43.2%	-6.0%
Operating Profit Margin (%)	27.8%	27.4%	24.8%	25.3%
Net Profit Margin (%)	8.7%	7.7%	3.5%	2.9%

Source: Company reports and ACMIIL estimates

Balance Sheet				INR Mn
Particulars	FY09	FY10E	FY11E	FY12E
Sources of Funds				
Share Capital	31020.0	33017.0	33017.0	33017.0
Reserves and Surplus	106714.0	80261.0	85679.6	90775.6
Outstanding Stock Options	182.0	444.0	444.0	444.0
Total Shareholders Funds	137916.0	113722.0	119140.6	124236.6
Total Loan Funds	89122.0	78593.0	136593.0	151593.0
Net Deferred Tax Liability	1129.9	2142.0	2142.0	2142.0
Total Capital Employed	228167.9	194457.0	257875.6	277971.6
Application of Funds				
Gross Block	205234.2	270585.0	366085.0	402585.0
Less: Accumulated Depreciation	59970.8	88907.0	114278.8	144745.6
Net Block	145263.4	181678.0	251806.2	257839.4
Capital Work in Progress	21408.6	5465.0	11965.0	15465.0
Goodwill on Consolidation	22457.4	61.0	61.0	61.0
Investments	20451.9	5451.9	5451.9	5451.9
Net Current Assets	13324.1	1801.1	-11408.5	-845.7
Profit and Loss account	5262.5	0.0	0.0	0.0
Total Assets	228167.9	194457.0	257875.6	277971.6

Source: Company reports and ACMIIL estimates

Cash Flow Statement				INR Mn
Particulars	FY09	FY10E	FY11E	FY12E
Pre tax profits	9391.3	10753.3	6374.8	5995.2
Operating Profit before WC changes	28237.9	30351.3	38950.4	45623.8
Cash from Operations	22642.1	18154.6	46537.1	37529.7
Cash from Investment activities	-100234.9	-34407.1	-102000.0	-40000.0
Cash from Finance	102027.2	-5861.4	51138.9	6170.0
Total cash generated	24434.4	-22113.9	-4324.0	3699.7
Cash at the beginning	4974.5	30864.0	8750.0	4426.0
Add: Cash acquired on take over	1455.0	0.0	0.0	0.0
Cash Balance	30864.0	8750.0	4426.0	8125.7

Source: Company reports and ACMIIL estimates

Key ratios				
Particulars	FY09	FY10E	FY11E	FY12E
Profitability Ratios				
Operating Profit Margin (%)	27.8	27.4	24.8	25.3
EBIDTA Margin (%)	28.0	28.0	25.1	25.6
PAT Margin (%)	8.7	7.7	3.5	2.9
RONW (%)	10.5	7.7	4.7	4.2
ROCE (%)	8.3	7.0	5.9	5.5
Per Share Ratios				
Earnings (INR.)	2.8	2.9	1.6	1.5
Cash Earnings (INR.)	7.4	9.0	9.3	10.8
Book Value (INR.)	42.8	34.5	36.1	37.6
Valuation Ratios				
P/E (x)	-	-	41.7	44.4
Cash P/E (x)	-	-	7.3	6.4
P/BV (x)	-	-	1.9	1.8
Capital Structure Ratios				
Debt/Equity	0.6	0.7	1.1	1.2
Current Ratio	1.3	1.0	0.7	1.0
Turnover Ratios				
Debtors Turnover (x)	36.2	29.0	27.6	26.7
Fixed Asset Turnover (x)	0.9	0.8	0.7	0.7

Source: Company reports and ACMIIL estimates

Notes

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