Idea Cellular

Performance Highlights

Idea Cellular witnessed an impressive top-line performance, ahead of our and consensus estimates, backed by a 6.7% qoq growth in mobile gross revenues, with a strong addition of 6.1mn subscribers (including Spice) during the quarter. The growth was further boosted by the NLD and Passive Infrastructure businesses, which witnessed a 35% and a 10.4% qoq growth, respectively. However, on the Bottom-line front, the company underperformed our estimates, on account of tariff pressures and higher costs incurred on the launch of five new service areas. Thus, considering the deteriorating performance by the company, which is expected to continue for the next 2-3 quarters, we have downgraded our estimates by 10-15% over FY2010E-12E. **Further, considering the recent run-up in the stock price, coupled with its relative valuations, we recommend a Reduce on Idea.**

Strong top-line performance impacted by margin erosion: Idea recorded an impressive 5.9% qoq growth (15.3% yoy growth) in its overall Net Revenue in 3QFY2010, with the Mobile business's gross revenues growing by 6.7% qoq (14.4% yoy), followed by a 35.2% qoq (82.5% yoy) growth in the NLD (National Long Distance) business and a 10.4% qoq (robust growth yoy) in the Passive Infrastructure business on gross revenue levels. However, the EBIDTA margins (including Spice) contracted by 137bp qoq (up 33bp yoy), mainly due to a Rs129cr loss incurred at the EBIDTA level, on account of new launches in five service areas during the quarter, coupled with a 180bp qoq depletion in margins on the Spice front. Thus, on account of lower margins, and an increase in depreciation and the tax rate, the company reported a 22.5% qoq decline in the Bottom-line.

Outlook and Valuation: We expect Idea to record a 16.3% CAGR in its Top-line over FY2009-12E, aided by continued strong subscriber additions. However, intense competitive pressures are expected to restrict the Bottom-line growth to a 2% CAGR over this period, despite the competitive landscape expected to witness some consolidation and stability from FY2012E onwards. However, we believe that the recent run-up in the stock price has been ahead of times. At the CMP, the stock is trading at 21.4x its FY2012E EPS. **Hence, we recommend a Reduce on the stock, with a Target Price of Rs52, implying a forward P/E of 11x for its core business's FY2012E EPS of Rs2.9 and Rs20 per share for its 16% stake in Indus Towers.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	10,154	12,451	14,606	15,963
% chg	*51.1*	*22.6*	*17.3*	*9.3*
Net Profits	882	831	737	936
% chg	*(15.4)*	*(5.7)*	*(11.3)*	*27.1*
EBITDA Margin (%)	27.9	26.4	24.2	24.7
FDEPS (Rs)	2.7	2.6	2.3	2.9
P/E (x)	22.7	24.1	27.2	21.4
EV/EBITDA (x)	7.6	7.0	6.9	6.1
RoE (%)	10.1	5.8	4.9	5.9
RoCE (%)	6.3	5.8	5.3	6.1
Sales/GFA (x)	0.5	0.5	0.5	0.5
Gross Mobile ARPUs (Rs/user/month)*	264	211	186	175

Source: Company, Angel Research

Reduce

CMP	Rs62
Target Price	Rs52
Investment Period	15 Months

Stock Info	
Sector	Telecom
Market Cap (Rs cr)	19,190
Beta	1.1
52 WK High / Low	92/42
Avg. Daily Volume	21,59,449
Face Value (Rs)	10
BSE Sensex	16,780
Nifty	5,008
Reuters Code	IDEA.BO
Bloomberg Code	IDEA@IN

Shareholding Pattern (%)	
Promoters	49.1
MF/Banks/Indian FIs	9.3
FII/NRIs/OCBs	37.8
Indian Public	3.8

Abs. (%)	3m	1yr	3yr
Sensex	(0.2)	93.4	30.2
Idea	5.3	44.3	(27.6)*

*Note: * Since listing on 9th March, 2007*

Hitesh Agrawal
Tel: 022 – 4040 3800 Ext: 341
E-mail: hitesh.agrawal@angeltrade.com

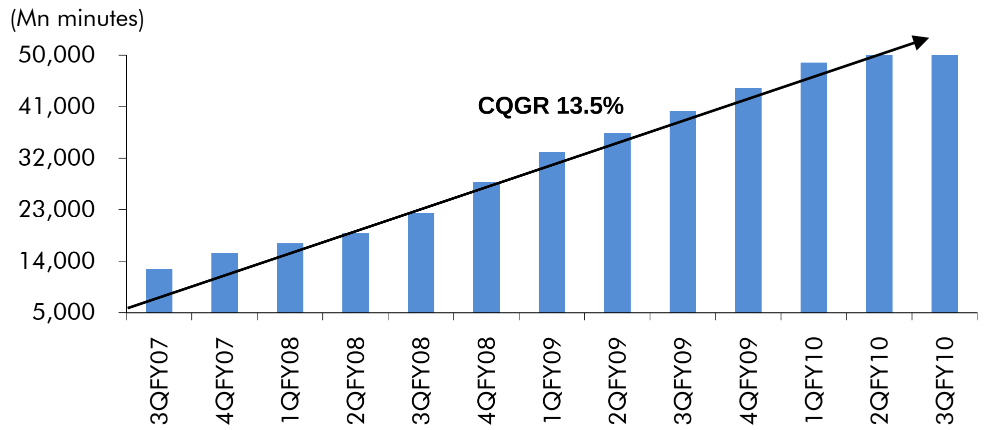
Vibha Salvi
Tel: 022 – 4040 3800 Ext: 329
E-mail: vibhas.salvi@angeltrade.com

Strong top-line growth attributed to Pick-up in rural demand

Idea Cellular recorded a 5.9% qoq growth in its consolidated top-line, on account of a revival in rural demand, which had impacted revenues in 2QFY2010 (contributes ~40% to the company's top-line). On yoy basis also, the top-line witnessed a strong growth of 15.3%. Idea's standalone subscribers moved up from 46.8mn in 2QFY2010 to 52.3mn in 3QFY2010 (34.2mn in 3QFY2009), while the total subscriber base (including Spice) has moved up from 51.5mn in 2QFY2010 to 57.6mn in 3QFY2010 (38mn in 3QFY2009). Minutes of Usage (MoUs) were up by 3.7% qoq (down 6.5% yoy) to 389 minutes for Idea standalone, while MoUs in Spice stood at 418 (down 15.4% yoy and 2.6% qoq). However, the Mobile ARPU (including Spice), was down by 23.9% yoy and 4.3% qoq to Rs206, while the Average Realised Rate (ARR) per minute was down by 8.9% qoq (20.3% yoy). In 3QFY2010, Idea Standalone recorded Rs238cr of Revenues from its newer circles, witnessing a growth of 30.8% qoq, with five new circles (J&K, Kolkata, West Bengal, Assam and NESA) launched in 3QFY2010, apart from Mumbai, Bihar, Orissa and Tamil Nadu launched in the previous quarters.

Segment-wise, the top-line growth (including Spice) was driven by a 6.7% qoq (14.4% yoy) growth in the Mobility services segment to Rs3,123cr. The growth was further fueled by National Long Distance (NLD) services, which grew by 35.2% qoq (82.5% yoy growth) in gross revenue to Rs364cr. The growth in NLD was transitory, as the company had not matched with the ongoing lower rates of peers; hence, it had witnessed slow growth in 2QFY2010 (against which, with lower NLD rates in 3QFY2010, the growth was strong). In addition to this, the company also witnessed an expansion in NLD optic fiber roll-out during the quarter. The gross revenues from Passive Infrastructure services were up by 10.4% qoq in 3QFY2010 to Rs248cr.

Exhibit 1: Growth Trend – Total Minutes of Usage (MOUs)



Source: Company, Angel Research

Continued EBIDTA losses in newer service areas and in Spice contracts' margins

Idea standalone continued to witness EBIDTA losses in its new service areas for the third consecutive quarter. The EBIDTA losses now include five new service areas (in addition to the earlier launched four) and the quantum stood at Rs 129cr in 3QFY2010 (Rs83cr EBIDTA loss in 2QFY2010 of four service areas). However, the existing 11 areas witnessed flat qoq margins, while yoy margins were up by 67bp. The margins of Spice were also down by 180bp qoq (down 210bp yoy) on account of the erosion in ARR, due to tariff wars in the Karnataka circle, and the subdued performance of the Punjab circle, where Spice operates.

Thus, on a consolidated basis (including Spice) in 3QFY2010, Idea recorded a 137bp qoq contraction in EBITDA Margins (up 33bp yoy); cost-wise, this impact was mainly due to a 147bp increase in subscriber acquisition and business promotion expenses, and a 32bp increase in Roaming and Access Charges.

Higher depreciation and tax rate impact Bottom-line: The depreciation cost was up by 7% qoq (30.3% yoy), while the tax rate was up at 17.9% (vis-à-vis 14% in 2QFY2010), on account of an increase in deferred tax. However, the interest cost fell by 11% qoq (up 7.4% yoy). Further, on account of a one-time income of Rs31.7cr in 2QFY2010 and an incremental charge of Rs17.9cr in 3QFY2010 (Rs2cr in 2QFY2010), on account of ESOP re-pricing, the company reported a decline of 22.5% in the Bottom-line, both on a sequential and a yoy basis.

Exhibit 2: Segment-wise Gross Revenue Break-Up

Particulars (Rs cr)	3QFY09	2QFY10	3QFY10	% chg YoY	% chg QoQ
Mobility	2,730	2,926	3,123	14.4	6.7
National Long Distance	199	269	364	82.5	35.2
Passive Infrastructure Services	23	225	248	988.6	10.4
Other Operating Income	0	6	0		
Total Gross Revenues	**2,952**	**3,425**	**3,735**	**26.5**	**9.0**
Less: Inter-segment eliminations	221	452	586		
Total Net Revenues	**2,731**	**2,974**	**3,149**	**15.3**	**5.9**

Source: Company, Angel Research

Exhibit 3: Mobility Business – Operating Metrics (excluding Spice)

Rs cr	3QFY09	2QFY10	3QFY10	*Chg yoy %*	*Chg qoq %*
Revenues (Rs cr)	2,621	2,859	3,061	*16.8*	*7.1*
Mobile subscriber base (Mn)	34.2	46.8	52.3	*52.9*	*11.8*
Gross mobile ARPUs (Rs/month)	271	215	206	*(23.9)*	*(4.3)*
Total minutes of usage (Mn)	40,254	50,339	57,841	*43.7*	*14.9*
Minutes of use per user/month	416	375	389	*(6.5)*	*3.7*
Revenues per minute (Rs)	0.64	0.56	0.51	*(20.3)*	*(8.9)*
EBITDA (Rs cr)	680	731	720	*5.9*	*(1.4)*
EBITDA Margins (%)	25.9	25.6	23.5	*(2.4)*	*(2.0)*
EBITDA/minute (Rs)	0.17	0.15	0.12	*(26.3)*	*(14.2)*

Source: Company, Angel Research; Note: These metrics are for the 20 service areas that Idea currently operates in and do not include Spice Communications.

Exhibit 4: Revenue, EBITDA and EBITDA Margin Break-up – Consolidated

(Rs cr)	3QFY09	2QFY10	3QFY10	% chg yoy	% chg qoq
Revenues					
Established circles - 11	2,572	2,709	2,823	9.7	4.2
Newer circles - 9	48	182	238	-	30.8
Sub-total - 20 service areas*	**2,620**	**2,891**	**3,061**	**16.8**	**5.9**
Proportionate revenue - Spice	127	140	149	-	6.4
Proportionate revenue - Indus	17	193	222	-	15.1
Inter-segment eliminations	-	250	282	-	13.1
Total	**2,731**	**2,974**	**3,149**	**15.3**	**5.9**
EBITDA					
Established circles - 11	756	814	849	12.2	4.4
Newer circles - 9	(77)	(83)	(129)	-	-
Sub-total - 20 service areas*	**680**	**731**	**720**	**5.9**	**(1.4)**
Proportionate EBITDA - Spice	17	18	17	-	(8.2)
Proportionate EBITDA - Indus	-	61	77	-	27.2
Total	**697**	**810**	**814**	**16.8**	**0.6**
EBITDA Margins (%)					
Established circles - 11	29.4	30.0	30.1	0.7	0.0
Newer circles - 9	(158.4)	(45.6)	(54.0)	-	(8.5)
Sub-total - 20 service areas*	**25.9**	**25.3**	**23.5**	**(2.4)**	**(1.7)**
Proportionate EBITDA margins - Spice	13.3	13.0	11.2	(2.1)	(1.8)
Proportionate EBITDA margins - Indus	-	31.5	34.8	-	3.3
Total	**25.5**	**27.2**	**25.8**	**0.3**	**(1.4)**

Source: Company, Angel Research; New service area s include Mumbai, Bihar, Orissa, Tamil Nadu, J&K, Kolkatta, W.Bengal, Assam and NESA. Idea covers 20 service areas ex-Spice as on 3QFY10.

Exhibit 5: Operational Indicators Idea and Spice

		Idea Standalone			Spice		
	Unit	3QFY09	2QFY10	3QFY10	3QFY09	2QFY10	3QFY10
Operating Service Areas	no.	13	15	20	2	2	2
Subscriber Base	mn	34.2	46.8	52.3	3.8	4.7	5.3
Average Revenue Per User (ARPU)	Rs	268	209	200	284	226	214
Average Minutes of Use per User (MOU)	min	416	375	389	494	429	418
Average Realised Rate (ARR)	Rs	0.64	0.56	0.51	0.57	0.53	0.51
Total Minutes of Use (mn)	mn	40,254	50,339	57,841	5,460	5,735	6,317
Total Cell Sites (no.)	no.	39,289	50,915	55,804	4,848	6,643	7,146
Owned Towers	no.	17,830	8,033	8,306	-	-	-
Tenancy Ratio		1.5	1.5	1.6	-	-	-

Source: Company, Angel Research

Exhibit 6: 3QFY2010 Consolidated Financial Performance

Y/E March (Rs cr)	FY10 3Q	FY09 3Q	% chg (yoy)	FY10 2Q	% chg (qoq)	9MFY10	9MFY09	% chg
Net revenues	**3,149**	**2,731**	*15.3*	**2,974**	*5.9*	**9,099**	**7,212**	*26.2*
Operating expenditure	2,335	2,034	*14.8*	2,164	*7.9*	6,616	5,188	*27.5*
Operating profit (EBITDA)	**814**	**697**	*16.8*	**810**	*0.6*	**2,484**	**2,024**	*22.7*
Other income	-	0.6		32		32	1	
Interest charges (Net)	94	87	*7.4*	106	*(11.3)*	286	390	*(26.5)*
Depreciation & Amortisation	513	394	*30.3*	480	*7.0*	1,448	972	*49.0*
Income before income taxes	**207**	**216**	*(4.2)*	**256**	*(19.0)*	**781**	**663**	*17.7*
Tax	37	(3)		36		93	36	*155.8*
Net income	**170**	**219.45**	*(22.5)*	**220**	*(22.7)*	**687.33**	**626.61**	*9.7*
Diluted EPS (Rs)	**0.6**	**0.7**	*(22.5)*	**0.7**	*(22.5)*	**2.2**	**2.2**	*1.8*
EBITDA margin (%)	25.9	25.5		27.2		27.3	28.1	
Net profit margin (%)	5.4	8.0		7.4		7.6	8.7	
Mobile ARPUs (Rs/user/month)*	**206**	**271**	*(23.9)*	**215**	*(4.3)*	**219**	**273**	*(19.9)*

Source: Company, Angel Research

Outlook and Valuation

The Indian Telecom sector is currently undergoing a rough patch, with competition at its peak and subscriber loyalties at threat. Notably, to compete with its competitors tariffs, which went lower during the quarter, Idea also brought down its billing rates and initiated new customer friendly plans during the quarter, by apportioning additional recharge fees per client for migration from one plan to another (as per the respective plans). The company expects 2 new TSPs to enter the market in the next 6 months, which would further intensify the competition, resulting in the new operators bleeding more vis-à-vis the incumbents, on account of the capital intensive nature of the industry and too much competition within one circle. However, TRAI is currently working on the regularization of 3G auctions and M&A norms. The latter, which would result in the consolidation in the Indian Telecom Industry, would be a favorable move to discard any unhealthy competition and to promote steady growth of the sector.

Idea launched five new services areas during 3QFY2010, exhibiting its growing pan-India presence in the Indian Telecom market. The company incurred a capex of Rs9bn during the quarter, and has given a guidance for of Rs40bn for FY2010E (lowered from the earlier guidance of Rs45bn), excluding payouts to be made on account of the possible 3G auction. With the adverse Indian Telecom market scenario, we expect the margins of the company to be under pressure going, forward. However, Idea has already taken into consideration the worst case scenario, and has strong plans in place to face the upcoming challenges, supported by its strong Balance Sheet position.

Going forward, we expect Idea to record a 16.3% CAGR in its Top-line over FY2009-12E, aided by continued strong subscriber additions. However, intense competitive pressures are expected to restrict the Bottom-line growth to a 2% CAGR over this period, despite the competitive landscape expected to witness some consolidation and stability from FY2012E onwards. However, we believe that the recent run-up in the stock price has been ahead of times. At the CMP, the stock is trading at 21.4x its FY2012E EPS. **Hence, we recommend a Reduce on the stock, with a Target Price of Rs52, implying a forward P/E of 11x for its core business's FY2012E EPS of Rs2.9 and Rs20 per share for its 16% stake in Indus Towers.**

Research Team Tel: 022-4040 3800 E-mail: research@angeltrade.com Website: www.angeltrade.com

DISCLAIMER

Note: Please refer important `Stock Holding Disclosure' report on Angel web-site (Research Section).

Disclosure of Interest Statement	IDEA
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Broking relationship with company covered	No

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800