

COMMENT

Idea Cellular (IDEA.BO) Rs93.25

Equity Research

First Take: Inline operations; EPS miss due to finance expense/forex

News

Idea reported 2QFY12 revenues/EBITDA that were largely inline with our est. but net profit that was 32% below Bloomberg consensus/25% below GSe mainly due to higher net finance expense and forex. **Key positives:** 1) RPM (revenue per minute) continued to inch up and was up 4.1% qoq to Rs 0.43 likely due to some benefits from tariff hikes; 2) VAS as % of revenues increased from 12.1% in 1Q to 13.2% in 2Q implying initial benefits of 3G rollout; 3) As of Oct 16, Idea is leading the industry as the biggest gainer in MNP (net gain of 1.3 mn subs). **Key negatives:** 1) MOU was down 8% yoy/7% qoq due to more pronounced seasonality impact leading to 1.1% lower than estimated ARPU. 2) Net interest expense was up 7% qoq and 5% ahead of our est. due to higher expensing on net int. on 3G in our view. Forex expense was Rs 313 mn, higher than our est. of Rs 56 mn. Adjusted for forex, normalized net profit was 13% below our estimate; 3) Although EBITDA was inline with our est. it was 2% below consensus largely due to 15% qoq/8% qoq increase in personnel/roaming & access costs. Idea kept its FY12 capex guidance unchanged at Rs 40 bn.

Analysis

In our view Idea showed more pronounced seasonality impact (visible on MOU decline) as it has a higher proportion of rural subs (c.50% for Idea vs. c.40% for Bharti). Despite this, revenues were largely inline with consensus/GSe due to better than expected qoq increase in RPM. We expect Bharti also to show stable/to slightly higher qoq RPM change in 2Q and relatively lower seasonality impact give lower rural subs and as it is an integrated operator. We consider the forex impact for Idea to be largely a one-off impact given c. 10% of INR depreciation in 2Q and see room for some of it to be reversed.

Implications

We reiterate our Buy rating, but put our 12-m target price and estimates under review pending the earnings call later today.

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Asia Pacific Buy List

Coverage View: Neutral

Sachin Salgaonkar
+91(22)6616-9169 sachin.salgaonkar@gs.com Goldman Sachs India SPL

Paras Mehta
+91(22)6616-9049 paras.mehta@gs.com Goldman Sachs India SPL

Piyush Mubayi
+852-2978-1677 piyush.mubayi@gs.com Goldman Sachs (Asia) L.L.C.

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Exhibit 1: Idea: 2QFY12 results snapshot

IDEA – Consolidated (Rs mn)	2QFY11 Sep-10	1QFY12 Jun-11	2QFY12E Sep-11	2QFY12A Sep-11	% YoY	% QoQ	% vs. GS Est.
Revenue	36,367	45,158	46,515	46,078	26.7%	2.0%	-0.9%
Operating expenses	(27,804)	(33,167)	(34,690)	(34,333)	23.5%	3.5%	-1.0%
Personnel	(2,155)	(2,110)	(2,723)	(2,417)	12.1%	14.5%	-11.2%
Network	(10,091)	(11,156)	(11,923)	(11,423)	13.2%	2.4%	-4.2%
License & WPC	(4,178)	(5,116)	(5,340)	(5,132)	22.9%	0.3%	-3.9%
Roaming & access	(5,825)	(7,321)	(7,480)	(7,877)	35.2%	7.6%	5.3%
Subs Acquisition & Adv.	(4,015)	(5,492)	(5,179)	(5,422)	35.0%	-1.3%	4.7%
Admn. & Others	(1,541)	(1,972)	(2,044)	(2,062)	33.9%	4.6%	0.9%
EBITDA	8,563	11,991	11,825	11,745	37.2%	-2.1%	-0.7%
Depreciation & amortization	(5,820)	(7,026)	(7,295)	(7,369)	26.6%	4.9%	1.0%
EBIT	2,743	4,965	4,530	4,377	59.6%	-11.9%	-3.4%
Finance and treasury charges (net)	(1,079)	(2,450)	(2,513)	(2,626)	143.4%	7.2%	4.5%
Forex gain/ (losses)	51	(13)	(56)	(313)			
Other non-operating income	225	49	80	121	-46.3%	147.6%	51.4%
PBT	1,940	2,551	2,042	1,559	-19.7%	-38.9%	-23.7%
Tax	(143)	(778)	(629)	(501)	250.7%	-35.6%	-20.4%
Reported net profit	1,797	1,773	1,412	1,058	-41.2%	-40.3%	-25.1%
Normalized net profit	1,750	1,782	1,451	1,270	-27.4%	-28.7%	-12.5%
EBITDA margin	23.5%	26.6%	25.4%	25.5%			
Net margin	4.8%	3.9%	3.2%	2.8%			
Effective tax rate	7.4%	30.5%	30.8%	32.1%			
Wireless Operating Metrics							
ARPU (Rs)	167	160	157	155	-7.2%	-3.1%	-1.1%
MoU (mins)	394	391	385	364	-7.6%	-6.9%	-5.5%
ARPM (Rs/min)	0.42	0.41	0.41	0.43	0.5%	4.1%	4.7%

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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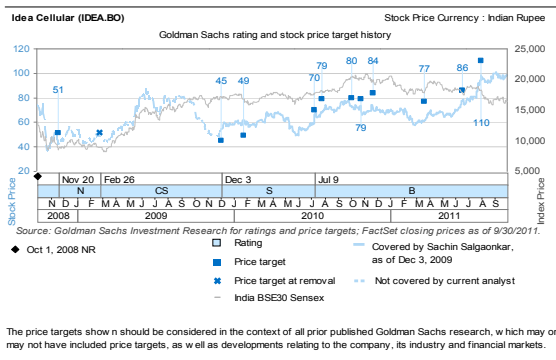
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Price target and rating history chart(s)



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