

SUSTAINING MARGINS AMID STIFF RIVALRY

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Idea Cellular Limited is ₹ 12398 crore (March 2010) company. It is a leading mobile service operator in India with about 68.9 million subscribers as on June'10. Idea Cellular along with Spice Communications and ABTL, is currently operating in all 22 service areas. India's total telecom subscriber base scaled to 635.5 million with tele-density touching 57%. **Currently, the stock is quoting at 26.4x on TTM EPS of ₹ 2.6. We recommend ACCUMULATE at current levels for FY11 price target of ₹ 78, an upside of 14%.**

HIGH CASH AVAILABILITY – PLANNED CAPEX – LOW DEBT

Conference Call Highlights

- ◆ Strong net subscriber additions mainly in its established circles boosted topline with consolidated revenues for 1Q FY11 at ₹ 3653.7 crore increase of 9% (Q-o-Q).
- ◆ Minutes of usage (MoU) on the network during 1Q FY11 showed 13% growth (Q-o-Q) while average revenue per minute had seen 5.4% fall to ₹ 0.44 per minute.
- ◆ The OPM for 1Q FY11 was down by 1.5% Q-o-Q to 24.3%. The drop in OPM was affected due to Spice amalgamation and a provision for higher spectrum charges.
- ◆ Operating profit was 3.8% down at ₹ 888.4 crore, however lower spending on promotions (2.4% lower Q-o-Q) prevented more steep decline.
- ◆ Interest & depreciation for 1Q FY11 were flat at ₹ 114.2 crore and ₹ 565.6 crore respectively, while extraordinary income was nil against ₹ 111.9 crore (Q-o-Q).
- ◆ Tax expense during 1Q FY11 showed 74% decline (Q-o-Q) at ₹ 7.3 crore but the resultant PAT was 24.5% down (Q-o-Q) at ₹ 201.4 crore, but the PAT for 4Q FY10 was higher due to ₹ 111.9 crore of extraordinary income.
- ◆ Idea Cellular has highest revenue market share in four circles in India viz. Madhya Pradesh (29.1%), Kerala (29%), Maharashtra (28.4%) and Uttar Pradesh (W) (27.7%)
- ◆ In recent 3G spectrum auction, Idea won spectrum in 11 out of 22 service areas, covering around 80% of its existing revenue.
- ◆ Indus shows stable performance with revenues in 1Q FY11 at ₹ 255.4 crore (9% up Q-o-Q) and EBITDA ₹ 94.7 crore (13% up Q-o-Q) as all three operators improved its coverage.

1Q FY11 Conference Call Update

Rs = ₹

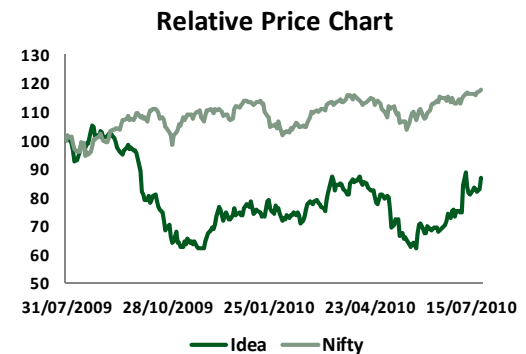
Rating	ACCUMULATE
Target Price	₹ 78.0
CMP	₹ 68.5
Upside	14%
Sensex	18068

Key Data	
Bloomberg Code	IDEA.IN
Reuters Code	IDEA.BO
NSE Code	IDEA
Current Share o/s (mn)	3300.2
Diluted Share o/s (mn)	3300.2
MktCap (₹bn/\$mn)	225.7/4816
52 WK H/L (₹)	84.85/47.05
Daily Vol. (3M NSE Avg)	9312492
Face Value (₹)	10
Beta	1.10
1USD/₹	46.9

Shareholding Pattern	(%)
Promoters	47.0
FII	6.1
Others	47.0

Price Performance (%)	1M	6M	1yr
Idea Cellular	21.0	5.0	-16.1
NIFTY	3.2	2.2	19.0

Source: Bloomberg; *As on 23th July, 2010



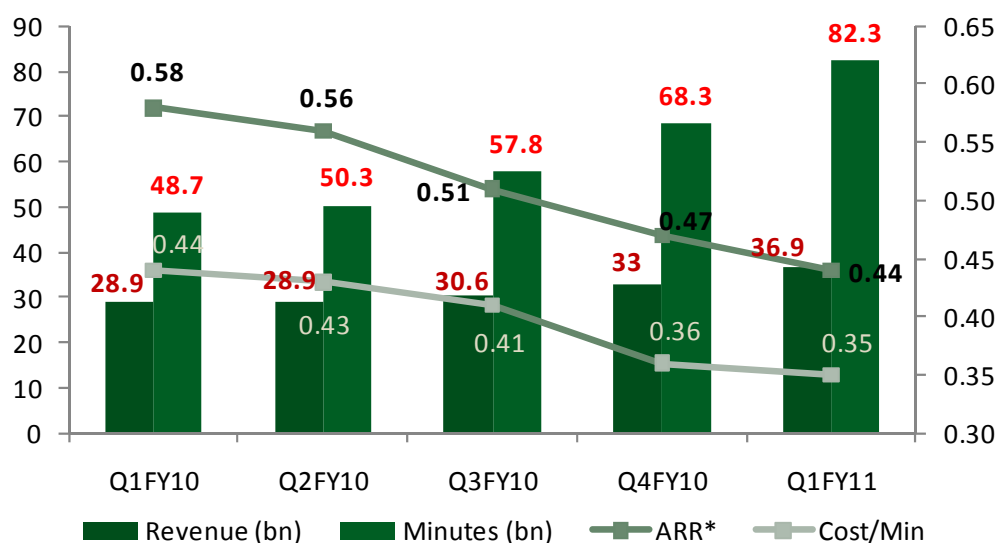
Key Risks to our target:

- ◆ Rising spectrum usage charges with the increase of subscribers
- ◆ More reduction in tariff's in GSM space with increasing competition
- ◆ New circle launches in six new circles to pressurise margins in the medium term.
- ◆ Idea to raise further debt as the existing cash in hand and operating cash flows would not be sufficient to meet capex.
- ◆ Intensifying competition coupled with MNP implementation likely in next 6 months would make it difficult for Idea to increase its market share.

Signaling Stable Growth:

During last five quarters, the Average Realised Rate per Minute has declined from 58 paise to 44 paise. However, in the same period of time, the Cost per Minute has reduced from 44 paise to 35 paise, and this is after absorbing the start-up costs of 9 newly launched service areas.

Exhibit 1: Operational Highlights



*ARR is calculated by dividing services revenue (exclusive of infrastructure revenues) by the total Minutes on Network

Source: Company

	₹ Cr	
Segmental Details	1Q FY11	4Q FY10
Net Sales		
Mobility	3653.56	2997.78
Long Distance	440.33	225.13
Passive Infrastructure	278.98	220.00
Total	4372.87	3442.91
Less: Inter Segment Eliminations	-722.42	-468.08
Net Sales / Income from Operations	3650.45	2974.83
PBIT		
Mobility	94.81	282.50
Long Distance	187.68	79.63
Passive Infrastructure	40.31	42.24
Capital Employed		
Mobility	17574.19	14513.07
Long Distance	906.55	277.76
Passive Infrastructure	3223.79	2859.98
Unallocated	1293.36	3623.16
Total	22997.89	21273.97

Standalone Operational Indicators			₹ Cr	
Particulars	Unit	1Q FY11	4Q FY10	
Average Revenue per User	₹	182	185	
Average Minutes of Used per User	Minutes	415	398	
Average Realized Rate	₹	0.44	0.47	
Prepaid Subscribers	%	95.9%	95.7%	
Owned Towers	Number	8719	8672	

Consolidated Balance Sheet - Quarterly		₹ Cr	
Particulars	1Q FY11	4Q FY10	
SOURCES OF FUNDS			
Equity Share Capital	3300.2	3299.8	
Preference Share Capital	1.9	1.9	
Outstanding ESOS	47.3	44.4	
Reserve & Surplus	8532.5	8529.9	
Loan Funds	11196.8	7859.4	
Deferred Tax Liability (net)	221.5	214.2	
Total	23300.2	19949.6	
APPLICATION OF FUNDS			
Gross Block	27631.0	27058.5	
Less: Depreciation	9450.4	8890.6	
Net Block	18180.6	18167.9	
Capital WIP	6175.6	546.5	
Goodwill	6.1	6.1	
Cash & Cash Equivalent	150.4	1420.2	
Net Current Assets	-1514.9	-694.9	
Profit & Loss A/c	302.4	503.8	
Total	23300.2	19949.6	

Consolidated Revenue Statement – Quarterly			₹ Cr	
Particulars	1Q FY11	4Q FY10	% Q-o-Q	
Gross revenue	3653.7	3347.7	9.1%	
Opex	2765.3	2424.2	14.1%	
EBITDA	888.4	923.5	-3.8%	
EBITDA Margin	0.2	0.3	-12.0%	
Depreciation	565.6	566.7	-0.2%	
Other Income	0.0	-52.0		
EBIT	322.8	408.8	-21.0%	
Interest	114.2	114.1	0.1%	
PBT	208.7	294.7	-29.2%	
Tax	7.3	28.1	-74.0%	
PAT	201.4	266.6	-24.5%	

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Key to NETWORKTH Investment Rankings

Buy: Upside by >15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by >15

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