

23rd January 2009

UR

Price	Target Price
Rs42	UR
Sensex	8,779

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	(22)	(54)	(63)
Rel. to Sensex	(8)	(5)	(21)	(30)

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	IDEA.BO
Bloomberg	IDEA@IN
Equity Capital (Rs mn)	31001
Face Value (Rs)	10
52 Week H/L (Rs)	149/42
Market Cap (Rs bn)	142
Daily Avg Vol (No of shares)	7683141
Daily Avg Turnover (US\$ mn)	11.2

Shareholding Pattern (%)

(30th Sep.'08)

Promoters	49.1
FII/NRI	40.0
Institutions	6.7
Private Corp.	1.0
Public	3.2

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Idea Cellular

Strong results but troubles ahead

Quick
Update

Idea Cellular's Q3FY09 results were significantly above our estimates. The standalone (comparable) revenues grew by 13.8% QoQ to Rs26.1bn (v/s our estimate of Rs25bn), EBIDTA grew by 18.4% QoQ to Rs7.1bn (v/s estimate of Rs5.9bn) and PAT grew by 97% QoQ to Rs2.8bn (v/s estimate of Rs1.4bn). Revenue growth was driven by sequential ARPU rise of 2% v/s 1.5% drop estimated by us. Operating margins expanded by 120bps QoQ to 27.4% v/s expectations of ~250bps decline. Profits beat estimates meaningfully ~Rs1bn flow through from revenues and lower interest expenses (interest expense came in at Rs687mn v/s our estimate of Rs932mn).

Though Q3FY09 performance remains ahead of expectations, we remain concerned about (1) inconsistent quarterly performance given accounting policy on upfront revenue recognition especially when the entry price for pre-paid has been reduced (Idea has reduced the entry level pre-paid SIM cost from Rs500/300 to Rs100 and also to Rs25 in few cases) and could dent the KPIs going forward, (2) New circle over next couple of quarters and the impact of the losses to the overall performance (3) recent aggressive price cuts and free minutes offered (4) upcoming 3G auction pricing (5) impact of tower rental payments to Indus and hit on EBIDTA (Bharti in its earnings call has stated that Indus operations & accounting would begin from 1st Jan-2009).

Mobile KPIs positively surprises

Idea's 4% QoQ growth in RPM has positively surprised us and is contrary to our expectation of 3.5% decline. While subscriber base increased by 12.6% QoQ, ARPU grew by 2% QoQ to Rs266 (v/s estimate of 257/1.5% decline QoQ). **We highlight that the total traffic (minutes) has grown by just 10.8% while revenue has grown by 13.8% which we believe could be due to Idea's differential accounting policy of booking the activation fee and recharge fees upfront.** This is also evident from abnormally high implied ARPU of Rs464 from new circles (Mumbai & Bihar) which we believe is due to upfront revenue realization. We await clarity on the same in the co's earnings call scheduled later today.

Given the accounting policy of upfront revenue recognition we highlight that recent reduction in entry pricing in prepaid scheme from Rs500/300 to Rs100 (Rs25 in few cases by Idea) would result in sharp fall in ARPU going forward, in our view.

NLD business shows sharp growth

The NLD revenues increased by a surprising 34% QoQ which we believe are due to seasonality. The NLD EBIT increased by 796% QoQ due to reasons unknown. The NLD EBIT margins showed an extremely sharp increase from 3% in Q209 to 20.2% in Q309 the reason for which is difficult to take a guess.

Providence cash comes in

Idea Cellular on 5th December 2008 has received Rs21bn (US\$428mn) cash inflow from Providence equity partners for 16.14% stake in its subsidiary Aditya Birla Telecom Ltd (ABTL). We note that in May 2008 when Providence agreed to invest in ABTL, the terms were 20% stake for US\$640mn. Although the deal appears to have been renegotiated, it is still positive for Idea as the cash inflow strengthens its balance sheet.

Post earnings call today we would be revisit estimates to factor above estimated Q309 results and also consolidate financials of Spice and Idea. Given the strong set of results, we do not rule out a trading rally in the stock. However we continue to remain concerned about Idea's performance going forward given (1) new circle rollouts and impact of losses from the same (2) tower rental payment accounting to Indus and impact on operating profits (3) the recent pricing cut especially given the upfront revenue booking (5) Regulatory risks such as IUC reduction, MNP introduction and increased spectrum charges.

Quarterly results - standalone

	Q108	Q208	Q308	Q408	Q109	Q209	Q308	% QoQ
Revenues								
Mobile	14,772.9	15,622.1	17,080.9	19,724.0	21,734.6	22,992.0	26,180.0	13.9%
NLD	739.0	691.8	968.8	1,137.1	1,291.5	1,439.4	1,929.4	
(inter segment)	(739.0)	(691.8)	(968.8)	(1,137.1)	(1,291.5)	(1,439.4)	(2,064.7)	
Net sales	14,772.9	15,622.1	17,080.9	19,724.0	21,734.6	22,992.0	26,044.7	13.3%
Cost of trading goods	0.0	0.0	0.1	0.0	2.2	22.5	52.1	
Personnel exp	708.0	878.0	954.4	918.9	1,022.0	1,322.7	1,270.2	-4.0%
Network optng exp	1,896.0	2,379.9	2,915.1	3,262.8	3,756.3	4,484.8	5,474.7	22.1%
License & WPC charges	1,599.0	1,551.1	1,736.3	1,965.1	2,446.4	2,570.5	2,861.3	11.3%
Roaming & access chg	2,395.5	2,550.2	2,930.1	3,445.1	3,956.8	4,270.6	4,903.1	14.8%
Subs acq & advt exp	2,282.5	2,513.6	2,185.4	2,613.3	2,464.7	3,278.7	3,308.9	0.9%
Other exp	764.0	642.9	687.7	912.8	929.2	1,018.5	1,040.2	2.1%
Total operating exp	9,645.0	10,515.7	11,409.1	13,118.0	14,577.6	16,968.3	18,910.5	11.4%
EBIDTA	5,127.9	5,106.4	5,671.8	6,606.0	7,157.0	6,023.7	7,134.2	18.4%
EBIDTA %	34.7	32.7	33.2	33.5	32.9	26.2	27.4	
Depreciation	1,887.0	2,007.0	2,277.1	2,597.2	2,749.0	3,031.9	3,449.5	13.8%
EBIT	3,240.9	3,099.4	3,394.7	4,008.8	4,408.0	2,991.8	3,684.7	23.2%
EBIT %	21.9	19.8	19.9	20.3	20.3	13.0	14.1	
Interest & fin chg	143.0	640.5	781.7	1,205.5	1,526.4	1,496.7	687.4	-54.1%
PBT (core)	3,097.9	2,458.9	2,613.0	2,803.3	2,881.6	1,495.1	2,997.3	100.5%
Other income	3.0	21.4	22.2	128.6	46.1	44.5	19.8	
PBT	3,100.9	2,480.3	2,635.2	2,931.9	2,927.7	1,539.6	3,017.1	
Tax provision	16.0	277.0	267.5	165.0	296.8	98.9	177.0	
PAT	3,084.9	2,203.3	2,367.7	2,766.9	2,630.9	1,440.7	2,840.1	97.1%
PAT %	20.9	14.1	13.9	14.0	12.1	6.3	10.9	

Cost analysis								Chg bps
Personnel exp	4.8	5.6	5.6	4.7	4.7	5.8	4.9	(88)
Network optng exp	12.8	15.2	17.1	16.5	17.3	19.5	21.0	151
License & WPC charges	10.8	9.9	10.2	10.0	11.3	11.2	11.0	(19)
Roaming & access chg	16.2	16.3	17.2	17.5	18.2	18.6	18.8	25
Subs acq & advt exp	15.5	16.1	12.8	13.2	11.3	14.3	12.7	(156)
Other exp	5.2	4.1	4.0	4.6	4.3	4.4	4.0	(44)

KPIs	Q108	Q208	Q308	Q408	Q109	Q209	Q308	
Subscribers ('000)	16,160	18,719	21,110	24,076	27,288	30,486	34,336	
QoQ %	15.2	15.8	12.8	14.0	13.3	11.7	12.6	
ARPU (Rs)	320	288	279	287	278	261	266	
(% QoQ)	0.9	-10.0	-3.1	2.9	-3.1	-6.1	1.9	
MOU (mins)	381	360	377	411	428	417	410	
(% QoQ)	-1.6	-5.5	4.7	9.0	4.1	-2.6	-1.7	
RPM (Rs)	0.84	0.80	0.74	0.70	0.65	0.63	0.65	
(% QoQ)	2.5	-4.8	-7.5	-5.6	-7.0	-3.6	3.7	
Total traffic (mn)	17,100	18,831	22,457	27,824	33,087	36,315	40,254	
(% QoQ)	10.5	10.1	19.3	23.9	18.9	9.8	10.8	

Existing circles							
Subscribers	16,160	18,719	21,110	24,076	27,288	30,385	33,742
Revenues	14,775	15,643	17,103	19,853	21,781	22,985	25,726
EBIDTA	5,136	5,128	5,700	6,735	7,203	6,405	7,570
EBIDTA %	34.8	32.8	33.3	33.9	33.1	27.9	29.4

New circles							
Subscribers	0	0	0	0	0	100	594
Revenues	0	0	0	0	0	52	483
EBIDTA	0	0	0	0	0	(337)	(765)
EBIDTA %						-648.1	-158.4

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