

June 14, 2011

Reco	Previous Reco
Hold	Sell
CMP	Target Price
Rs73	Rs72
EPS change FY12E/13E (%)	1.2/3.7
Target Price change (%)	20
Sensex	18,364
Nifty	5,516

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	19	5	32
Rel. to Nifty	8	18	13	23

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	IDEA@IN
Equity Capital (Rs mn)	33035
Face Value(Rs)	10
No of shares o/s (mn)	3303
52 Week H/L	80/53
Market Cap (Rs bn/USD mn)	238/5,315
Daily Avg Volume (No of sh)	727869
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	46.0	47.0	47.0
FII/NRI	42.8	42.9	40.5
Institutions	7.9	7.0	7.8
Private Corp	0.7	0.5	2.0
Public	2.6	2.7	2.8

Source: Capitaline

Naval Seth

naval.seth@emkayglobal.com
+91 22 6624 2414

- Strong revenue growth of 7.1% qoq to Rs42.3bn v/s our estimate of Rs41.7bn. Higher other operating rev. & flat network opex qoq aided healthy EBITDA margin at 25.4%
- EBITDA at Rs10.7bn (our est. 9.9bn) and Q4FY11 PAT at Rs2.7bn (our est. Rs2.5bn). On-off reversal in network opex was to the tune of Rs380mn v/s 150mn in Q3FY11
- Robust 8.7% rise in traffic on network. ARPU declined to Rs161 v/s Rs 168 in Q3FY11. MOUs declined marginally to 397 v/s 401, while ARPM was down 2.9% qoq
- Valuations at 8.0x & 6.6x EV/EBIDTA for FY12E & FY13E respectively. Upgrade to HOLD from SELL rating with revised target Rs72 (earlier Rs60)

Revenue, profits beat estimates

Festive cheers continued for Idea in Q4FY11 as well. Revenue growth for the quarter stood at 7.1% qoq. Cons. EBITDA growth was at 13.4% at Rs10.7bn. EBITDA losses from new circles reduced to 1173mn from 1384mn in Q3FY11. EBITDA margin improved 142bps qoq led by higher other operating income and one-off reversal of network cost to the tune of Rs380mn v/s Rs150mn in Q3FY11. PAT at Rs2.7bn was higher than estimate of Rs 2.5bn. Tax rate for the quarter was at 17.5% v/s 7.1% in Q3FY11. Idea has so far capitalized interest charge pertaining to 3G loans to the tune of Rs4.1bn of which Rs1.24bn was capitalized in Q4FY11.

Robust subs and traffic growth

Idea registered strong subscriber addition of 7.7mn (9.4% increase qoq) and 8.7% qoq rise in traffic on network to 101 bn minutes. ARPU was down to Rs161 v/s Rs168 in Q3FY11 and ARPM declined 2.9% qoq to Rs0.41. Despite of lesser number days in quarter, MoU slipped just 1.0% qoq to 397. Decline in VAS share by 90bps qoq led to higher decline in ARPM.

Capex guidance at Rs40bn for FY12E

Capex during the quarter was Rs14.6bn and Rs32.1bn for FY11. Guidance for FY12E stands at Rs40bn, slightly higher than our earlier estimates. Net-debt stood at 91.2bn at the end of FY11 v/s Rs93bn in last quarter. Con. Debt on books stands at Rs120.2bn at end of FY11. Net-debt/ EBITDA is expected at 2.7x for FY12E.

Revenue/EPS est. revised 4.5%/1.2% for FY12E & 6.4%/3.7% for FY13E

Given the strong performance in last two quarters and stabilization in competitive intensity in the wireless indicates the strong growth ahead. With strong performance Idea has also managed to increase its revenue market share to 13.9% v/s 13.4% in Q3FY11. We revise our revenue estimate upwards 4.2%/6.2% for FY12E/13E. However, profitability would remain subdued due accounting of higher depreciation and interest charge pertaining to 3G spectrum.

Upgrade to HOLD with revised target price of Rs72 (earlier Rs60)

At CMP of Rs73, Idea trades at 8.0x and 6.6x EV/EBIDTA and 30x and 21.6x estimated EPS of Rs2.4 and Rs3.4 for FY12E and FY13E respectively. We upgrade stock to HOLD with revised target price of Rs72 (earlier Rs60).

Financial Snapshot

	Rs Mn									
Y/E-	Net	EBITDA	PAT	EPS	EPS	ROE		EV/		
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(%)	P/E	EBITDA	P/BV
FY10	123979	33579	27.1	9211	2.8	4.5	7.3	26.3	9.3	2.0
FY11P	155032	37907	24.5	8984	2.7	-2.5	7.6	27.0	9.7	2.1
FY12E	186459	45331	24.3	8082	2.4	-10.0	6.6	30.0	8.0	1.9
FY13E	209229	53194	25.4	11224	3.4	38.9	8.5	21.6	6.6	1.8

Quarterly financials

	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenues										
Mobile	33,116	36,536	36,356	39,538	42,030	26.9	6.3	154,460	123,709	24.9
NLD	4,151	4,403	4,765	5,304	5,880	41.7	10.9	20,353	12,635	61.1
(inter segment)	2,588	2,790	3,003	3,029	3,210	24.0	6.0	12,031	9,516	26.4
Net sales	288	33	225	30	360	25.0	-	648	492	31.7
Cost of trading goods	37,267	40,939	41,121	47,901	51,480	38.1	7.5	181,441	136,344	33.1
% of sales	3789.3	4401.9	4529.3	8345.0	9132.8			26409.0	11,873	122.4
Personnel exp	33,478	36,537	36,592	39,556	42,347	26.5	7.1	155,032	124,471	24.6
% of sales	5064.0	5761.2	5824.8	6356.1	6812.4	34.5	7.2	24,755	18,001	37.5
Network operating exp	15.1	15.8	15.9	16.1	16.1			16.0	14.5	
% of sales	8213.5	10158.8	10091.0	9936.0	9945.1	21.1	0.1	40,131	31,270	28.3
License & WPC chgs	24.5	27.8	27.6	25.1	23.5			25.9	25.1	
% of sales	1557.9	1714.7	2155.1	2072.1	2113.6	35.7	2.0	8,056	6,451	24.9
Roaming & access chg	4.7	4.7	5.9	5.2	5.0			5.2	5.2	
% of sales	4759.9	4310.2	4112.2	5439.5	6293.0	32.2	15.7	20,155	16,122	25.0
Subs acq & advt exp	14.2	11.8	11.2	13.8	14.9			13.0	13.0	
% of sales	3327.6	4242.2	4177.5	4528.8	4779.5	43.6	5.5	17,728	13,468	31.6
Other exp	9.9	11.6	11.4	11.4	11.3			11.4	10.8	
% of sales	1319.5	1466.1	1443.0	1741.1	1651.6	25.2	(5.1)	6,302	5,087	23.9
Total operating exp	3.9	4.0	3.9	4.4	3.9			4.1	4.1	
EBIDTA	24242	27653	27804	30074	31595	30.3	5.1	117126	90399	29.6
Depreciation	9235.6	8883.8	8788.3	9483	10752	16.4	13.4	37,907	34,072	11.3
EBIT	5666.7	5655.8	5820.1	5925.4	6572.1	16.0	10.9	23973.4	20149.1	19.0
Interest & fin chg	3568.9	3228.0	2968.2	3557.1	4179.9	17.1	17.5	13933	13922	0.1
PBT (core)	519.4	0.0	0.0	0.0	0.0			0.0	836.3	(100.0)
Other income	1140.9	1141.5	1027.9	941.1	854.1	(25.1)	(9.2)	3964.6	4005.2	(1.0)
PBT	2947.4	2086.5	1940.3	2616.0	3325.8	12.8	27.1	9968.6	10753.5	(7.3)
Tax provision	281.3	72.5	142.9	185.5	580.6	106.4	213.0	981.5	1214.2	(19.2)
PAT	2666.1	2014.0	1797.4	2430.5	2745.2	3.0	12.9	8987.1	9539.3	(5.8)

Margin analysis	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
EBIDTA	27.6	24.3	24.0	24.0	25.4	(220)	142	24.5	27.4	(292)
EBIT	10.7	8.8	8.1	9.0	9.9	(79)	88	9.0	11.2	(220)
EBT	8.8	5.7	5.3	6.6	7.9	(95)	124	6.4	8.6	(221)
PAT	8.0	5.5	4.9	6.1	6.5	(148)	34	5.8	7.7	(187)
Effective Tax rate	9.5	3.5	7.4	7.1	17.5	791	1037	9.8	11.3	(145)

KPI's

KPIs	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311	Q411
Subscribers ('000)	43,022	47,088	51,454	57,611	63,824	68,886	74,213	81,778	89,503
QoQ %	13.2%	9.5%	9.3%	12.0%	10.8%	7.9%	7.7%	10.2%	9.4%
ARPU (Rs)	255	232	209	200	185	182	167	168	161
(% QoQ)	-4.1	-9.0	-9.9	-4.3	-7.5	-1.6	-8.2	0.6	-4.2
MOU (mins)	402	399	375	389	398	415	394	401	397
(% QoQ)	-3.4	-0.7	-6.0	3.7	2.3	4.3	-5.1	1.8	-1.0
RPM (Rs)	0.63	0.58	0.56	0.51	0.46	0.44	0.42	0.42	0.41
(% QoQ)	-0.8	-8.3	-4.1	-7.8	-9.6	-5.7	-3.3	0.0	-2.9
Total traffic (mn)	44,224	48,729	50,339	57,841	68,275	82,274	84,828	93,503	1,01,960
(% QoQ)	9.9	10.2	3.3	14.9	18.0	20.5	3.1	10.2	8.7

Revenue/EPS estimates revised 4.5%/1.2% for FY12E & 6.4%/3.7% for FY13E

Given the strong performance in last two quarters and reducing competitive intensity in the wireless indicates the strong growth ahead. With strong performance Idea has also managed to increase its revenue market share to 13.9% v/s 13.4% in Q3FY11. We revise our revenue estimate upwards 4.5%/6.4% for FY12E/13E. However, profitability would remain subdued due accounting of higher depreciation and interest charge pertaining to 3G spectrum .

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	178,514	186,459	4.5	196,556	209,229	6.4
EBIDTA	43,705	45,331	3.7	50,332	53,194	5.7
EBIDTA %	24.5	24.3	-17 bps	25.6	25.4	-18 bps
PAT	7984	8082	1.2	10819	11224	3.7
EPS	2.4	2.4	1.2	3.3	3.4	3.7

3G roll out update: Idea launched its 3G services at the end of March, 2011. As of 31st May, 2011 it had roll out 3G services in 9 circles (out of licenses in 11 circles) and covers 700 towns and most of our 3G Node-Bs are co-located with our existing 2G cell sites. As per the management comments it already has 1.55 million subscribers on its 3G network and it has not offered freebies to customers like other incumbents, during the initial launch of services.

Financials

Profit & Loss

Y/E, Mar (Rs m)	FY09	FY10	FY11P	FY12E
Net Sales	123,979	155,032	186,459	209,229
<i>Growth (%)</i>	22.4	25.0	20.3	12.2
Employee cost	6,451	8,056	9,372	10,584
Marketing expenses	16,123	20,155	28,203	30,340
Roaming and access chg	18,001	24,755	29,833	33,477
Network operating exp	31,270	40,131	44,819	49,309
License fee	13,468	17,728	21,350	23,852
Administrative expenses	5,087	6,302	7,552	8,474
Total expenditure	90,400	117,126	141,128	156,035
EBITDA	33,579	37,907	45,331	53,194
<i>Growth (%)</i>	19.4	12.9	19.6	17.3
Depreciation	20,161	23,976	30,001	33,629
Other non-operating exp.	0	0	0	0
EBIT	13,419	13,930	15,330	19,565
EBIT margin (%)	10.8	9.0	8.2	9.4
Other Income	1,011	0	80	100
Interest expenses	4,005	3,965	6,430	7,193
PBT	10,425	9,966	8,980	12,471
Tax	1,214	982	898	1,247
<i>Effective tax rate (%)</i>	11.3	9.8	10.0	10.0
PAT	9,211	8,984	8,082	11,224

Cash Flow Statement

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
PBT	9,414	9,966	8,900	12,371
Depreciation	20,161	23,976	30,001	33,629
Interest	4,005	3,965	6,430	7,193
Other Non-Cash items	-24,244	-10,000	0	0
Chg in working cap	-10,590	16,353	6,259	1,354
Tax paid	-1,214	-982	-898	-1,247
Operating Cash flow	-2,469	43,278	50,692	53,300
Capital expenditure	-41,345	-95,000	-40,000	-33,000
Free Cash Flow	-43,814	-51,722	10,692	20,300
Other income	1,011	0	80	100
Investments	31,544	0	0	0
Investing Cash flow	-8,790	-95,000	-39,920	-32,900
Equity Capital Raised	2,259	4	0	0
Loans Taken / (Repaid)	-10,529	50,000	0	-13,500
Interest Paid	-4,005	-3,965	-6,430	-7,193
Dividend paid (incl tax)	0	0	0	0
Financing Cash flow	-12,275	46,039	-6,430	-20,693
Net chg in cash	-23,534	-5,683	4,342	-293
Opening cash position	30,863	7,329	1,646	5,988
Closing cash position	7,329	1,646	5,988	5,695

Balance Sheet

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Equity share capital	32,998	33,002	33,002	33,002
Reserves & surplus	85,865	84,849	92,931	104,156
Net worth	118,863	117,851	125,933	137,158
Loan Funds	78,593	128,593	128,593	115,093
Net deferred tax liability	2,142	2,142	2,142	2,142
Total Liabilities	199,598	248,586	256,668	254,393
Gross Block	270,583	367,047	407,047	440,047
Less: Depreciation	88,194	112,170	142,171	175,800
Net block	182,389	254,878	264,877	264,248
Capital work in progress	5,465	4,000	4,000	4,000
Investment	11,365	11,365	11,365	11,365
Current Assets	41,059	41,029	43,465	47,241
Inventories	536	786	804	980
Sundry debtors	4,656	8,087	10,304	11,479
Cash & bank balance	7,329	1,646	5,988	5,695
Loans & advances	25,559	27,436	22,908	25,214
Other current assets	2,979	3,074	3,460	3,872
Current lia & Prov	40,680	62,685	67,038	72,461
Current liabilities	38,447	59,244	63,359	68,484
Provisions	2,233	3,440	3,679	3,977
Net current assets	379	-21,656	-23,573	-25,220
Total Assets	199,598	248,586	256,668	254,393

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	27.1	24.5	24.3	25.4
Net Margin	9.6	8.1	7.4	8.4
ROCE	6.8	6.2	6.1	7.7
ROE	7.3	7.6	6.6	8.5
RoIC	8.2	6.8	6.6	8.3
Per Share Data (Rs)				
EPS (adjusted)	2.8	2.7	2.4	3.4
CEPS	8.9	10.0	11.5	13.6
BVPS	36.0	35.7	38.2	41.6
Valuations (x)				
PER	26.3	27.0	30.0	21.6
P/CEPS	8.2	7.3	6.4	5.4
P/BV	2.0	2.1	1.9	1.8
EV / Sales	2.5	2.4	2.0	1.7
EV / EBITDA	9.3	9.7	8.0	6.6
Gearing Ratio (x)				
Net Debt/ Equity	0.6	1.1	1.0	0.8
Net Debt/EBIDTA	2.3	3.4	2.8	2.2

Recommendation History: Idea Cellular – IDEA IN

Date	Reports	Reco	CMP	Target
25/01/2011	Idea Cellular Q3FY11 Result Update	Sell	71	60
26/10/2010	Idea Q2FY11 Result Update	Sell	72	60
26/07/2010	Idea Q1FY11 Result Update	Sell	69	60
24/04/2009	Idea Cellular Q4FY09 Update	Sell	57	53

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/05/2011	Reliance Communication Q4FY11 Result Update	Reduce	88	85
30/05/2011	Jagran Prakashan Q4FY11 Result Update	Buy	120	149
23/05/2011	LMW Q4FY11 Result Update	Accumulate	2,126	2,535
19/05/2011	DB Corp Q4FY11 Result Update	Hold	240	271

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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