

IDEA CELLULAR LTD.

Good results barring the one-off expense

Idea's Mar-12 quarter revenue of Rs53.7bn (+6.7% q/q) was in line with the strong volume growth of 9.1% q/q, offsetting the RPM decline of 2.1% q/q. The EBITDA margin decline of 140 bps q/q was due to one-off license and WPC charges, which if normalised could have led to a margin expansion of about 120bps. Clearly, despite increased aggression from Bharti, Idea has remained disciplined. While operating performance has remained strong for Idea, our concerns on regulatory risks (especially the potential impact of new spectrum pricing rules) force us to maintain a more cautious stance. Maintain 2-EW rating with PT of Rs100, based on DCF.

Mar-12 results summary: Revenue growth came in line although the RPM decline (-2.1% q/q) was slightly higher than expectations (-0.9% q/q) balanced by strong volumes (+9.1% q/q, estimate +6.5% q/q). Margins were impacted by a one-off license and WPC cost, which had a ~260bps negative impact. Despite this, net profit was 6% ahead of our estimates on the back of forex gains and lower taxes.

Increasing competitive intensity, but the company remains disciplined: The decline in RPM could be due to increased aggression from Bharti over past three months. However, Idea's disciplined approach to margins confirms our hypothesis that this is unlikely to turn into another tariff war. We believe that operators would remain disciplined both to repair the stretched balance sheet and to hoard cash for upcoming spectrum auctions.

Don't ignore the regulatory risks: Idea's superlative operating performance is a strong positive in favour of the company. On the other hand, Idea's smaller balance sheet makes it more sensitive to any regulatory risk. The looming spectrum payments are the biggest risk. However, the need to rebid for licenses in seven circles could strain the cash flows in near term. We maintain our 2-EW stance with PT of Rs100.

IDEA.NS: Financial and Valuation Metrics INR

FY Mar	2011	2012	2013	2014	2015
EPS	2.72A	2.19A	4.19E	5.96E	6.70E
Previous EPS	2.72A	2.17E	4.30E	6.04E	N/A
Consensus EPS	N/A	N/A	N/A	N/A	N/A
P/E	29.9	37.2	19.4	13.7	12.2

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 10.

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	2-NEUTRAL Unchanged
Price Target	INR 100.00 Unchanged

Price (27-Apr-2012)	INR 81.45
Potential Upside/Downside	+23%
Tickers	IDEA IN / IDEA.NS

Market Cap (INR mn)	269505
Shares Outstanding (mn)	3308.84
Free Float (%)	21.76
52 Wk Avg Daily Volume (mn)	0.7
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (INR)	N/A

Source: FactSet Fundamentals

Price Performance	Exchange-BSE
52 Week range	INR 103.65-62.65



[Link to Barclays Live for interactive charting](#)

Asia ex-Japan Telecom Services

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COMPANY SNAPSHOT

Idea Cellular Limited

Asia ex-Japan Telecom Services

Income statement (INRmn)	2012A	2013E	2014E	2015E	CAGR
Revenue	194,887	231,443	256,457	276,508	12.4%
EBITDA	50,923	60,329	70,961	73,383	13.0%
EBIT	21,110	30,563	39,223	41,291	25.1%
Finance costs - net	10,557	9,988	9,729	8,132	-8.3%
Pre-tax income	10,553	20,575	29,494	33,159	46.5%
Tax rate (%)	31.5	32.8	33.3	33.3	1.9%
Net income	7,230	13,826	19,673	22,117	45.2%
EPS (reported) (INR)	2.19	4.19	5.96	6.70	45.2%
Diluted shares (mn)	3,300	3,300	3,300	3,300	0.0%
DPS (INR)	0.00	0.00	1.00	1.00	N/A

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
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Investment case

Why a 2-Equal Weight? We agree that business conditions in India should allow Idea to return high Ebitda and EPS Cagrs. However, with the stock at a P/E of 22x and EV/EBITDA of 7.2x for FY13E, we do not find the share inexpensive. Based on our DCF model, we value the share at Rs100.

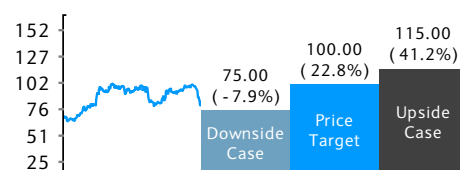
Upside case INR 115.00

Stronger-than-expected improvement in the India business could lead to EBITDA coming in about 10% above our estimate for FY13E. This coupled with a slight (5%) increase in our target EV/EBITDA multiple could lead to a share price of Rs115.

Downside case INR 75.00

The possibility of deterioration in the India business (easing credit situation leading to stronger competition) could possibly impact FY13E EBITDA negatively by 12-15%. This coupled with a lower target EV/EBITDA multiple (~10x) could lead to a share price of Rs75.

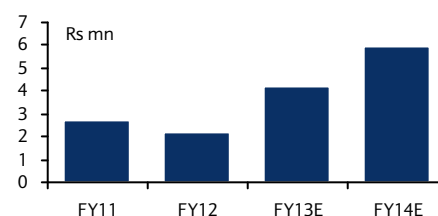
Upside/downside scenarios



28-Apr-11 27-Apr-12

Source: FactSet Fundamentals

EPS projections



Source: Company data, Barclays Research

Margin and return data

					Average
EBITDA margin (%)	26.1	26.1	27.7	26.5	26.6
EBIT margin (%)	10.8	13.2	15.3	14.9	13.6
Pre-tax margin (%)	5.4	8.9	11.5	12.0	9.4
Net margin (%)	3.7	6.0	7.7	8.0	6.3
Operating CF margin (%)	24.4	25.3	27.1	28.2	26.3
ROIC (%)	5.9	8.1	9.8	11.6	8.8
RONTA (%)	2.3	4.6	6.0	5.7	4.6
ROA (%)	2.3	4.6	6.1	5.8	4.7
ROE (%)	5.7	10.2	13.2	13.4	10.6

Balance sheet and cash flow (INRmn)

					CAGR
Tangible fixed assets	410,917	419,055	424,373	429,837	1.5%
Intangible fixed assets	54,802	55,887	56,597	57,325	1.5%
Cash and equivalents	1,521	1,551	1,570	1,591	1.5%
Total assets	320,319	326,662	330,808	335,067	1.5%
Short and long-term debt	112,497	114,725	116,181	117,677	1.5%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	189,817	193,576	196,033	198,557	1.5%
Net debt/(funds)	110,976	113,174	114,610	116,086	1.5%
Shareholders' equity	130,502	133,086	134,775	136,510	1.5%
Cash flow from operations	47,550	58,613	69,487	78,122	18.0%
Capex and acquisitions	44,511	37,904	37,056	37,556	-5.5%
Free cash flow	3,038	20,709	32,431	40,566	137.2%
NOPAT	14,250	20,468	26,142	27,525	24.5%

Valuation and leverage metrics

					Average
P/E (reported) (x)	37.2	19.4	13.7	12.2	20.6
EV/EBITDA (x)	7.5	6.1	5.1	3.6	5.6
Equity FCF yield (%)	1.1	7.7	12.1	15.1	9.0
EV/Sales (x)	2.0	1.6	1.4	1.0	1.5
Price/BV (x)	2.1	1.9	1.7	1.6	1.8
Dividend yield (%)	0.0	0.0	1.2	1.2	0.6
Total debt/capital (%)	46.3	44.4	41.7	37.2	42.4
Net debt/EBITDA (x)	2.2	1.9	1.6	1.6	1.8

Selected operating metrics (INR)

Mobile traffic (min)	388,921.0	486,437.5	584,574.0	678,859.3
Revenue per minute	0.5	0.5	0.4	0.4
EBITDA per minute	0.1	0.1	0.1	0.1

Source: Company data, Barclays Research

Note: FY end Mar

Mar-12 results

Results summary

The positives

- Revenue growth of 6.7% q/q was primarily driven by 9.1% q/q growth in volumes.
- EBITDA margins if adjusted for one-off charges on license and WPC fees would have expanded by ~120bps instead of the reported decline of 140bps.
- Subscriber additions continue to be healthy at monthly additions of above 2mn, increasing the total subscriber base 5.9% q/q.
- MoUs increased to 379mins/month (I-Sec: 363mins/month), an increase of 2.7% q/q leading to an APRU increase to Rs160/month from Rs159 in the previous quarter.
- The contribution from VAS increased to 14.3% of overall revenues from 13.2% in the previous quarter.
- Idea continued to make progress on the 3G front, adding 350K subscribers in the Mar-12 quarter, taking overall 3G subscribers to 2.6mn and additions of 1923 3G cell sites.

The negatives

- Idea reported an RPM decline of 2.1% q/q after two successive quarters of increases, highlighting the increasing competitive intensity.
- Capex guidance for FY13 was Rs35bn, a reduction from the Rs42.5bn spent in FY12 and highlighting Idea's limitations in funding larger investments through operating cash flows.
- Idea failed to disclose the exact nature or quantum of one-off costs that are classified under license and WPC fees that caused the margin miss.

Figure 1: Idea – results for Mar-12 results vs Barclays Research estimates

Rs mn	Mar-11	Dec-11	Mar-12 act	% q/q	% y/y	Mar12 est	Act vs est
Revenues	42,347	50,308	53,697	6.7%	26.8%	53,568	0%
EBITDA	10,752	13,446	13,571	0.9%	26.2%	14,146	-4%
EBITDA margins	25.4%	26.7%	25.3%			26.4%	
EBIT	4,180	5,871	5,728	-2.4%	37.0%	6,197	-8%
EBIT margins	9.9%	11.7%	10.7%			11.6%	
PBT	3,326	2,991	3,453	15.5%	3.8%	3,317	4%
Net income	2,745	2,010	2,390	18.9%	-12.9%	2,255	6%
Mobile KPIs							
Subs (000)	89,500	106,400	112,700	5.9%	25.9%	112,600	0%
Monthly adds (000)	2,567	2,067	2,100			2,067	
ARPU (Rs/month)	161	159	160	0.6%	-0.6%	158	1%
MoU (mins/month)	397	369	379	2.7%	-4.5%	369	3%
Traffic (mn mins)	101,960	113,964	124,305	9.1%	21.9%	121,338	2%
RPM (Rs)	0.41	0.43	0.42	-2.1%	4.1%	0.43	-1%

Source: Company reports, Barclays Research estimates

Figure 2: Idea – revenue and profitability breakup

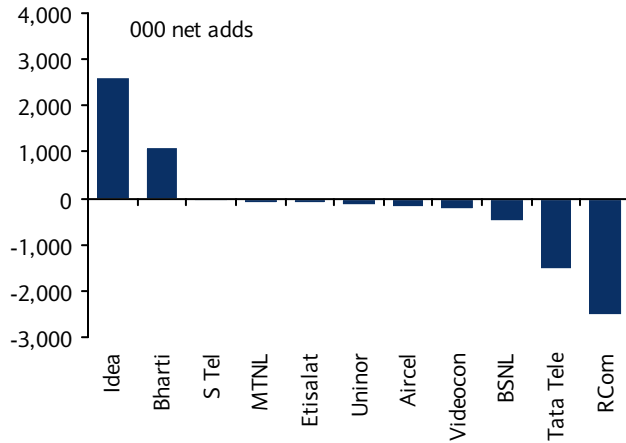
Mobile business (Rs mn)	Mar-11	Dec-11	Mar-12	% q/q	% y/y
Revenue					
Old circles	38,298	45,144	47,784	5.8%	24.8%
New circles	4,393	5,508	6,251	13.5%	42.3%
EBITDA					
Old circles	10,667	13,708	13,671	-0.3%	28.2%
New circles	-1,173	-1,722	-1,601	nm	nm
EBITDA margin (%)					
Old circles	27.9%	30.4%	28.6%		
New circles	-26.7%	-31.3%	-25.6%		
EBIT	3,554	5,034	4,859	-3.5%	36.7%
PBT	3,067	2,507	2,899	15.6%	-5.5%
Tax	492	821	883	7.6%	79.5%
PAT	2,575	1,686	2,016	19.6%	-21.7%
Indus contribution @16% (Rs mn)					
Revenue	2,943	3,233	3,317	2.6%	12.7%
EBITDA	1,258	1,460	1,501	2.8%	19.3%
EBITDA margin (%)					
EBIT	626	837	868	3.7%	38.7%
PBT	258	483	553	14.5%	114.3%
Tax	89	160	179	11.9%	101.1%
PAT	169	323	374	15.8%	121.3%

Source: Barclays Research

MNP and VLR data – Idea leads the pack

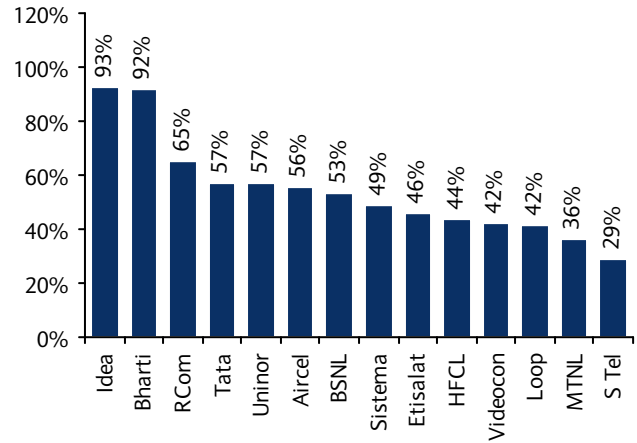
Idea has led other operators on both Data on MNP (mobile number portability) since its introduction early last year becoming the largest gainer and VLR (visitor location register that tracks active subscribers) data where it continues to have the highest proportion of active customers.

Figure 3: Cumulative net adds post MNP implementation



Source: Teleguru, Barclays Research

Figure 4: VLR data – active customers as a % of total



Source: TRAI, Barclays Research

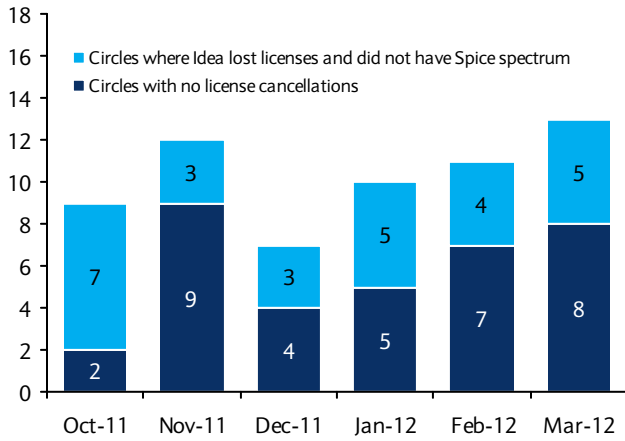
Maintaining discipline on the face of increased competition

Bharti has accelerated its customer acquisition strategy and this is evident from:

- Higher number of net additions for Bharti in the month of March.
- MNP data for March also suggests that Bharti is getting more of porting requests compared with Idea.
- RPMs have seen a decline a combination of this with the lagging subscriber growth could tilt the revenue growth dynamics in Bharti's favour again.

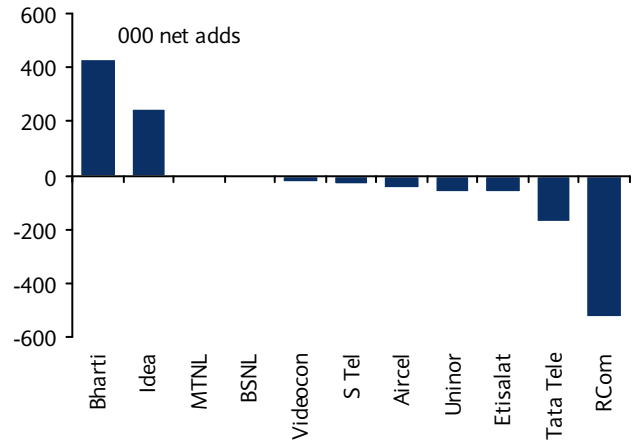
With this data in hand, a key risk to our assumption of improving margins could have been an aggressive response from Idea. However, we find that Idea has remained disciplined and this reduces the risk of an all out tariff war. We believe that the funding risk for the companies (need to repair stretched balance sheets, looming cash requirements due to next round of spectrum auctions) could have forced a more disciplined and nuanced approach rather than an all out tariff war.

Figure 5: Number of circles in which Bharti grew faster than Idea by subscriber additions



Source: COAI, Barclays Research

Figure 6: Net adds due to MNP in the month of Mar-12



Source: Teleguru, Barclays Research

3G trends healthy, but price realisations continue to be poor

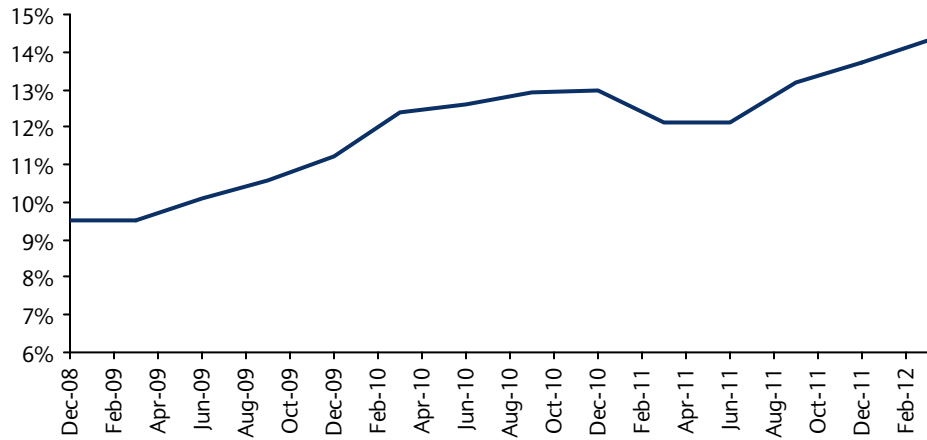
Idea disclosed 3G subscribers at 2.6mn as of Mar-12 (from 2.2mn a quarter ago), a healthy increase combined with the fact that both data usage and incremental ARPU from 3G usage has shown an increase. Idea has increased its reach in 3G to newer areas where they have seen a prior uptick in data usage through 2G. Despite this, price realisations on 3G have fallen as customer uptake has been lower than expected and usage has been limited only up to the peak limit and not higher.

Figure 7: Key 3G related metrics as disclosed by the company

	Dec-11	Mar-12
Number of active 3G subscribers	2.2mn	2.6mn
Average usage	235 MB/ month	315 MB/month
Incremental ARPU for 3G related data usage	Rs79	Rs91

Source: Company data, Barclays Research

Figure 8: VAS related revenues as a % of total mobile revenues

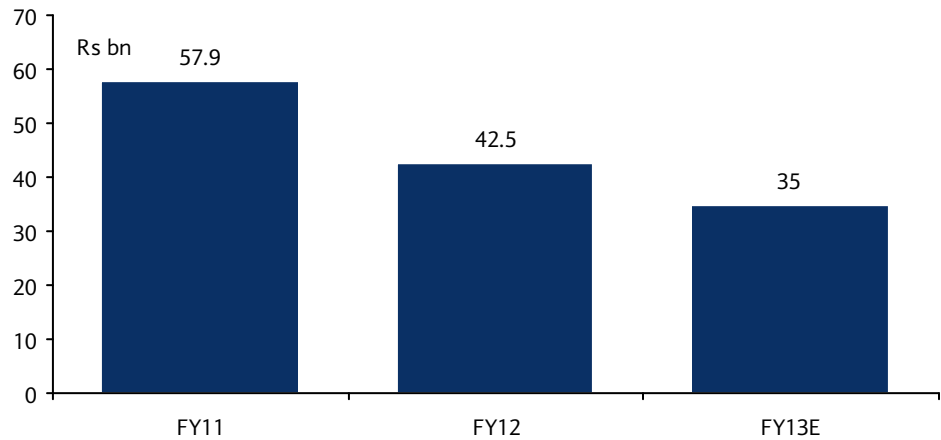


Source: Company data, Barclays Research

FY13 capex set to decline

The company has guided for FY13 capex of Rs35bn against Rs42.5bn spent in FY12. A part of this decline can be explained by the increased investment on 3G and long distance last year. Per company’s calculation, actual capex decline should only be marginal at Rs1-1.5bn on a like to like basis.

Figure 9: Capex guidance is for declines for the second consecutive year

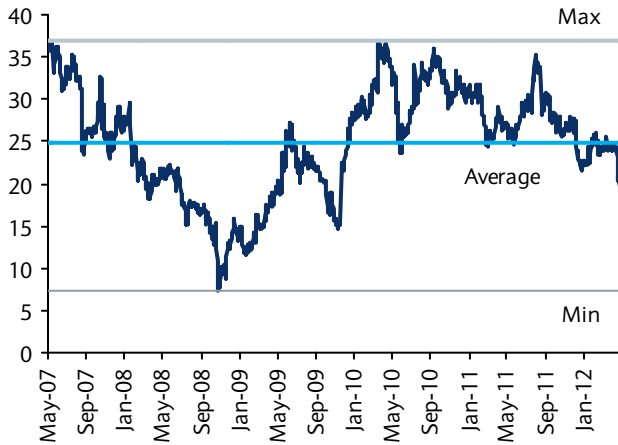


Source: Company reports, Barclays Research

Valuations

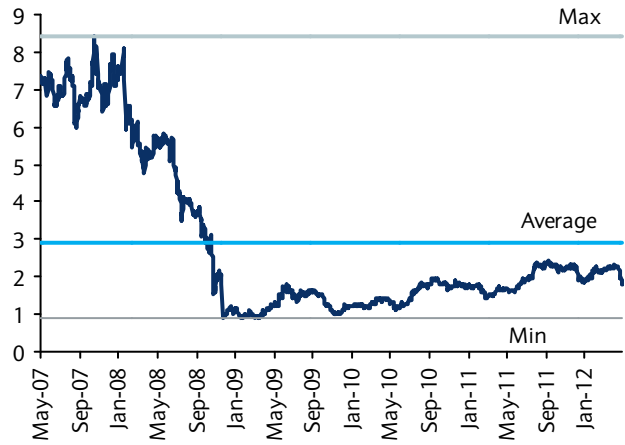
Idea trades below its long-term average valuation on both EPS and book value, which is reflective of the reducing growth of the sector.

Figure 10: Idea - 12 month forward PEx



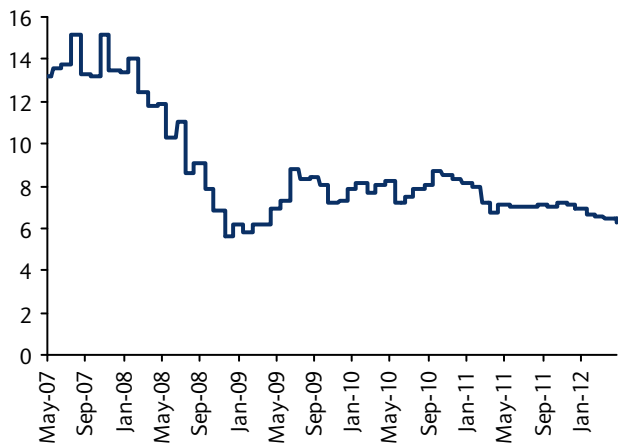
Source: Datastream

Figure 11: Idea - 12 month forward PBx



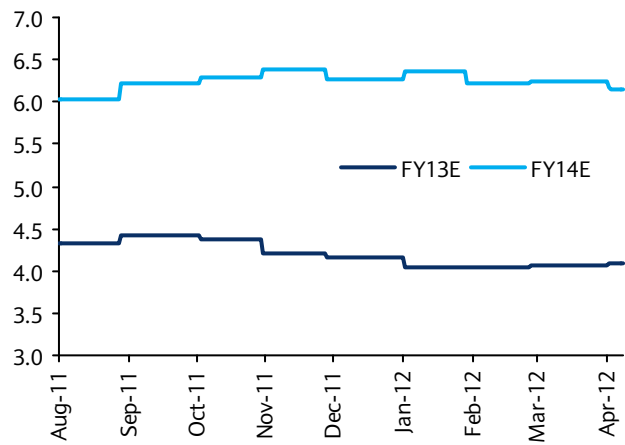
Source: Datastream

Figure 12: Idea - 12 month forward EV/Ebitda



Source: Datastream

Figure 13: Idea - FY12 and FY13 earnings revisions



Source: Datastream

Revisions to estimates

We incorporate changes into our estimates to build in the Dec-11 revenue and profit numbers and adjust our FY13 capex forecast to still imply a 6% upside to the company's guidance. Our numbers do not build in any payments for the spectrum – even for the seven circles where Idea needs to rebid – due to uncertainty about the timing. Thus, actual capex, including spectrum payments, could be significantly higher than our estimates. We maintain our 2-EW rating and PT of Rs100, based on our DCF valuation.

Figure 14: Idea - changes to estimates

Rs mn	New estimates		Old estimates		% change	
	FY3/13	FY3/14	FY3/13	FY3/14	FY3/13	FY3/14
Revenues	231,443	256,457	224,124	248,372	3.3%	3.3%
EBITDA	60,329	70,961	63,788	74,316	-5.4%	-4.5%
Margins	26.1%	27.7%	28.5%	29.9%		
PBT	20,575	29,494	21,098	29,686	-2.5%	-0.6%
PAT	13,826	19,673	14,178	19,949	-2.5%	-1.4%
EPS	4.19	5.96	4.30	6.04	-2.5%	-1.4%
Capex	37,904	37,056	39,422	37,244	-3.9%	-0.5%

Source: Barclays Research estimates

Figure 15: Idea – changes to estimates in the mobile business

Rs mn	New estimates		Old estimates		% change	
	FY3/13	FY3/14	FY3/13	FY3/14	FY3/13	FY3/14
Revenues	229,522	254,415	223,553	247,798	2.7%	2.7%
EBITDA	49,533	58,572	48,508	57,251	2.1%	2.3%
EBITDA margins	21.6%	23.0%	21.7%	23.1%		
EBIT	22,907	30,092	22,332	29,655	2.6%	1.5%
EBIT margins	10.0%	11.8%	10.0%	12.0%		
Capex	32,537	33,437	33,981	33,604	-4.2%	-0.5%

Source: Barclays Research estimates

ANALYST(S) CERTIFICATION(S)

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Primary Stocks (Ticker, Date, Price)

Idea Cellular Ltd. (IDEA.NS, 27-Apr-2012, INR 81.45), 2-Equal Weight/2-Neutral

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

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1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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China Mobile (0941.HK)

China Telecom (0728.HK)

China Unicom (0762.HK)

Chunghwa Telecom (2412.TW)

Far EasTone (4904.TW)

HKT Trust and HKT Limited (6823.HK)

Hutchison Telecom Hong Kong Holdings (0215.HK)

Idea Cellular Ltd. (IDEA.NS)

M1 (MONE.SI)

PCCW Limited (0008.HK)

Reliance Communications Ltd. (RLCM.NS)

IMPORTANT DISCLOSURES CONTINUED

Singapore Telecom (STEL.SI) SmarTone Telecommunications Holdings Ltd. (0315.HK) StarHub Limited (STAR.SI)
Taiwan Mobile (3045.TW)

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Barclays Equity Research has 2308 companies under coverage.

42% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 49% of companies with this rating are investment banking clients of the Firm.

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Idea Cellular Ltd. (IDEA IN / IDEA.NS)
 INR 81.45 (27-Apr-2012)

Stock Rating
2-EQUAL WEIGHT

Sector View
2-NEUTRAL

Rating and Price Target Chart - INR (as of 27-Apr-2012)

Currency=INR



Date	Closing Price	Rating	Price Target
09-Nov-2011	94.75	2-Equal Weight	100.00

[Link to Barclays Live for interactive charting](#)

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Valuation Methodology: Our 12-month price target of Rs100 is based on our discounted cash flow analysis in which we assume a c.10% average revenue growth and margin expansion of almost 800bps through the decade, a 3% terminal growth rate and a WACC of 12%.

Risks which May Impede the Achievement of the Barclays Research Price Target: The key risks that might keep our price target from being achieved, in our view, include the regulatory changes on the mobile side, new licenses and emergence of competition and execution risks on 3G business.

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