

Idea Cellular Ltd.

Rs. 81

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

A strong quarter; regulatory overhang persists..

BUY

Idea Cellular reported numbers were inline with estimates. The company reported net sales of Rs 5370crs, strong growth of 27% Y-o-Y. This growth was driven by both increase in subscriber base as well as higher ARPU. EBITDA for the quarter was Rs 1357crs, a growth of 26% over Q4FY11. EBITDA margins slightly dipped by 10bps to 25.3% on account of higher networking cost and spectrum charges. Net profit was Rs 239crs which declined by 13% y-o-y due to higher amortization cost and sharp increase in interest expenses. Net profit margin for the quarter was 4.5% down by 200bps y-o-y. Steady growth in GSM subscriber addition and increase in ARPU backed by pick up in 3G services gives strong revenue visibility for FY13E. Cost rationalization and lower interest outgo will help to improve margins going forward.

Better than industry net subscriber addition led the revenue growth:

Idea's subscriber base increased from 106.4mn in Q3FY12 to 112.7mn in Q4FY12. In spite of weak quarter compared to last quarter, the company reported slight growth in ARPU. ARPU for the quarter was Rs 160. MoUs also increased by 2% Q-o-Q to 379mins. However the average realized rate declined from Rs. 433 to Rs. 422. The company reported higher mobile value added services contribution from 13.7% in Q3FY12 to 14.3% in Q4FY12. Pick up on 3G services front is clearly visible. We believe going forward data revenue will go up with increase in penetration of 3G users.

Increase in networking cost & licence fees dented operating profit:

The company reported increase in networking cost 9% Q-o-Q to Rs 1258crs and licence fees increased by whopping 31% Q-o-Q to Rs 737crs. It dragged EBITDA margins from 140bps to 25.3% from 26.7% in Q3FY12.

Regulatory overhang persists:

With recent TRAI's proposal of increasing spectrum pricing has dented market capitalization of the company. The management said the association of telecom operators has opposed the proposals and suggestions have been sent to higher authority. The company is confident that such proposals would be taken into consideration before actual implementation. We believe such regulatory changes are overhang for the company's performance.

Our View:

Idea's another strong performance shows growth is back on track with increasing trend in ARPU and higher MVAS revenue contribution. The company has been adding higher net GSM subscribers than the industry average which is contributing to strong sales in FY13E. Increase in ARPUs driven by higher realized rate, improvement in traffic and 3G being operational, Idea is on track of growth. The stock is trading at 5.8x EV/EBITDA to its FY13E earnings. We recommend BUY on the stock with a target price of Rs 95 by assigning 6.5x EV/EBITDA to its FY13E earnings.

Exhibit 1: Key Financial

Particulars, Rs Cr	FY10	FY11	FY12	FY13E
Revenue	12447	15503	19541	24427
EBITDA	3407	3791	5092	6324
Pat	954	899	723	1084
EBITDA Margin %	27.4%	33.9%	33.0%	35.0%
NPM %	21.9%	10.2%	8.9%	11.9%
EV/Ebitda, x	10.1	10.1	7.3	5.8
RoE, %	8%	7%	6%	8%

Source: Company data, KRChoksey Research

Target Price (Rs): 95

Potential upside: 17%

Previous TP (Rs): 104

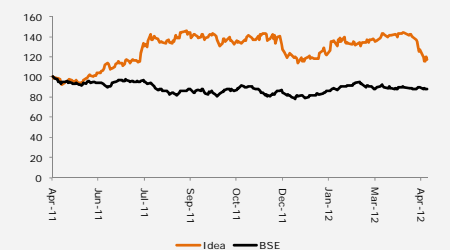
Market Data

Shares outs (Cr)	330.3
Equity Cap (Rs. Cr)	3303
Mkt Cap (Rs. Cr)	26,754.3
52 Wk H/L (Rs.)	103.65/62.65
Avg Vol (1yr Avg)	64,21,500
Face Value (Rs.)	10
Bloomberg Code	IDEA IN

Market Info:

SENSEX	17,304
NIFTY	5,246

Price Performance



Share Holding pattern (%)

Particulars	Mar-12	Dec-11	% Chg
Promoter	45.98	45.98	-0.0
FII	15.26	13.43	13.6
DII	6.20	7.56	-13.3
Others	32.58	33.03	-6.7
Total	100	100	-1.3

Source: BSE

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Other key highlights

- Idea Cellular has subscriber base of 1112.7mn subscribers at the end of Q4FY12.
- MVAS contributed 14.3% to total revenue in the quarter.
- Indus contribution to net revenues was Rs 331.7cr.
- Blended churn decreased sequentially from 10.4% in Q3FY12 to 9.9% in Q4FY12.
- The company guided total capex of Rs 35bn in FY13.
- Idea had robust traffic growth of 9% over q-o-q to 124bn minutes from 114bn minutes.
- ARPU increased from Rs 159 in Q3FY12 to Rs 160 in Q4FY12.

Exhibit 2: Q4FY12 Result Key Financials

Particulars	Q4FY12	Q3FY12	Q4FY11	q-o-q	y-o-y
Total revenue	5370	5031	4235	7%	27%
Cost of trading goods	53	45	13	18%	299%
Personnel expenditure	255	242	211	5%	21%
Network operating expenditure	1258	1153	1027	9%	22%
Licence & WPC charges	737	561	478	31%	54%
Roaming & access charges	914	846	681	8%	34%
Subscriber acquisition & promotional charges	681	643	616	6%	10%
Other expenditure	115	195	133	-41%	-14%
EBITDA (Excl OI)	1357	1345	1075	1%	26%
EBITDA margin	25.3%	26.7%	25.4%	-140bps	-10bps
Depreciation & Amortization	784	757	657	4%	19%
EBIT	573	587	418	-2%	37%
Interest expense	227	288	85	-21%	166%
PBT	346	299	333	16%	4%
Tax	106	98	58	8%	83%
PAT	239	201	275	19%	-13%
NPM	4.5%	4.0%	6.5%	50bps	-200bps

Source: Company data, KRChoksey Research

Exhibit 3: Profit & Loss Account

Particulars (Rs Cr)	FY10	FY11	FY12	FY13E
Total Income	12447	15503	19541	24427
Cost of Trading Goods Sold	30	41	66	74
Personnel Expenditure	645	806	950	1232
Network Operating Expenditure	3127	4013	4734	5728
Licence and WPC Charges	1347	1773	2323	2602
Roaming and Access Charges	1800	2475	3280	3941
Subscriber Acquisition and Servicing Expenditure	1582	1974	2415	3571
Advertisement and Business Promotion Expenditure	509	630	747	955
EBITDA	3407	3791	5092	6324
Other Income	84	0	0	0
Depreciation & Amortisation	2015	2397	2981	3756
Finance and Treasury Charges (Net)	401	396	1056	950
PBT	1075	997	1055	1617
Tax expense	121	98	332	534
PAT	954	899	723	1084

Source: Company data, KRChoksey Research

Exhibit 4: Balance sheet

Particulars, (Rs Cr)	FY10	FY11	FY12	FY13E
Sources of funds				
Share Capital	3300	3303	3303	3303
Reserves and Surplus	8530	8946	9669	10753
Loan Funds	7859	12071	13570	12213
Deferred Tax Liability (Net)	214	310	310	310
Other liabilities	50	50	50	50
Total	19999	24680	26902	26629
Application of funds				
Net Block	18168	17601	19813	25757
Capital Work-in-Progress	546	3647	2647	2122
Goodwill on Consolidation	6	6	6	6
Investments	1130	1020	1020	1020
Inventories	54	65	83	74
Sundry Debtors	466	479	589	682
Cash and Bank Balances	290	456	2013	2358
Other Current Assets	298	78	98	434
Loans and Advances	2556	1976	2104	2420
Net current liabilities	4068	5533	6162	7778
Net Current Assets	-629	-2479	-1275	-2276
Total	19999	24680	26902	26629

Source: Company data, KRChoksey Research

Exhibit 5: Cash Flow

Particulars (Rs Cr)	FY10	FY11	FY12	FY13E
Cash Flow from Operating Activities				
Net Profit after Tax	954	899	723	1084
Depreciation	1812	2397	2981	3756
Interest charge	681	396	1056	950
Operating profit before working capital changes	3527	3843	5044	6005
Net cash from operating activities	2542	5933	5113	5470
Net cash from/(used in) investing activities	-2953	-9705	-4000	-5771
Net cash from / (used in) financing activities	-2401	3939	444	646
Net increase/(decrease) in cash and cash equivalent	-2813	166	1556	345
Cash and cash equivalent at the beginning	3086	290	456	2013
Cash and cash equivalent at the end	290	456	2013	2358

Source: Company data, KRChoksey Research

Exhibit 6: Ratios

Particulars	FY10	FY11	FY12	FY13E
EBITDA Margin (%)	27.4%	24.5%	26.1%	25.9%
Net Profit Margin (%)	7.7%	5.8%	3.7%	4.4%
EPS, Rs	2.9	2.7	2.2	3.3
PE, (x)	28.1	29.8	37.0	24.7
P/BV, (x)	2.3	2.2	2.1	1.9
RoE (%)	8.1%	7.3%	5.6%	7.7%
EV/EBITDA	10.1	10.1	7.3	5.8

Source: Company data, KRChoksey Research

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Idea Cellular Ltd.

	CMP (Rs)	TP (Rs)	Recommendation
30-April-2012	81	95	BUY
25-January-2012	93	104	HOLD
22-October-2011	91	104	HOLD
1-August-2011	98	112	HOLD

Rating Legend

Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

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