

Analyst:  
**Atul Kanwar**  
atulkanwar@bajajcapital.com

Reviewed by:  
**Alok Agarwala**  
aloka@bajajcapital.com

## BUY Idea Cellular Limited

Investment Details	
CMP (Rs.)	58.0
Target (Rs.)	69.0
Upside Potential (%)	19.0
Horizon (Months)	10-12 M

Idea Cellular is India's fifth largest telecom wireless service operator with ~11% of the wireless subscriber base and ~13% revenue market share. Idea is a leading GSM (Global System for Mobile Communication) mobile services operator with about 66.7 million subscribers at the end of May, 2010. The company covers all the 22 2G telecom circles in India. It operates both in the 900 MHz & 1800 MHz spectrum. The company bagged 11 circles in the recently concluded 3G auction. Idea also has NLD and ILD operations. Idea has acquired Spice Telecom which is a leading player in the Punjab and Karnataka telecom markets. Aditya Birla Group is the promoter of Idea Cellular.

### KEY INVESTMENT ARGUMENTS

Profile	
Industry	Telecom
Market Cap (Rs cr.)	19141.3
Face Value (Rs.)	10.0
52-week high/low (Rs.)	84.8/47.8
Book Value (Rs.)	34.3
Price / Book Value	1.7
PE Ratio (TTM)	20.1
Dividend (%)	0.0
Average Daily Volume (1 Y)	6425658

#### ➤ Successful 3G spectrum auction for the company

Idea's strategy for the 3G auction was considered the most successful among the telecom operators who participated in it. It bagged 11 service areas, covering 49% of all India revenue generation. They include Kerala, Maharashtra, Andhra Pradesh, Gujarat, Madhya Pradesh, Uttar Pradesh (West), Uttar Pradesh (East), Haryana, Panjab, Himachal Pradesh & Jammu & Kashmir. It is a market leader in 4 of these circles and is ranked second in other 3 circles. Its average revenue market share in the bagged 3G markets is 21%, which augurs well from a payback perspective. It also protects Idea's 80% existing 2G revenue as and when the number portability becomes a reality. Total payment for 3G spectrum stands at Rs 5769cr., which is the lowest among the major operators. Idea is not among the top three in any of the circles it lost. The mobile penetration in the circles it won is around 53%. The average monthly revenue per user in the circles it has won is Rs 199 compared with Rs 146 in the circles it lost.

#### ➤ Addition of new 2G telecom circles to boost financials

The company launched its services in Orissa, Chennai & Tamil Nadu, Jammu & Kashmir, Kolkata & West Bengal and Assam & North East states in phases during FY 2009-10. It is now a pan India operator. The impact of the subscriber addition in these areas would accrue in the coming quarters.

#### ➤ Attractive 2G spectrum profile

**900 MHz**

- 9 operating service areas contributing 40% of the national revenue market.
- Usually accompanied by early mover advantage
- Provides capex advantage

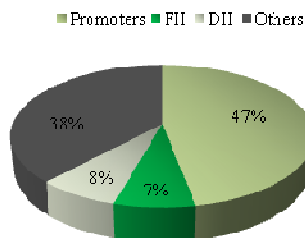
**Leverage spectrum & scale advantages to enhance leadership**

**1800 MHz**

- 13 operating service areas that helped create a pan India presence
- Leverage synergies of scale & wider presence
- Strong presence in Delhi & Mumbai circles.

**Sustainable & profitable growth**

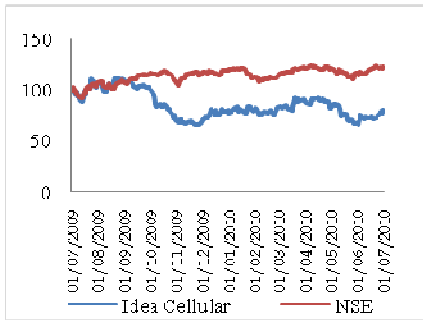
### Shareholding



Source: BSE. Figures as on March 31, 2010.

Source: Company

Idea Cellular V/s NSE



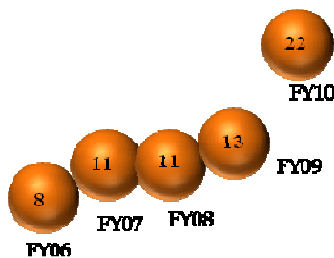
➤ **Idea is doing very well in the 900Mhz frequency service areas**

Out of the nine 900 MHz circle under its belt, Idea is the leader in four of them. It is the no. 2 player in other three service areas. Overall it is the no. 2 player in these 9 service area with a market size of 20.6%.

Telecom Service Area (900 Mhz)	Revenue Market Share (RMS)	Rank
Madhya Pradesh	29.1%	1
Kerala	29.0%	1
Maharashtra	28.4%	1
Uttar Pradesh (West)	27.7%	1
Haryana	20.4%	2
Punjab	17.8%	2
Andhra Pradesh	16.1%	2
Gujarat	18.0%	3
Karnataka	6.4%	6
<b>TOTAL</b>	<b>20.6%</b>	<b>2</b>

Source: Company

2G Telecom Circles Covered



Source: Company

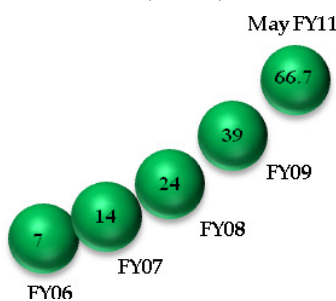
➤ **Growth in subscriber base, Minutes of use on network & VAS**

Idea closed FY09 with ~39 million subscribers. The company crossed the ~50 million subscriber mark in August 2009. The growth has been very strong with the subscriber base touching 66.7 million by the end of May 2010. Total Minutes of Usage on the network were 44.2 billion in Q4FY09, against 68.3 billion in Q4FY10, showing a growth of 54.5% on a YoY basis. Value Added Services (VAS) as % of revenue has grown from 9.5% in Q4FY09 to 12.4% in Q4FY10.

➤ **The Indus advantage**

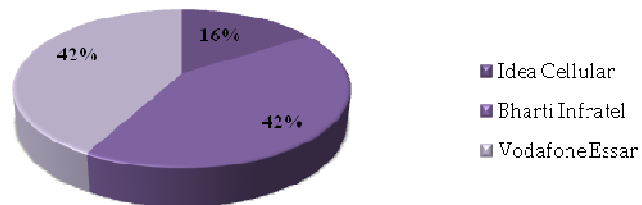
Indus is the largest independent tower company in the world, having about 1,03,000 towers under its management. It provides infrastructure service in 15 service areas. Indus benefits from assured tenancy from its promoters and the other operators. Idea benefits from the reduced capital expenditure and the embedded value of the shareholding.

Subscriber Base (million)



Source: Company

Indus Shareholding

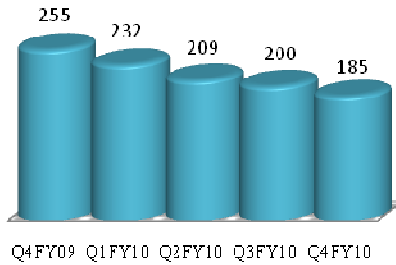


Source: Company

➤ **Strong promoters & management**

Idea cellular, belonging to the Aditya Birla group has a strong promoter background. It also has a strong management. The management quality was very evident in the recently concluded 3G spectrum auction where Idea managed to bag most of the 3G service areas it aspired for, paying the least amount among the major telecom wireless service providers.

Average Revenue per User (ARPU)

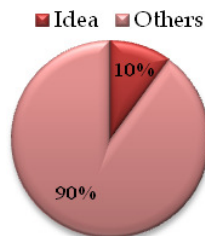


Source: Company

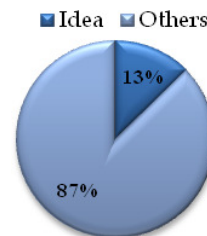
➤ **Increase in revenue market share**

Idea’s revenue market share has increased from ~10% in Q4FY08 to ~13% in Q4FY10.

Market Share – Q4 2008

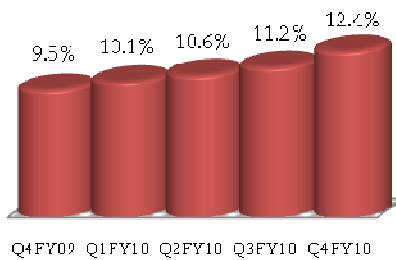


Market Share – Q4 2010



Source: Company

Value Added Services as % of Revenue



Source: Company

➤ **Broadband woes**

The company failed to win any broadband spectrum in the recently concluded Broadband Wireless auction.

➤ **Hyper Competition and Overcapacity**

The overcapacity in the telecom sector has led to cut throat competition among the service provider’s with prices dipping to all time lows.

➤ **Decline in Operational Indicators**

Average Revenue per user (ARPU) has declined from Rs. 255 in Q4FY09 to a low of Rs. 185 in Q4FY10. Realized Rate per minute has declined from Rs.0.63 to Rs.0.47 for the same period.

➤ **TRAI may charge the company for excess 2G spectrum**

TRAI may charge GSM players Rs. 10,500cr. as a one time fee for the excess 2G spectrum held by them. Idea’s share comes to Rs. 1100cr.

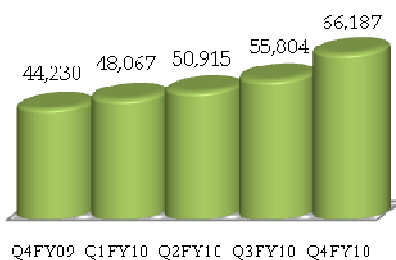
**VALUATIONS**

The decision of the government to increase the number of players in each circle has led to a sharp fall in the telecom tariffs. The prices that were already among the lowest in the world seem to have nosedived further and may not be sustainable in the long term. We feel that the tariffs have bottomed out and so has the Idea stock, which has priced in all the bad news.

Idea cellular, a Rs 19141.3 cr. company by market capitalization, is currently trading at a share price of Rs 58.0. The current EPS is Rs 2.9, which translates into a PE of 20.1. In terms of price to book value, it is current available at 1.7. Market cap to sales ratio is 1.5. Given the growth prospects of the company, the stock is an attractive buy.

We recommend a “BUY” on the stock with an investment horizon of 10-12 months and target price of Rs. 69.

Cell Sites

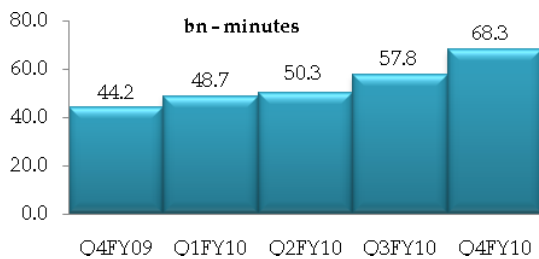


Source: Company

SWOT Analysis

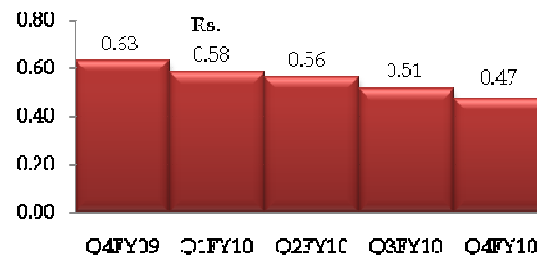


Minutes of Use on Network (QoQ)



Source: Company

Realized Rate per Minute



Source: Company

**FINANCIAL STATEMENTS:**

Income Statement: Consolidated

Rs. Cr.

Particulars	Rs. Cr.			QoQ (%)	YoY (%)
	Q4FY10	Q3FY10	Q4FY09		
Net Sales	3319.0	3135.8	2930.1	5.8	13.3
Other Income	51.9	0.0	0.0		
Total Income	3399.7	3149.5	2942.5	7.9	15.5
Total Expenditure	2424.2	2335.3	2130.6	3.8	13.8
PBIDT	975.5	814.1	811.9	19.8	20.2
<b>PBIDT Margin %</b>	<b>29.4</b>	<b>26.0</b>	<b>27.7</b>		
Interest	114.1	93.8	104.9	21.6	8.8
PBDT	861.4	720.4	707.0	19.6	21.8
Depreciation	566.7	513.1	431.0	10.5	31.5
PBT	294.7	207.3	276.1	42.2	6.8
Tax	28.1	37.2	21.1	-24.4	33.4
Adjusted PAT	266.6	170.1	255.0	56.7	4.6
<b>APAT Margin (%)</b>	<b>8.0</b>	<b>5.4</b>	<b>8.7</b>		

Financials: Consolidated

Rs. Cr.

	Rs. Cr.					4 yr CAGR %
	201003	200903	200803	200703	200603	
Share Capital	3300.2	3100.1	2635.4	2592.9	2259.5	
Networth		13245.2	3540.8	2179.8	650.6	
Capital Employed		22159.3	10056.2	6430.3	4419.2	
Total Income	12530.7	10652.2	6919.1	4411.4	2989.6	43.1
Total Expenditure	9039.9	7309.9	4458.5	2889.3	1890.9	47.9
Revenues	12397.9	10131.3	6720.0	4366.4	2966.2	43.0
PBIDT	3490.8	3342.2	2460.6	1522.1	1098.7	33.5
Other Income	83.6	516.3	199.1	46.2	24.5	
Interest	400.5	1000.3	469.0	341.1	329.4	
Depreciation	2014.9	1402.8	876.8	671.8	549.5	
PBIT	1475.9	1939.4	1583.8	850.3	549.2	28.0
APAT	953.9	664.5	1004.1	493.9	210.3	45.9
Operating Cash Flows		2264.2	2522.4	1605.7	1277.7	
Free Cash Flows		-7613.8	-3454.4	-669.4	755.6	
Dividend %	0.0	0.0	0.0	0.0	0.0	
CEPS (Rs.)		7.4	7.3	4.5	3.4	
EPS (Rs.)*	2.9	2.1	3.8	1.9	0.9	32.8
Debt-Equity Ratio		0.9	1.9	2.3	2.9	
Interest Coverage Ratio		1.7	3.4	2.5	1.7	
RoNW %		7.1	21.8	14.4	9.0	
PBIDT Margin %	28.2	33.0	36.6	34.9	37.0	
PBIT Margin %	11.9	19.1	23.6	19.5	18.5	
APAT Margin %	7.7	6.6	14.9	11.3	7.1	
Total Asset Turnover Ratio		0.5	0.6	0.6		
Fixed Asset Turnover Ratio		0.8	0.9	0.8		
Market Cap/Sales	1.5					
PE Multiple	20.1					
P/BV Ratio	1.7					

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Bajaj Capital Centre for Investment Research  
**Bajaj Capital Ltd**  
**97, Bajaj House, Nehru Place**  
**New Delhi 110019**  
Tel 4169 3000, 4169 2900, Ext. 1516  
Email: bccir@bajajcapital.com