

## Idea Cellular

### Performance highlights

(₹ cr) - Consl	2QFY16	2QFY15	% chg (qoq)	1QFY16	% chg (yoy)
Revenue	8,723	8,921	(2.2)	7,687	13.5
EBITDA	3,057	3,228	(5.3)	2,491	22.7
EBITDA margin (%)	35.2	36.7	(150)bp	32.9	230bp
PAT	809	931	(13.1)	756	7.0

Source: Company, Angel Research

Idea Cellular (Idea)'s 2QFY2016 results have come in broadly in line with estimates. The average Minutes of Use (MOU) dipped 5.4% qoq to 386min/subscriber/month (due to seasonality issues and increasing rural penetration), the average revenue per min (ARPM) grew 1.8% sequentially to ₹0.45, and thereby the average revenue per user (ARPU) declined by 3.8% on a qoq basis to ₹175/month. **We maintain our Neutral view on the stock.**

**Quarterly highlights:** Idea's consolidated revenue for the quarter came in at ₹8,723cr, down marginally by 2.2% qoq, owing to a decline in the mobility business. The mobility segment's revenue dipped by 1.8% qoq to ₹8,509cr, on account of a decline in the overall MOU. The EBITDA margin slipped 150bp qoq to 35.2% due to increase in personnel costs and on account of a 5% sequential increase in advertisement and business promotion expenses. The Net Profit at ₹809.3cr, declined by 13.1% on a sequential basis.

**Outlook and valuation:** Going ahead, the realization would remain under pressure on account of heightened competition (both in the voice and the data segment). Further, post the entry of RJio, the pricing pressure would worsen further, particularly in the data segment. Also, Idea's debt/equity ratio has risen from 0.7x in FY2015 to about 1x as at the end of 2QFY2016, on account of payments incurred towards spectrum acquisition and network expansion. The same is expected to worsen further to 1.4x by the end of FY2016, and would thereby impact return ratios. **We remain cautious on Idea due to its worsening debt/equity ratio coupled with realization pressures. We maintain our Neutral rating on the stock.**

### Key financials (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net revenue	22,459	26,519	31,571	35,651	38,872
% chg	14.9	18.1	19.1	12.9	9.0
Net profit	1,012	1,968	3,227	3,196	2,568
% chg	40.1	94.4	64.0	(1.0)	(19.6)
EBITDA margin (%)	26.7	31.4	34.3	35.7	34.1
EPS (₹)	3.1	5.9	9.0	8.9	7.1
P/E (x)	46.2	23.8	15.7	15.9	19.8
P/BV (x)	3.5	3.1	2.2	2.0	1.8
RoE (%)	7.1	11.9	14.0	12.3	9.1
RoCE (%)	8.8	9.9	12.7	9.1	8.1
EV/Sales (x)	2.8	2.6	1.7	2.4	2.3
EV/EBITDA (x)	10.5	8.3	5.0	6.8	6.6

Source: Company, Angel Research;

## NEUTRAL

CMP	₹141
Target Price	-

Investment Period	-
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### Stock Info

Sector	Telecom
Market Cap (₹ cr)	50,791
Net debt (₹ cr)	15,257
Beta	0.7
52 Week High / Low	204/137
Avg. Daily Volume	449,731
Face Value (₹)	10
BSE Sensex	27,362
Nifty	8,261
Reuters Code	IDEA.BO
Bloomberg Code	IDEA@IN

### Shareholding Pattern (%)

Promoters	42.3
MF / Banks / Indian FIs	3.3
FII / NRIs / OCBs	50.6
Indian Public / Others	3.8

Abs. (%)	3m	1yr	3yr
Sensex	(1.1)	1.9	46.3
Idea	(17.9)	(10.3)	73.8

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2016 – Financial performance (Consolidated, Indian GAAP)**

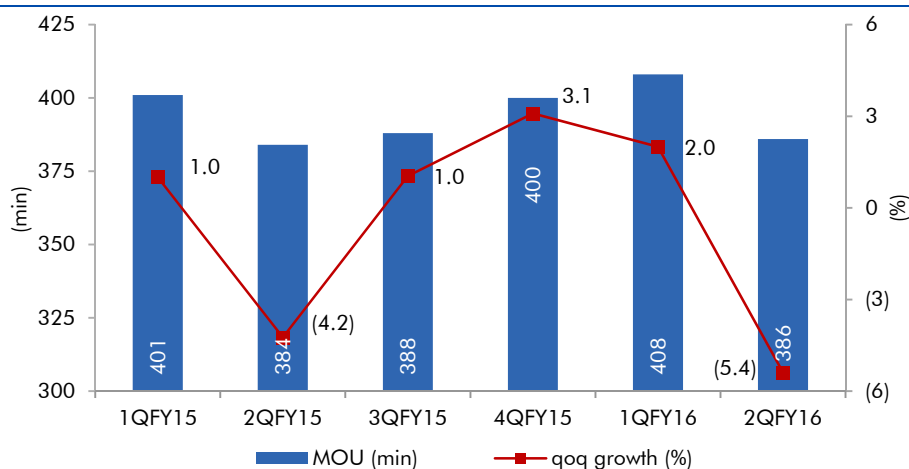
(₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	1HFY16	1HFY15	% chg( yoy)
<b>Net revenue</b>	<b>8,689</b>	<b>8,798</b>	<b>(1.2)</b>	<b>7,570</b>	<b>14.8</b>	<b>17,487</b>	<b>15,132</b>	<b>15.6</b>
Operating expenditure	5,632	5,570	1.1	5,079	10.9	11,202	10,130	10.6
<b>EBITDA</b>	<b>3,057</b>	<b>3,228</b>	<b>(5.3)</b>	<b>2,491</b>	<b>22.7</b>	<b>6,442</b>	<b>5,153</b>	<b>25.0</b>
Dep. and amortization	1,538	1,516	1.5	1,179	30.5	3,054	2,333	30.9
EBIT	1,519	1,712	(11.3)	1,312	15.7	3,388	2,820	20.1
Interest charges	306	402	(23.7)	261	17.3	708	495	42.9
Other income	34	122	(72.5)	117	(71.1)	156	151	3.6
PBT	1,246	1,433	(13.0)	1,168	6.7	2,836	2,475	14.6
Income tax	437	502	(13.0)	412	6.2	940	805	16.7
PAT	809	931	(13.1)	756	7.0	1,896	1,670	13.6
Minority interest	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>809</b>	<b>931</b>	<b>(13.1)</b>	<b>756</b>	<b>7.0</b>	<b>1,896</b>	<b>1,670</b>	<b>13.6</b>
EPS (₹)	2.2	2.6	(13.1)	2.1	6.9	4.8	4.3	13.6
EBITDA margin (%)	35.2	36.7	(150)bp	32.9	230bp	36.5	33.7	280bp
EBIT margin (%)	17.5	19.5	(200)bp	17.3	20bp	19.2	18.5	70bp
PAT margin (%)	9.7	12.0	(230)bp	11.5	(180)bp	11.6	11.9	(30)bp

Source: Company, Angel Research

### Soft results

Idea's consolidated revenue came in at ₹8,723cr, down 2.2% qoq, as 2Q is a cyclically soft quarter for telecom companies. The mobility segment's revenue dipped by 1.8% qoq to ₹8,509cr, owing to a decline in the overall MOU. With increasing proportion of rural subscribers, the seasonal slowdown in 2Q became more pronounced, resulting in the overall network traffic declining by 3.2% qoq to 189.5bn min. The ARPM inched up sequentially by 1.8% and stood at 45.3 paise/min given the increase in data usage. The MOU for the quarter was 386min/subscriber/month, declining 5.4% qoq; Voice RPM continued to remain under pressure declining 0.6% sequentially and 9.7% on a yoy basis to 32.7 paise/min. The ARPU dipped 4% qoq and 1% yoy to ₹175/subscriber/month. The subscriber base grew by 4.5mn qoq in 2QFY2016 with the end of the period (EoP) subscriber base standing at 166.6mn.

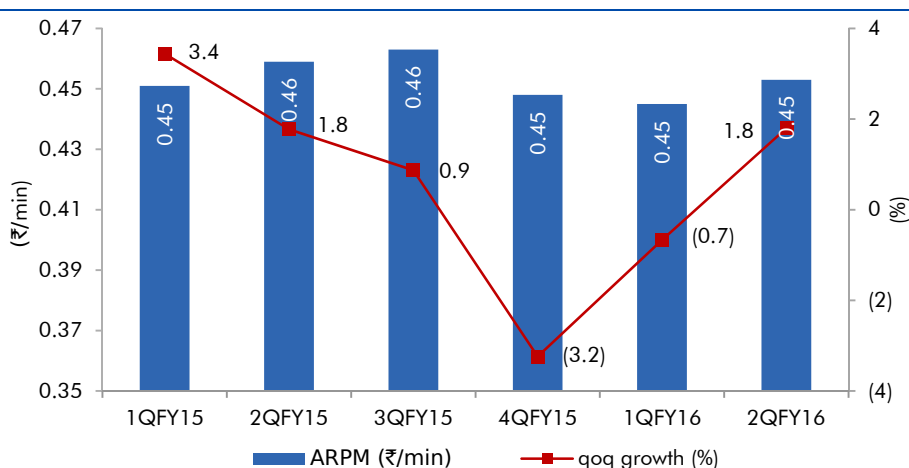
**Exhibit 2: Trend in MOU**



Source: Company, Angel Research

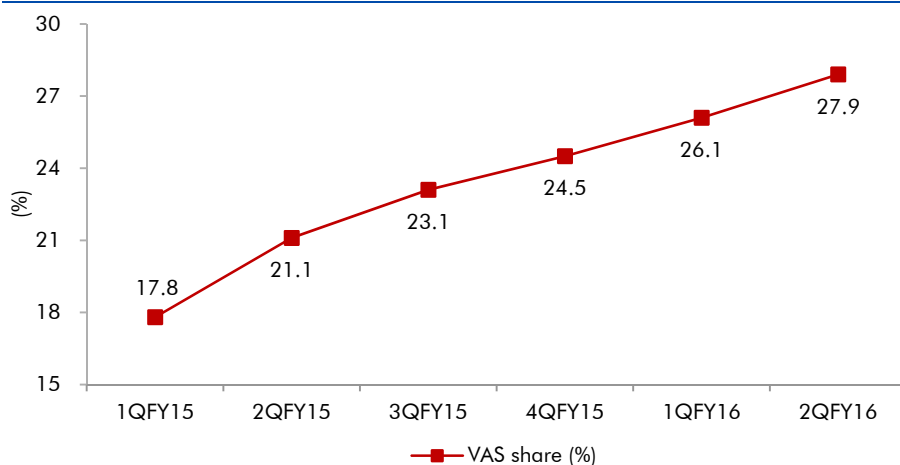
The share of value added services (VAS) revenues continued to inch up (increased 180bps sequentially to 27.9%) given the higher data adoption. Data revenue as % of service revenue improved from 14% to 19.6% in the last one year period. Data revenues grew by 9% qoq and now account for 19.6% of Idea’s wireless revenues, led by 14.8% qoq and 82.6% yoy growth in data volumes, pointing to strong data adoption in the Indian wireless market. Data revenue per MB dipped by 4.8% qoq to 23.4 paise, on account of mix change in favor of 3G data and increased competitive pressures. Overall mobile data users base (2G+3G) increased 11.2% sequentially, but the mobile data ARPU at ₹144 declined 9.8% sequentially. The company added 5.1mn new 3G users during 1HFY2016 with 3G EoP user base (Voice and Data) now at 19.6mn. The 3G user mobile data ARPU is steady at ₹202 per month.

**Exhibit 3: Trend in ARPM**



Source: Company, Angel Research

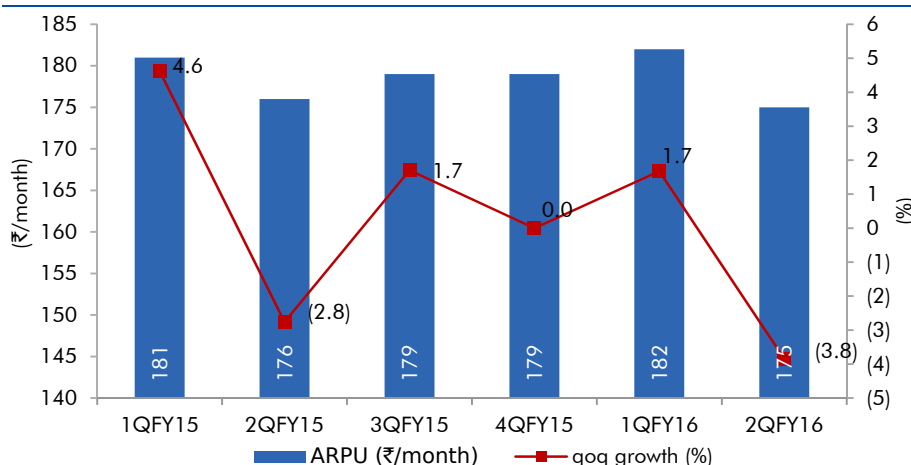
**Exhibit 4: Trend in VAS share in mobility revenue**



Source: Company, Angel Research

Thus, a decline in MOU more than offset the marginal increase in the subscriber base and ARPM, leading to a 3.8% qoq drop in ARPU to ₹175.

**Exhibit 5: Trend in ARPU**



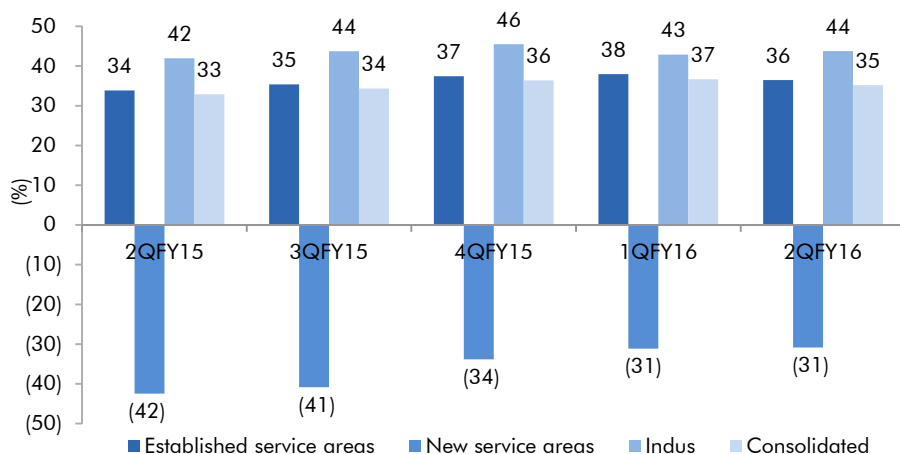
Source: Company, Angel Research

### EBITDA margin declines

For 2QFY2016, Idea’s EBITDA margin slipped 150bp qoq to 35.2%, due to increase in personnel expenses and advertisement and business promotion expenses. While employee expenses tend to be higher in 2Q, Advertisement expenses grew 5% sequentially, putting pressure on the margins.

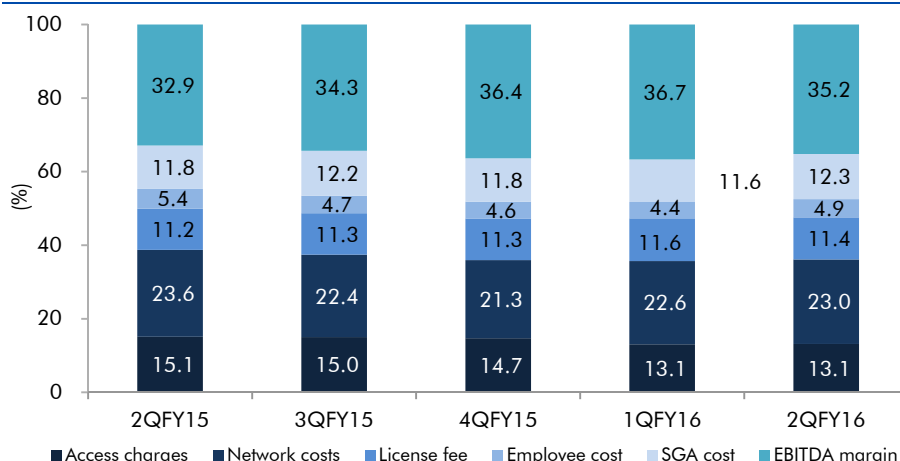
During the quarter, the revenue from established service areas (ESA) stood at ₹8,105cr, down 1.8% qoq and revenue from new service areas (NSA) stood at ₹575cr, up 5.6% qoq. The EBITDA margin of ESA dipped ~140bp qoq to 36.5%; EBITDA loss from NSA stood at ₹178cr (₹170cr in 1QFY2016). EBITDA contribution from Indus Towers (Indus) stood at ₹280cr (+5% qoq). EBITDA losses from new circles would continue as the company indicated that it does not expect new circles to break even at the EBITDA level in the near term.

**Exhibit 6: Trend in EBITDA margin**



Source: Company, Angel Research

**Exhibit 7: Opex breakup**



Source: Company, Angel Research

**Other result highlights**

- Wireless churn during the quarter increased to 5.1% from 4.7% in the sequential previous quarter.
- Idea added 3,701 2G cell-sites, taking the total count to 119,276. 3G cell sites increased by 6,246 to 39,867 as at the end of 2QFY2016.
- During the quarter, national long distance (NLD) minutes declined marginally by 0.3% qoq to 16,287mn. NLD currently carries around 98.6% of Idea’s captive NLD minutes. Idea ILD services now handle around 99% of captive international long distance (ILD) outgoing minutes, besides bringing large volume of incoming minutes from top international carriers across the globe. Idea ISP (Internet Service Provider) currently handles all captive subscriber traffic requirements.
- Capex for the quarter stood at ₹1,726cr (excluding forex fluctuations) and the company has maintained its capex guidance of ₹6,000-6,500cr for FY2016E.

## Outlook and valuation

Going ahead, realization would remain under pressure on account of heightened competition, both in the voice and the data segment. Further, post the entry of RJio, the pricing pressure would worsen further, particularly in the data segment. Also Idea's debt/equity has risen from 0.7x in FY2015 to about 1x as at the end of 2QFY2016, on account of payments incurred towards spectrum acquisition and network expansion. The same is expected to worsen further to 1.4x by the end of FY2016, and would thereby impact return ratios. **We remain cautious on Idea due to its worsening debt/equity ratio coupled with realization pressures. We maintain our Neutral rating on the stock.**

## Company background

Idea Cellular (Idea), a part of the Aditya Birla Group, is the third largest telecommunication service provider in India in terms of revenue. The company provides mobile services in all the 22 circles of the country and has 167mn subscribers. Idea had won 3G licenses in 13 out of the 22 circles in India and is currently providing 3G services in 21 circles (in seven circles by 3G roaming agreements). The company also holds a 16% stake in Indus Towers, which is a JV of Bharti Airtel, Vodafone and Idea.

**Profit and loss account (Consolidated, Indian GAAP)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Net sales</b>	<b>22,459</b>	<b>26,519</b>	<b>31,571</b>	<b>35,651</b>	<b>38,872</b>
Network operating exp.	5,536	6,499	7,196	8,251	9,124
% of net sales	24.6	24.5	22.8	23.1	23.5
License and WPC charges	2,475	2,924	3,535	4,012	4,271
% of net sales	11.0	11.0	11.2	11.3	11.0
Roaming and access charges	4,015	4,162	4,731	4,743	5,358
% of net sales	17.9	15.7	15.0	13.3	13.8
Other expenses	4,427	4,601	5,290	5,934	6,872
Total expenditure	16,453	18,185	20,752	22,941	25,624
% of net sales	73.3	68.6	65.7	64.3	65.9
<b>EBITDA</b>	<b>6,006</b>	<b>8,334</b>	<b>10,819</b>	<b>12,710</b>	<b>13,248</b>
% of net sales	26.7	31.4	34.3	35.7	34.1
Dep. and amortization	3,478	4,519	5,304	6,501	7,377
EBIT	2,528	3,815	5,515	6,209	5,872
% of net sales	11.3	14.4	17.5	17.4	15.1
Interest expense	949	770	1,018	1,447	1,920
Other income, net	-	-	469.7	156.1	-
Profit before tax	1,579	3,045	4,967	4,919	3,951
Provision for tax	566	1,076	1,740	1,723	1,383
% of PBT	35.9	35.4	35.0	35.0	35.0
<b>PAT</b>	<b>1,012</b>	<b>1,968</b>	<b>3,227</b>	<b>3,196</b>	<b>2,568</b>
Share in earnings of asso.	-	-	-	-	-
Minority interest	-	-	-	-	-
Profit after minority interest	1,012	1,968	3,227	3,196	2,568
<b>EPS (₹)</b>	<b>3.1</b>	<b>5.9</b>	<b>9.0</b>	<b>8.9</b>	<b>7.1</b>

**Balance sheet (Consolidated, Indian GAAP)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Liabilities</b>					
Share capital	3,314	3,320	3,598	3,598	3,598
Reserves and surplus	10,989	13,205	19,429	22,409	24,762
Additional paid up capital	-	-	-	-	-
Stock option outstanding	-	-	-	-	-
<b>Total shareholders' funds</b>	<b>14,303</b>	<b>16,525</b>	<b>23,027</b>	<b>26,007</b>	<b>28,359</b>
Convertible preference shares	2	2	2	2	2
<b>Total debt</b>	<b>12,263</b>	<b>18,776</b>	<b>16,810</b>	<b>36,232</b>	<b>37,832</b>
Long term provisions	314	499	574	574	574
Deferred tax liabilities	1,118	1,813	1,902	1,902	1,902
Other liabilities	795	923	963	3,463	3,963
<b>Total liabilities</b>	<b>28,795</b>	<b>38,537</b>	<b>43,278</b>	<b>68,179</b>	<b>72,631</b>
<b>Assets</b>					
Gross block - fixed assets	46,605	51,220	61,821	79,321	86,821
Accumulated depreciation	17,451	21,624	26,287	32,788	40,165
Net block	29,154	29,596	35,534	46,532	46,656
Capital WIP	881	11,419	5,141	17,141	17,291
<b>Total fixed assets</b>	<b>30,035</b>	<b>41,015</b>	<b>40,674</b>	<b>63,673</b>	<b>63,946</b>
Long term loans and adv.	3,048	2,897	4,275	9,000	9,000
Investments	-	-	-	-	-
Goodwill on consolidation	6	6	6	6	6
Non compete fees	-	-	-	-	-
Other non current assets	-	145	46		
<b>Current assets</b>					
Inventories	73	68	71	71	71
Current investments	1,028	216	11,527	327	327
Debtors	960	801	979	1,859	1,597
Cash	143	188	1,554	325	222
Loans and advances	1,085	1,218	1,229	2,387	2,591
Other current assets	1	3	106	106	106
Total current assets	3,289	2,494	15,466	5,074	4,915
Less:- trade payables	2,687	2,788	3,097	2,927	3,332
Less:-current liab.	4,771	5,044	13,789	6,345	1,602
Less:-provisions	125	188	302	302	302
<b>Net current assets</b>	<b>(4,294)</b>	<b>(5,526)</b>	<b>(1,723)</b>	<b>(4,500)</b>	<b>(321)</b>
Profit and loss account	-	-	-	-	-
<b>Total assets</b>	<b>28,795</b>	<b>38,537</b>	<b>43,278</b>	<b>68,179</b>	<b>72,631</b>



**Cash flow statement (Consolidated, Indian GAAP)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	1,579	3,045	4,967	4,919	3,951
Depreciation	3,347	4,173	4,663	6,501	7,377
Change in working capital	(95)	1,278	(2,437)	1,548	(4,282)
Direct taxes paid	976	863	303	2,546	500
Less: Others	(566)	(1,076)	(1,740)	(1,723)	(1,383)
<b>Cash Flow from Operations</b>	<b>5,241</b>	<b>8,282</b>	<b>5,756</b>	<b>13,791</b>	<b>6,163</b>
(Inc.)/Dec. in fixed assets	(5,715)	(15,153)	(4,322)	(29,500)	(7,650)
(Inc.)/Dec. in investments	-	-	-	-	-
Others	(792)	151	(1,378)	(4,725)	0
<b>Cash Flow from Investing</b>	<b>(6,506)</b>	<b>(15,002)</b>	<b>(5,700)</b>	<b>(34,225)</b>	<b>(7,650)</b>
Issue of equity	6	5	278	0	0
Inc./(Dec.) in loans	1,014	6,512	(1,965)	19,421	1,600
Dividend paid (Incl. Tax)	(108)	(144)	(216)	(216)	(216)
Others	345	392	3,213	(0)	0
<b>Cash Flow from Financing</b>	<b>1,256</b>	<b>6,766</b>	<b>1,310</b>	<b>19,205</b>	<b>1,384</b>
Inc./(Dec.) in cash	(9)	45	1,366	(1,229)	(103)
<b>Opening Cash balances</b>	<b>152</b>	<b>143</b>	<b>188</b>	<b>1,554</b>	<b>325</b>
<b>Closing Cash balances</b>	<b>143</b>	<b>188</b>	<b>1,554</b>	<b>325</b>	<b>222</b>

**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Valuation ratio (x)</b>					
P/E (on FDEPS)	46.2	23.8	15.7	15.9	19.8
P/CEPS	11.3	7.8	5.9	5.2	5.1
P/BVPS	3.5	3.1	2.2	2.0	1.8
Dividend yield (%)	0.2	0.3	0.4	0.4	0.4
EV/Sales	2.8	2.6	1.7	2.4	2.3
EV/EBITDA	10.5	8.3	5.0	6.8	6.6
EV/Total assets	2.2	1.8	1.3	1.3	1.2
<b>Per share data (₹)</b>					
EPS (Fully diluted)	3.1	5.9	9.0	8.9	7.1
Cash EPS	12.5	18.0	23.7	26.9	27.6
Dividend	0.3	0.4	0.6	0.6	0.6
Book value	39.7	45.9	64.0	72.2	78.8
<b>DuPont analysis</b>					
Tax retention ratio (PAT/PBT)	0.6	0.6	0.6	0.6	0.7
Cost of debt (PBT/EBIT)	0.6	0.8	0.9	0.8	0.7
EBIT margin (EBIT/Sales)	0.1	0.1	0.2	0.2	0.2
Asset turnover ratio (Sales/Assets)	0.8	0.7	0.7	0.5	0.5
Leverage ratio (Assets/Equity)	2.0	2.3	1.9	2.6	2.6
Operating ROE	7.1	11.9	14.0	12.3	9.1
<b>Return ratios (%)</b>					
RoCE (pre-tax)	8.8	9.9	12.7	9.1	8.1
Angel RoIC	9.5	14.3	22.0	12.3	10.7
RoE	7.1	11.9	14.0	12.3	9.1
<b>Turnover ratios (x)</b>					
Asset turnover (fixed assets)	0.7	0.6	0.8	0.6	0.6
Receivables days	14	15	15	15	15
Payable days	65	55	60	55	55

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Disclosure of Interest Statement	Idea Cellular
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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