

BSE Code: 532882 NSE Code: IDEA Reuters Code: IDEA.NS Bloomberg Code: IDEA:IN

Idea Cellular (Idea), an Aditya Birla Group Company, is India's first truly multinational corporation. Idea is a pan-India integrated GSM operator offering 2G and 3G services, and has its own NLD and ILD operations, and also holds ISP license. With revenue in excess of ₹275.41 bn on trailing twelve months basis and revenue market share of nearly 16.6% with a subscriber base of over 139.0 mn as on Q1FY15; Idea is the sixth largest mobile telecommunication company (based on operations in a single country) in the world based on number of subscribers (as determined from data from World Cellular Information Services as of March'14). Idea's robust pan-India coverage is built on a network of over 100,000 2G and 3G cell sites, spread across the major cities, towns and villages in India. Using the latest technology, Idea provides world-class service delivery through the most extensive network of customer touch points, comprising of nearly 4,500 exclusive Idea outlets, and over 7,000 call centre seats.

### Investor's Rationale

**Recent spectrum wins to aid profitability in the coming years:** Idea has recently acquired the 45 MHz contiguous spectrum in 1800 MHz (out of 60.2 MHz it won in 1800 MHz) in 8 service areas. These 8 service areas represent nearly 58.1% of Idea revenue and an opportunity of upgrade to LTE service to existing 74.7 mn Idea subscribers. This move will help the company to stay competitive among its peers and will also aid to the subscriber base. To further strengthen its market share in data, Idea recently launched its 3G services in Delhi and Kolkata on the recently acquired 900 MHz spectrum.

**Uptick in Voice RPM and data to be the game changer:** In the face of stiff competition in the last few years, telecom sector had witnessed price wars among existing players to gain market share. Now, since all major telecom players recently have hiked their respective tariffs plan, we expect there will be no price war in the voice segment among players in the coming years thereby resulting in higher realisations per minute (RPM). Idea, being among the major gainer in subscriber base, is well poised to benefit the most from expected minutes of usage growth and higher data usage, which should drive the next wave of growth for Idea.

**Well positioned to bid for spectrum auction in FY15-16:** The company recently garnered total of ₹37.5 bn through QIP and the issuance of preference shares and this put Idea in a comfortable position to actively bid for upcoming spectrum auctions and to further strengthen its spectrum portfolios in key circles. Nine circles in which Idea holds spectrum in the premium 900 MHz band are coming up for renewal between Dec-15 and Apr-16. The Capex guidance for FY15 stands at ₹35 bn, excluding any spectrum related payments.

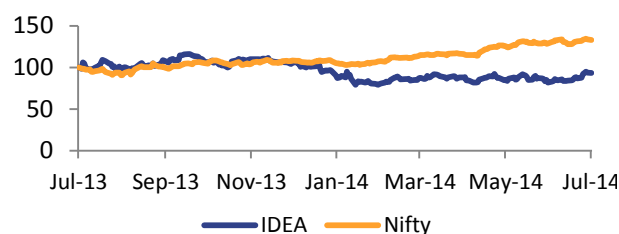
### Market Data

Rating	<b>BUY</b>
CMP (₹)	158.0
Target (₹)	<b>192</b>
Potential Upside	~22%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	188.4/125.1
Adj. all time High (₹)	188.4
Decline from 52WH (%)	16.1
Rise from 52WL (%)	26.3
Beta	1.2
Mkt. Cap (₹bn)	567.6
Enterprise Value (₹bn)	745.8

### Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	224.6	265.2	303.5	344.9
EBITDA (₹bn)	60.0	83.3	95.3	110.4
Net Profit (₹bn)	10.1	19.7	22.8	28.3
EPS (₹)	3.1	5.9	6.4	8.0
P/E (x)	51.8	26.7	24.6	19.8
P/BV (x)	3.7	3.2	2.7	2.4
EV/EBITDA (x)	11.3	8.9	7.7	6.7
ROCE (%)	8.9	10.1	10.3	11.9
ROE (%)	7.1	11.9	11.0	12.2

### One year Price Chart



### Shareholding Pattern

	Jun'14	Mar'14	Diff.
Promoters	42.91	42.91	-
FII	21.63	21.57	0.06
DII	4.53	4.87	(0.34)
Others	30.93	30.65	0.28

Idea holds 3G Spectrum (2100 & 900 MHz) in 12 service areas, which covers ~80% of the company's revenues and it provides 3G services in 21 service areas including Intra-Circle Roaming (ICR) arrangement for 10 Service areas.

### Idea Cellular - third largest telecom company by revenue

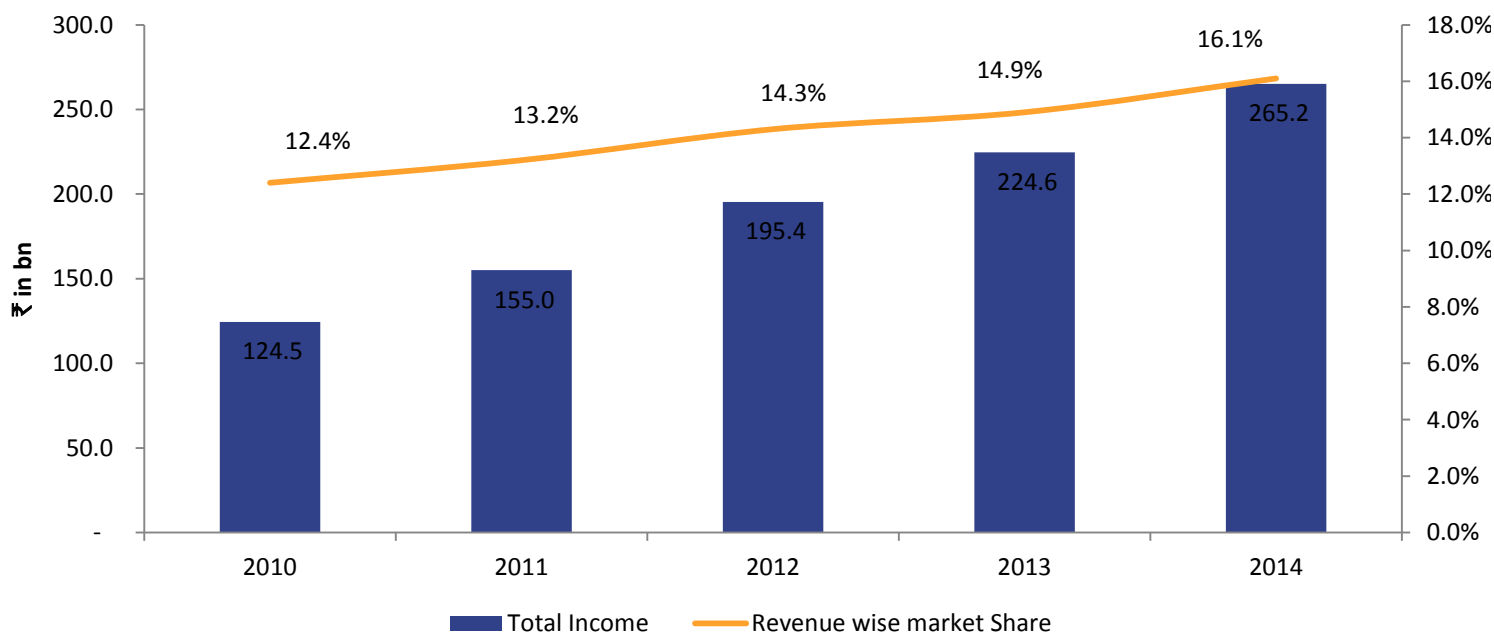
Idea is part of the Aditya Birla Group, which is one of the largest business groups in India. The Aditya Birla Group is a conglomerate with operations in more than 30 countries. Idea Cellular Limited ("Idea") is the third largest wireless operator in India with a Revenue Market Share (RMS) of 16.6% in Q4FY14. In its 22 established service areas, its RMS (Revenue Market Share) stands at a strong level of 19.8% (Q4FY14). The company carries around 1.82 bn minutes on a daily basis during the quarter ended June'15. Idea's leadership position on Mobile Number Portability (MNP) has enabled it to stay competitive with highest net subscriber addition. Idea offers a range of high-speed mobile broadband devices including Android based 3G smartphones, dongles etc. Also, Idea's wide portfolio of 3G smartphones offer the latest in 3G applications and high-end data services such as Idea TV, games, social networking etc. at most affordable prices. **Idea operates through multiple segments:**

**Mobility Services:** Idea provides pan India GSM mobile services in all 22 service areas of India. The mobile GSM business of Idea is segregated as 22 established service areas. In the recently concluded spectrum auction (February'14) for 900 MHz and 1800 MHz spectrum, Idea won 5MHz spectrum in 900 MHz frequency band in Delhi service area and LTE (Long Term Evolution) compatible 1800 MHz spectrum in other 8 service areas along with top-up GSM spectrum in 7 service areas. The company recently launches its 3G services in Delhi in Calendar Year 2015 using the recently acquired 900 MHz spectrum. Post Delhi 3G service launch, the 3G foot-print of Idea will cover ~80% of its current revenue & subscribers and ~57% of national mobile industry revenue.

**International Long Distance (ILD):** Idea holds licenses for NLD, ILD, ISP and IP-1 services. Idea currently has over 84,000 km fibre cable transmission network to tap the future potential of wireless broadband. Idea has 2500 OFC PoPs in major cities & linked highways. The fibre backhaul network of the company optimally serves its 2G/ 3G/ NLD/ ILD/ ISP/Wireless Broadband needs. Idea has also introduced worlds' latest high capacity 100G DWDM network technology to cater to raising data demand.

**Passive Infrastructure (PI):** The company operates through subsidiary and joint venture and it provides passive infrastructure services in this segment. Idea holds 16.0% in Indus towers, which is engaged in the business of sale, purchase and renting of communication devices.

**Idea's total income and market share (revenue wise) trend**



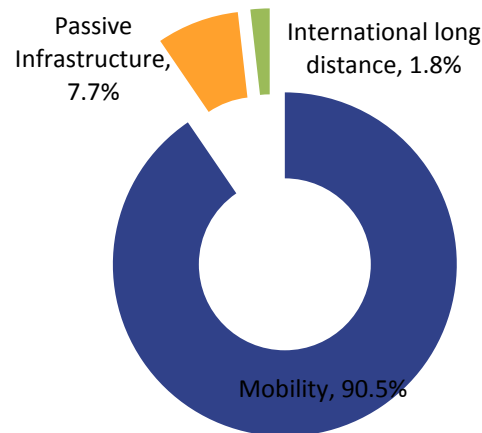
*In an attempt to boost margins, the telecom major clamped down on promotional minutes resulting in ARPM improvement. The VAS contribution improved sharply to 17.1% because of steep decline in non-data VAS.*

### Strong growth in “Mobile data” (volumes) drives profit up by 57.4% YoY in Q1FY15

Idea reported 15.6% YoY growth in its consolidated total income to ₹75.6 bn in Q1FY15 as against ₹65.4 bn in Q1FY14 led by exponential data growth and an increase in voice minutes and ARPM. Mobile data volume (2G+3G) grew exponentially by 135.8% YoY to 32.5 bn MB in Q1FY15 as against 13.8 bn MB in Q1FY14. During Q1FY15, Idea voice minutes improved by 12.2% YoY to 16.3 bn minutes as against 147.3 bn minutes in Q1FY14. The higher voice rate realisation and jump in Data contribution to 11.5% of service revenue helped ‘Average Realisation per Minute’ (ARPM) improved by 1.5 paise to 45.1 paise in Q1FY15 from 43.6 paise in Q4FY14. Also, during the quarter under review the share of Value Added Services (VAS) has also improved sharply to 17.8% of overall service revenue. During Q1FY15, EBITDA rose by 20.9%, driving the EBITDA margin to 33.2% in Q1FY15 as against 31.8% in Q1FY14 supported by growth in all segments of the company. The company’s ‘Profit after Tax’ PAT grew sharply by 57.4% YoY to ₹7.3 bn in Q1FY15 as against ₹4.6 bn in Q1FY14 after including dividend receipt of ₹3.6 bn from Indus tower during Q1FY15.

In FY14, Idea reported robust growth over 17.3% YoY in its total income to ₹265.2 bn in FY14 as against ₹224.6 bn in FY13 led by sharp expansion of voice minutes by 8.6% YoY to 157.1 bn minutes and mobile data volume (2G+3G) growth by 31.0% YoY to 27.3 bn MB; indicating strong consumer demand for Idea mobile telephony. The exponential growth of volume helped data revenue to reach 11.5% of overall ‘Service Revenue’ in Q1FY15, an increase of 140 bps over last year.

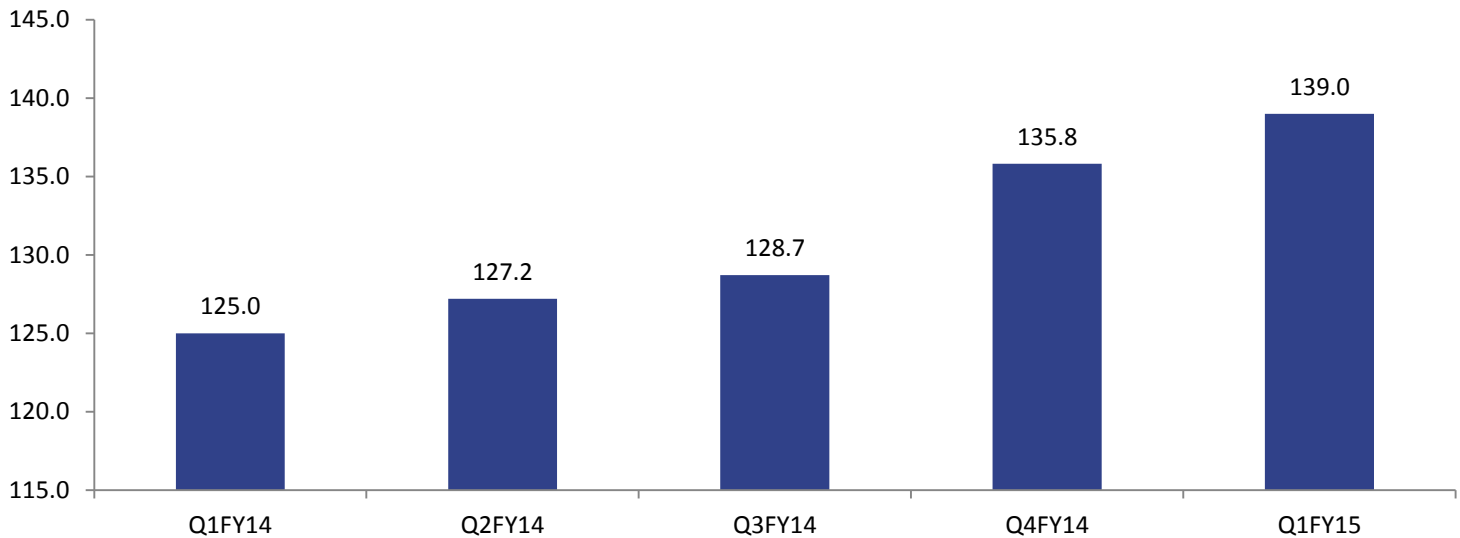
#### Segment wise revenue in Q1FY15



*Improvement in data ARPU was mainly on account of 3G adoption. The company witnessed data volume growth across circles.*

### Mobile data to be the game changer for the company

With the increased penetration of smart phones, Idea’s “Data” revenue reach 11.5% of overall ‘Mobility Revenue’ in Q1FY15, an increase of 140 bps over last quarter. Data usage per subscriber rose significantly by 155.6% YoY to 409 MB in Q1FY15 as against 160 MB in Q1FY14, while the same remained flat on sequentially basis. Further, the company added 0.4 mn new 3G users during Q1FY15 taking total 3G EoP base to 10.6 mn subscribers as against 5.5 mn subscribers during Q1FY13. The 3G user mobile data ARPU grew sharply by over 27.9% sequentially to ₹142 in Q1FY15 as against ₹111 in Q4FY14. This improvement in the data ARPU came on account of lower down the discounted data usage and freebies offered by the company. However Telcos would likely continue some freebies in the data segment to drive volume growth thereby likely to cap some of the benefits from data volumes. **We believe next wave of growth in the company will come from data, keeping in mind the smartphone penetration coupled with Idea’s extended footprint; however discount on data usage is likely to cap some of the earnings.**

**VLR- Subscriber base trend (nos. in mn)**


*Idea's net subscriber addition as per MNP stood at 9.92 mn, amongst the highest in the industry*

*Idea's 9 circles are coming for renewal, which contribute 79% of revenue so it will have to retain majority of 900Mhz spectrum holding and it may resulting in higher payout.*

**Larger subscriber base to aid revenue market share and thereby profitability**

The latest data released by the TRAI for VLR subscribers (active subscribers), reaffirms quality of Idea's subscriber base as among the best in terms of percentage of active subscribers. During the last 12 months beginning from June'13 to May'14, Idea added 18.4 mn VLR subscribers, while the overall industry added 62.6 mn VLR subscribers during the said period, recording incremental share of 29.4% of VLR subscribers, according to TRAI (Telecom Regulatory Authority of India). Idea, whose total subscriber's base stood at 139.0 mn in Q1FY15 as against 125.0 mn in Q1FY14, is now among the select global operators servicing over 138.0 mn subscribers. This large base of subscribers provides a great platform to the company for upgrading its pure voice customers into wireless data services in future. Idea has also maintained its leadership position since June'11 on overall MNP (Mobile Number Portability) Net Adds. Idea has a net gain of 9.92 mn MNP customers (as on July 15, 2014) from other existing telecom operators with around one out of every four existing mobile customers, who chooses to port out from their existing mobile operator prefers to shift to Idea services.

**Spectrum renewal lined-up in 2015; 9 out of 10 circles in 900 MHz**

Idea currently owns 900 MHz spectrum in 10 circles, of which the company faces spectrum renewal in nine circles between December 2015 and April 2016. The Telecom Regulatory Authority of India had recommended conducting spectrum auctions at least 18 months prior to the expiry of licenses. We expect most of this spectrum to be put up for auction in early 2015. Idea is gearing up to actively participate in upcoming spectrum auction. In the recently concluded auction, Idea acquired more than 5 MHz of spectrum in seven of these nine circles (excluding Gujarat and UPW). Acquisition of a sizable quantity of spectrum in the 1800 MHz band removes business continuity risk and also helps Idea to strengthen its business position in its critical circles by launching data services. In its top revenue generating circles (Maharashtra, Andhra, MP, Kerala), Idea has a strong combination of 900Mhz, 1800Mhz and 2100Mhz spectrum and this makes it difficult for a new operator to compete with Idea in these markets. We believe Idea is well positioned to renew its 900 MHz spectrum in these circles.

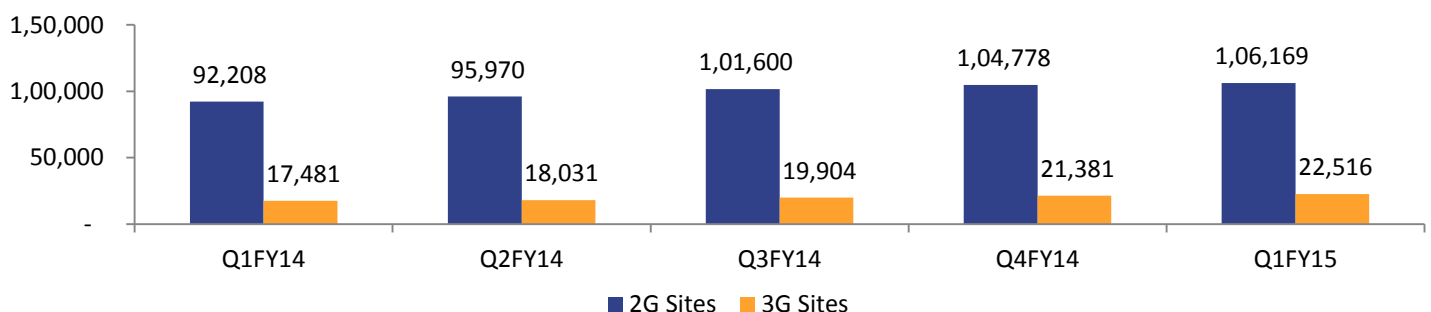
**Operational Performance**

Particulars	Unit	Q1FY15	Q4FY14	Q3FY14	Q2FY14
Operating Service Areas (EoP)	nos.	22	22	22	22
Subscriber base	mn	139.0	135.8	128.7	127.2
2G-cell sites	nos.	106,169	104,778	101,600	95,970
3G-cell sites	nos.	22,516	21,381	19,904	18,031
Average Revenue per User (ARPU)	INR	181	173	169	164
Average realization per minute (ARPM)	Paisa	45.1	43.6	44.9	44.7
Average minute of use per user (MoU)	min	401	397	376	368
Total Minutes of Use	mn	165,239	157,055	144,571	138,827
Average revenue per employee per month	INR'000	1,679	1,579	1,526	1,504
Subscriber per employee	nos.	9,262	9,060	8,737	8,996
<b>Non-Voice &amp; data business</b>					
VAS as a % of Service Revenue	%	17.8	16.5	16.1	16
Data as a % of Service Revenue	%	11.5	10.1	9.5	8.7
Total data Subscriber (2G+3G)	in '000	27,874	25,256	25,522	33,618
Total data volume	mn Mb	32,516	27,299	20,840	17,452
Data ARPU	INR	108	104	91	55

For the last couple of years telecom majors entered into price war and that resulted in bleeding profits and some telcos having to exit unviable circles. We do not expect telcos to again initiate aggressive price competition especially in the domestic voice market.

**Recent tariff hike ensures end of price war and likely to boost Idea's ARPM**

The telecom sector in India had witnessed pressure in ARPM over the last couple of years due to stiff competition in the sector. Now with the tariff hikes undertaken by the telecom companies, we expect the operational efficiency to improve in the near term. With several new operators scaling down operations, telecom companies have been able to curb discounted minutes at a rapid pace, which bolsters ARPM's outlook. Idea's ARPMs have expanded from a low of 41 paisa in Q4FY13 to 45.1 paisa in Q1FY15. The company reiterated that a pricing war has not started again in the industry and steady ARPM expansion will continue. However, with rising ARPM and discontinuance of promotional and free minutes, overall minutes have been growing at a marginal pace over the past few quarters. Also, MoU have been on a declining trend, de-growing from 406 minutes in Q4FY13 to 376 minutes in Q3FY14, before rising to 397 minutes in the latest quarter. The company has attributed the steep rise in traffic in the current quarter to explosive growth in its weaker circles of north and north eastern India. **We expect Idea's profitability to improve further assuming that there will be no price war in the coming years coupled with likely increase in user base and growth in ARPM.**

**Sites trend (nos.)**


*Idea added 1,391 2G cell sites and 1,135 3G cell sites taking total count to 1,06,169 2G cell sites and 22,516 3G cell sites at the end of Q1FY15*

### **Addition of new 2G & 3G cell sites to increase faster connectivity; bolsters revenue outlook**

Idea has been consistently gaining revenue market share and the trend continued in Q4FY14 with the revenue market share of 16.6% as against 14.9% in Q4FY13. Over the last three years Idea has gained RMS in each of the 22 circles. Idea has been consistently investing in its network and this is helping the company to improve its revenue market share. Idea remains on the path to strengthen its competitive standing and to invest in long term value creators of the wireless business and emerging streams. The company has expanded its reach by adding 1,391 2G sites & 1,135 3G sites taking total 2G sites at 106,169 and 3G sites at 22,516 as on June'14. Idea also increased its optical fibre network to 84,000 km while strengthening its presence in NLD, ILD, ISP, Data Services and Smartphone Device business. Idea is the biggest net gainer nationally in the Mobile Number Portability program, a strong indicator of the popular appeal of Idea mobile services.

The company recently launched its 3G services in Delhi during Q1FY15 on the recently acquired 900 MHz spectrum. Post Delhi 3G service launch, the 3G foot-print of Idea will cover around 80% of its current revenue and nearly 57% of national mobile industry revenue.

### **Key Highlights**

- Capex: Majority of FY14 capex of ₹35 bn was deployed towards expanding 2G footprint. Capex guidance for FY15E is ₹35 bn, part of which will be deployed for 3G networks in new markets i.e. Delhi & Punjab and expanding its fibre optic network and rest for spectrum renewal.
- Company is seeing traction across 2G services vis-à-vis 3G & 4G. Surge in data growth of 30% in FY14 mainly attributed to 2G platform. Current utilization of 3G is ~20-40% across India.
- The management highlighted that there isn't any price competition in the industry, infact the company is looking to further scaled down promotional minutes.

### **Key Risk**

- High interest cost.
- Aggressive bidding by the incumbents to retain spectrum.
- The launch of services by new LTE operators, leading to increased competitive intensity.
- A resurgence of competition raising churn and pricing pressure.
- Entry of R-Jio would continue to remain an overhang on the telecom sector.

**Balance Sheet (Consolidated)**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
Share Capital	33.1	33.2	35.4	35.4
Reserve & Surplus	109.9	132.1	172.1	196.2
<b>Net Worth</b>	<b>143.0</b>	<b>165.3</b>	<b>207.5</b>	<b>231.7</b>
Convertible preference shares	0.02	0.02	7.5	7.5
Loans	122.6	187.8	177.7	182.8
Provisions	4.4	6.9	7.1	7.4
Current Liabilities	74.6	78.3	82.5	87.3
Net deferred tax liability	11.2	18.1	18.1	18.1
Other long-term liabilities	7.9	9.2	9.2	9.2
<b>Capital Employed</b>	<b>363.8</b>	<b>465.6</b>	<b>509.7</b>	<b>544.1</b>
Fixed assets	300.3	410.2	447.7	476.2
Long-term loans and advances	30.5	29.0	31.9	33.5
Current Assets	32.9	24.9	28.7	32.9
Goodwill	0.1	0.1	0.1	0.1
Long-term loans and advances	0.0	1.4	1.4	1.4
<b>Capital Deployed</b>	<b>363.8</b>	<b>465.6</b>	<b>509.7</b>	<b>544.1</b>

**Key Ratios (Consolidated)**

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	26.7	31.4	31.4	32.0
EBIT Margin (%)	11.3	14.4	14.3	15.4
NPM (%)	4.5	7.4	7.5	8.2
ROCE (%)	8.9	10.1	10.3	11.9
ROE (%)	7.1	11.9	11.0	12.2
EPS (₹)	3.1	5.9	6.4	8.0
P/E (x)	51.8	26.7	24.6	19.8
BVPS(₹)	43.2	49.8	58.6	65.4
P/BVPS (x)	3.7	3.2	2.7	2.4
EV/Operating Income (x)	3.0	2.8	2.4	2.1
EV/EBITDA (x)	11.3	8.9	7.7	6.7

**Profit & Loss Account (Consolidated)**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
<b>Total income</b>	<b>224.6</b>	<b>265.2</b>	<b>303.5</b>	<b>344.9</b>
Operating expense	164.5	181.9	208.2	234.5
<b>EBITDA</b>	<b>60.0</b>	<b>83.3</b>	<b>95.3</b>	<b>110.4</b>
Depreciation	34.8	45.2	52.0	57.2
<b>EBIT</b>	<b>25.3</b>	<b>38.1</b>	<b>43.3</b>	<b>53.2</b>
Interest	9.5	7.7	8.1	9.3
<b>Profit before tax</b>	<b>15.8</b>	<b>30.4</b>	<b>35.3</b>	<b>43.9</b>
Tax	5.7	10.8	12.5	15.6
<b>Profit after tax</b>	<b>10.1</b>	<b>19.7</b>	<b>22.8</b>	<b>28.3</b>

**Valuation and view**

For the last few years, the telecom sector witnessed intense competition with over seven or eight players in a circle thus resulted in price war especially in voice tariffs among players. With the changing market scenario, we have seen a trend reversal and now telecom operators have started to gain pricing power, reflected in a steady uptick in ARPM over the past few quarters. During Q1FY15, Idea witnessed its ARPM increased by 3.2% YoY to 45.1 paisa, on the back of higher growth in weaker circles. Going ahead, the company would continue to strive for ARPM expansion and expand its geographic network to cater to larger segment of population; both would aid margins as well. We expect Idea's data market to grow at a faster pace with the launch of 3G data in several untapped markets.

At a current CMP of ₹158, Idea is attractively placed at EV/EBITDA of ~6.7x FY16E. Considering the above aspects, we rate the stock as 'BUY' with a target price of ₹192, a potential upside of ~22% for the coming 12 months.



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