

# Idea Cellular

We had recommended a BUY on Idea Cellular with a target of Rs175 in our sector update report dated [December 09, 2014](#). The stock has hit our target delivering a return of 18.6%. We expect Idea to renew a majority of its upcoming license expiries in 900MHz and advise investors to hold onto the stock for revised 9-12mth target of Rs195.

Change in  Estimates  Rating  Target

## Telecom



### Double digit growth continues

TRAI July-Sep 2014 data indicate YoY double digit growth continued for the wireless industry as gross revenues climbed 10.7% yoy though seasonality headwind especially for bigger telcos led to ~1.2% qoq decline. Bharti gross revenues (GR) dropped 3.2% qoq, largely in line with fall seen in Q2 FY14 though the seasonality effect was much more pronounced than that in the case of Idea. Bharti revenue market share (RMS) declined 64bps, the most since Q2 FY12 to 30.6%. Idea outperformed with barely a GR drop resulting in qoq RMS gain of ~20bps. The two PSUs combine BSNL+MTNL managed a surprising 2.9% qoq rise in gross revenues reversing three quarter trend of falling revenues. Rcom's reported net revenues have remained in a range over the past several quarters and consequently it has gradually ceded market share as industry has consistently clocked growth rates of ~9-10% yoy. Smaller operators Aircel and Telenor posted much slower gross revenue growth of 1.4% qoq each with the former gaining ~20bps RMS in its key TN circle while Bharti and Vodafone notch up ~85bps rise since Q4 FY13. Overall we remain bullish on Bharti given relatively better spectrum security and robust data volumes; Idea rerating would be constrained on renewal concerns as company may have to bid aggressively to retain 900MHz spectrum in upcoming auctions.

### Double digit industry growth continues; Bharti a better bet

Wireless industry gross revenue growth remained above 10% for second quarter in a row though seasonality headwinds led to qoq revenue decline of 1.2%. Bharti GR declined 3.2% qoq leading to 64bps RMS loss, the most since Q2 FY12. Idea GR remained mostly flat qoq leading to now-persistent RMS gain even as Rcom continues to cede market share on lack of revenue growth. Overall, we remain prefer Bharti given a better spectrum portfolio with lower renewal risks while aggressive bidding in 900MHz and attendant higher leverage remain key barrier to Idea rerating.

### Financial summary

Y/e 31 Mar (Rs m)	Bharti		Idea	
	FY15E	FY16E	FY15E	FY16E
Revenues	942,537	1,036,544	308,760	353,777
yoy growth (%)	9.8	10.0	16.4	14.6
Operating profit	314,807	354,498	97,259	112,147
OPM (%)	33.4	34.2	31.5	31.7
Reported PAT	53,199	74,601	25,024	23,195
yoy growth (%)	91.9	40.2	27.2	(7.3)
EPS (Rs)	13.3	18.7	7.0	6.5
P/E (x)	27.8	19.8	21.1	22.8
Price/Book (x)	2.3	2.1	2.3	2.1
EV/EBITDA (x)	6.8	5.6	8.2	6.8
Debt/Equity (x)	1.1	0.8	1.2	1.1
ROE (%)	8.6	11.0	12.8	9.8
RoCE (%)	9.8	12.8	10.4	11.1

Source: Companies, India Infoline Research

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Sector view: **Overweight**  
Nifty: 8,438  
Weight in Nifty: 1.9%

#### Bharti Airtel - BUY

CMP: Rs370 Target: Rs460  
Upside: 24.3%

#### Idea Cellular - BUY

CMP: Rs146 Target: Rs175  
Upside: 18.6%

Horizon: 9-12 months  
Prices as on December 08, 2014

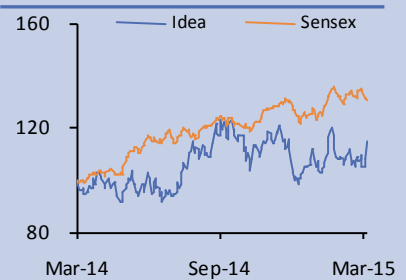
Previous reco price: Rs146  
Previous target price: Rs175  
Return Achieved: 18.6%  
New target price: Rs 195  
Expected return: 11.4%

Sector: **Telecom**  
Sector view: **Positive**  
Sensex: 28,915  
52 Week h/l (Rs): 177 / 129  
Market cap (Rscr) : 62,924  
6m Avg vol ('000Nos): 5,462  
Bloomberg code: IDEA IB  
BSE code: 532822  
NSE code: IDEA  
FV (Rs): 10  
Price as on March 12, 2015

### Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth			3		
Cash Flow			3		
B/S Strength			3		
Valuation appeal			3		
Risk					

### Share price trend



### Share holding pattern

%	Jun-14	Sep-14	Dec-14
Promoters	42.9	42.3	42.3
Insti	26.2	28.9	28.7
Others	30.9	28.8	29.0

December 09, 2014

Sector Update

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## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

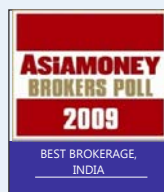
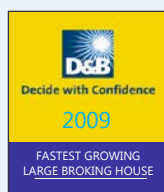
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IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

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## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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**Published in 2015. © India Infoline Ltd 2015**

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