

March 21, 2017

Rating matrix		
Rating	:	Hold
Target	:	₹ 100
Target Period	:	12 months
Potential Upside	:	7%

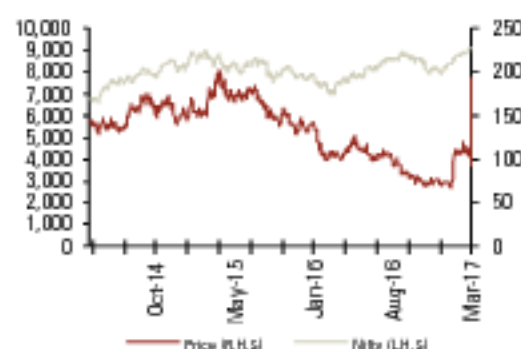
What's changed?		
Target	Changed from ₹ 105 to ₹ 100	
EPS FY18E		Unchanged
EPS FY19E		Unchanged
Rating		Unchanged

Key financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
Net Sales	35,981	35,821	34,509	37,603
EBITDA	13,030	10,050	8,564	10,028
PAT	3,080	(591)	(2,143)	(1,662)
EPS (in ₹)	8.6	(1.6)	(6.0)	(4.6)

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	10.9	NA	NA	NA
Target P/E	11.7	NA	NA	NA
EV / EBITDA	5.7	8.6	10.3	8.7
P/BV	1.3	1.3	1.4	1.6
RoNW (%)	12.0	-2.3	-9.3	-7.7
RoCE (%)	9.0	3.1	1.0	2.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	33,495.7
Total Debt (FY16) (₹ Crore)	41,508.5
Cash (FY16) (₹ Crore)	782.2
EV (₹ Crore)	74,216.7
52 week H/L	128 / 65
Equity capital	3,597.8
Face value	10.0

Price performance



Research Analysts

Bhupendra Triwari
 bhupendra.triwari@icicisecurities.com
 Sneha Agarwal
 sneha.agarwal@icicisecurities.com

Idea Cellular (IDECEL)

₹ 93

Benefits to accrue only over long term...

Idea has announced merger of Vodafone India (excluding 42% stake in Indus) with itself, resulting in a combined entity with equal rights. The combined entity will be the largest Indian telecom operator with a subscriber base of 400 million and subscriber, revenue market share of 35.1%, 40.7%, respectively (as on December, 2016). The deal is expected to be completed by CY18 subject to certain regulatory approvals.

Deal structuring

Vodafone will hold a 45.1% stake in the combined entity after transferring a stake of 4.9% to the promoters of Idea for a consideration of ₹ 3874 crore. The promoters of Idea will hold 26.0% of the combined entity and the balance will be held by the public.

The promoters of both companies intend to equalise their shareholding. Hence, the promoters of Idea (AB group) have the right to purchase up to 9.5% stake of the combined entity at an equity value of ₹ 130/share within the first three years of the transaction. In the event of failing to do so, the AB group would have another 12 months to complete the purchase of the equalising stake at the prevailing market price. In the event of the shareholding not being equal at the beginning of the fifth year of the completion of the transaction, Vodafone has to sell off such an extra stake in the combined entity over the next five year period.

Transaction details

The merger ratio of 1:1 (shares equal to equity base of Idea to be issued to Vodafone) has been arrived based on Idea's stock price of ₹ 72.5 (volume weighted average 30 days prior to the deal discussion announcement). The combined entity's proforma net debt is at ₹ 107.9 lakh crore, with Idea net debt at ₹ 52700 crore & Vodafone net debt of ₹ 55200 crore (₹ 2500 crore higher than Idea, as per agreement), implying 4.4x TTM net debt to EBITDA. Both entities, however, intend to sell their tower stake before the completion of the transaction to reduce the leverage of the combined entity.

Synergy benefits of ₹ 14000 crore per annum from fourth year

The coming together of the duo would lead to substantial cost and capex synergies with an estimated NPV of ~₹ 67000 crore (post integration costs and spectrum liberalisation payments). The company estimates run rate savings of ₹ 14000 crore (60% opex synergy and 40% capex synergy) on an annual basis by the fourth full year post completion of the deal, mainly driven by the removal of network duplication/inefficiencies and benefits of larger scale of operations.

Consolidation positive; maintain HOLD

We believe the deal structuring is a win-win for both Vodafone and Idea promoters wherein the former is able to pocket money for its stake while the latter is able to buy time in order to equalise stake in the combined entity. The merger, per se, will be positive for the industry as it moves towards a three to four player market, which would bring in some industry pricing discipline as the current price war settles. The cost synergies, brand synergies and extensive spectrum base would benefit the combined entity as a whole, albeit over a longer term horizon. With the deal completion expected only over the next 18-24 months, full benefits set to accrue after three years and near time pricing pressures due to Jio's attempts to capture market share, we maintain our **HOLD** recommendation on the stock with a target price of ₹ 100.

Company Analysis

Board approves merger with Vodafone, benefits that follow

How would combined entity shape up post merger?

- The Vodafone- Idea combined entity post merger would be the largest telecom services provider with a subscriber base of ~40.0 crore (subscriber market share of ~35.1%), much ahead of Bharti Airtel whose subscriber base as on Q3FY17 was at 26.6 crore (subscriber market share of ~24.2%) and 32.0 crore (subscriber market share 28%) including Telenor subscribers
- Merged entity commands revenue market share (RMS) (computed for Q3FY17 AGR) of 40.7% vs. current leader Airtel's RMS of ~34% (as on Q3FY17 including Telenor). Combined entity would have leadership RMS with No. 1, 2 ranking in 21, 22 circles, respectively
- The company would, however, breach the 50% RMS cap in six circles viz. Gujarat, Maharashtra, Kerala, Haryana, MP and UP (West). However, some of the circles would see an auto reduction in market share once the full year revenues from Jio are taken into account. Given the areas, where the cap is still breached, the company is expected to take a call on low ARPU subscribers to achieve the permissible limit

Exhibit 1: RMS of combined entity (Q3FY17) – breaches 50% cap in 6 circles

Circles	Circle Share in Industry revenues	Idea RMS	Vodafone RMS	Combined RMS	Idea RMS Rank	Vodafone RMS rank	Combined Rank
Maharashtra	8%	32%	24%	56%	1	2	1
Delhi	8%	12%	27%	38%	3	2	1
Mumbai	7%	9%	33%	42%	6	1	1
Uttar Pradesh (East)	6%	14%	28%	42%	3	2	1
Gujarat	6%	22%	37%	59%	3	1	1
Kerala	5%	38%	23%	61%	1	2	1
Madhya Pradesh	4%	42%	10%	51%	1	3	1
Uttar Pradesh (West)	4%	30%	22%	52%	2	3	1
Punjab	4%	24%	18%	40%	2	3	1
West Bengal	3%	9%	37%	46%	5	1	1
Kolkata	2%	8%	34%	42%	5	1	1
Haryana	2%	27%	28%	55%	2	1	1
Tamil Nadu	8%	6%	24%	30%	5	2	2
Karnataka	8%	11%	15%	26%	4	2	2
Andhra Pradesh	8%	23%	10%	33%	2	3	2
Bihar	5%	14%	14%	28%	3	2	2
Rajasthan	5%	13%	22%	35%	3	2	2
Orissa	2%	6%	17%	23%	6	2	2
Assam	2%	5%	23%	28%	5	3	2
North East	1%	4%	18%	23%	5	3	2
Himachal Pradesh	1%	12%	10%	22%	4	5	2
Jammu and Kashmir	1%	6%	10%	16%	5	4	3
Total	100%	18%	23%	41%	3	2	1

Source: Company, ICICIdirect.com Research

The spectrum coverage of the combined entity would be most efficient with overall spectrum holdings of 1090.9 MHz (after forgoing the excess spectrum where it breaches the 50% share in a band). The spectrum caps will be breached in five circles viz. Gujarat Haryana, Kerala, Maharashtra and UP West in the 900 MHz band while it would have 10 MHz (FDD) excess spectrum in Maharashtra and Gujarat each in the 2500 MHz band. The combined entity would have excess voice spectrum and would use the excess voice spectrum towards broadband services. It is open to trading excess spectrum. The potential benefits from sale are, however, not included in the present value of synergies shown by the company.

Exhibit 2: Combined entity spectrum holding

LSA/MHz	Vodafone				Idea					Vodafone + Idea				
	900	1800	2100	2500	900	1800	2100	2300	2500	900	1800	2100	2300	2500
Andhra Pradesh	-	6.8	-	-	5.0	6.0	5.0	-	10.0	5.0	12.8	5.0	-	10.0
Assam	-	14.9	5.0	10.0	-	10.0	-	-	10.0	-	24.9	5.0	-	20.0
Bihar	-	6.9	-	-	-	10.7	5.0	-	10.0	-	17.6	5.0	-	10.0
Delhi	5.0	10.0	5.0	20.0	5.0	6.6	-	-	-	10.0	16.6	5.0	-	20.0
Gujarat	6.0	10.8	5.0	20.0	5.0	10.0	5.0	-	10.0	11.0	20.8	10.0	-	30.0
Haryana	6.2	4.9	10.0	10.0	6.0	10.8	5.0	-	10.0	12.2	15.7	15.0	-	20.0
Himachal Pradesh	-	5.7	-	-	-	9.8	5.0	-	10.0	-	15.5	5.0	-	10.0
Jammu & Kashmir	-	6.9	-	-	-	10.0	5.0	-	10.0	-	16.9	5.0	-	10.0
Karnataka	-	13.0	5.0	-	5.0	6.0	-	-	-	5.0	19.0	5.0	-	-
Kerala	6.4	9.9	5.0	10.0	6.0	10.0	5.0	10.0	10.0	12.4	19.9	10.0	10.0	20.0
Kolkata	7.0	10.0	5.0	20.0	-	5.0	5.0	-	-	7.0	15.0	10.0	-	20.0
Madhya Pradesh	-	6.9	-	-	7.4	11.6	5.0	10.0	20.0	7.4	18.5	5.0	10.0	20.0
Maharashtra	5.0	1.3	10.0	20.0	9.0	11.0	5.0	10.0	10.0	14.0	12.3	15.0	10.0	30.0
Mumbai	11.0	6.2	5.0	20.0	-	6.4	5.0	-	-	11.0	14.6	10.0	-	20.0
North East	-	14.7	5.0	10.0	-	11.0	-	-	10.0	-	25.7	5.0	-	20.0
Orissa	5.0	6.9	5.0	10.0	-	10.0	-	-	10.0	5.0	16.9	5.0	-	20.0
Punjab	-	11.1	5.0	10.0	5.6	10.0	5.0	-	-	5.6	21.1	10.0	-	10.0
Rajasthan	6.4	5.0	10.0	10.0	-	11.2	5.0	-	10.0	6.4	16.2	15.0	-	20.0
Tamilnadu(jnc Chennai)	6.2	1.8	15.0	-	-	11.4	-	-	-	6.2	13.2	15.0	-	-
Uttar Pradesh (East)	5.6	8.5	10.0	10.0	-	6.2	10.0	-	10.0	5.6	14.7	20.0	-	20.0
Uttar Pradesh (West)	6.2	4.9	5.0	10.0	5.0	9.4	5.0	-	10.0	11.2	14.3	10.0	-	20.0
West Bengal	6.6	11.9	5.0	10.0	-	11.3	-	-	10.0	6.6	23.2	5.0	-	20.0
	52.6	180.8	115.0	200.0	59.0	206.3	80.0	30.0	170.0	141.6	387.1	195.0	30.0	370.0

Source: Company, ICICIdirect.com Research

Exhibit 3: To breach spectrum cap in five circles in 900 MHz and two circles in 2500 MHz

LSA/MHz	Vodafone + Idea					Spectrum Caps					Excess Spectrum	
	900	1800	2100	2300	2500	900	1800	2100	2300	2500	900	2500
Andhra Pradesh	5.0	12.8	5.0	-	10.0	10.1	27.4	20.0	30.0	20.0	-	-
Assam	-	24.9	5.0	-	20.0	9.3	27.4	20.0	30.0	20.0	-	-
Bihar	-	17.6	5.0	-	10.0	9.3	27.4	20.0	30.0	20.0	-	-
Delhi	10.0	16.6	5.0	-	20.0	11.1	27.4	20.0	30.0	20.0	-	-
Gujarat	11.0	20.8	10.0	-	30.0	10.1	27.4	20.0	30.0	20.0	0.9	10.0
Haryana	12.2	15.7	15.0	-	20.0	9.2	27.4	20.0	20.0	20.0	3.0	-
Himachal Pradesh	-	15.5	5.0	-	10.0	9.3	27.4	20.0	30.0	20.0	-	-
Jammu & Kashmir	-	16.9	5.0	-	10.0	9.3	27.4	20.0	20.0	20.0	-	-
Karnataka	5.0	19.0	5.0	-	-	10.0	27.4	20.0	30.0	20.0	-	-
Kerala	12.4	19.9	10.0	10.0	20.0	9.3	27.4	20.0	30.0	20.0	3.1	-
Kolkata	7.0	15.0	10.0	-	20.0	10.1	27.4	20.0	30.0	20.0	-	-
Madhya Pradesh	7.4	18.5	5.0	10.0	20.0	9.3	27.4	20.0	30.0	20.0	-	-
Maharashtra	14.0	12.3	15.0	10.0	30.0	10.1	27.4	20.0	30.0	20.0	3.9	10.0
Mumbai	11.0	14.6	10.0	-	20.0	11.1	27.4	20.0	30.0	20.0	-	-
North East	-	25.7	5.0	-	20.0	9.7	27.4	20.0	30.0	20.0	-	-
Orissa	5.0	16.9	5.0	-	20.0	9.3	27.4	20.0	30.0	20.0	-	-
Punjab	5.6	21.1	10.0	-	10.0	10.9	27.4	20.0	20.0	20.0	-	-
Rajasthan	6.4	16.2	15.0	-	20.0	9.3	27.4	20.0	20.0	20.0	-	-
Tamilnadu(jnc Chennai)	6.2	13.2	15.0	-	-	10.1	29.7	20.0	30.0	20.0	-	-
Uttar Pradesh (East)	5.6	14.7	20.0	-	20.0	9.3	27.4	20.0	20.0	20.0	-	-
Uttar Pradesh (West)	11.2	14.3	10.0	-	20.0	9.3	27.4	20.0	20.0	20.0	1.9	-
West Bengal	6.6	23.2	5.0	-	20.0	9.7	27.4	20.0	30.0	20.0	-	-

Source: Company, ICICIdirect.com Research

Though the company breaches the spectrum caps in five circles in 900 MHz and two circles in 2500 MHz, the company intends to contest the spectrum cap with the government and does not intend to sell the excess in the 900 MHz band to competition by spectrum trading route.

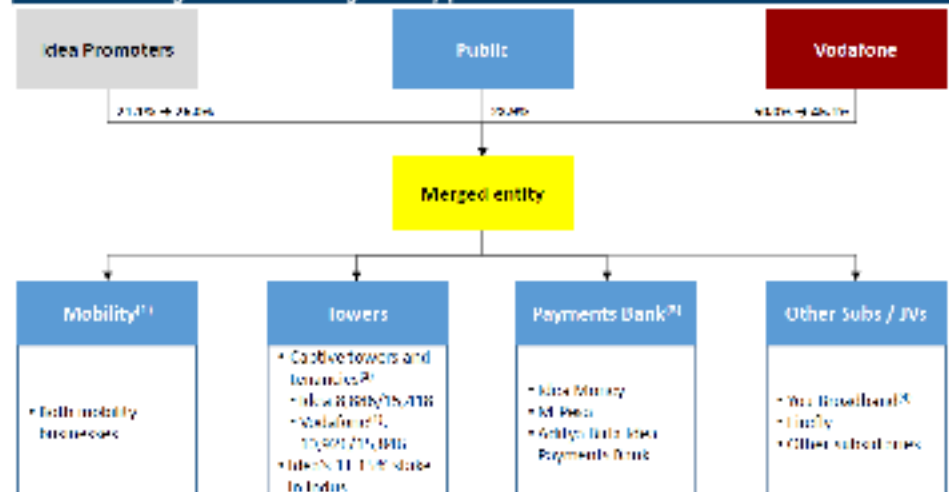
The merged entity would have to incur certain costs towards liberalising the spectrum as per government norms. The present value of the said outflow is expected at ₹ 3000 crore.

Deal structuring

Vodafone will hold a 45.1% stake in the combined entity after transferring a stake of 4.9% to the promoters of Idea for a consideration of ₹ 3874 crore. The promoters of Idea will hold 26.0% of the combined entity while the balance will be held by the public.

The promoters of both companies intend to equalise their shareholding. Hence, promoters of Idea (AB group) possess the right to purchase up to 9.5% stake of the combined entity at an equity value of ₹ 130/share within the first three years of the transaction. In the event of failing to do so, the AB group would have another 12 months to complete the purchase of the equalising stake at the prevailing market price.

Exhibit 4: Holding structure of merged entity post deal



Source: Company, ICICIdirect.com Research

Exhibit 5: Equalisation methodology to be followed



Source: Company, ICICIdirect.com Research

In the event of the shareholding not being equal at the beginning of the fifth year of the completion of the transaction, Vodafone has to sell off such an extra stake in the combined entity over the next five year period. Kumar Mangalam Birla would be the chairman of the combined entity. Both promoter groups are entitled to joint governance & management.

Synergy benefits

As per the company's press release, the merger would lead to substantial cost and capex synergies of an estimated NPV of ~₹ 67000 crore (post integration costs and spectrum liberalisation payments). There will be run rate savings of ₹ 14000 crore on an annual basis by the fourth full year post completion as per the company. The synergy from the combined entity would be both opex and capex related. The opex related savings will be on five counts: network cost, customer acquisition and servicing, IT, brand & advertising, others. The combined entity aims to attain the cost matrix of the current leader Airtel and achieve higher margins than Airtel in due course. The company intends to take the following measures to achieve the guided synergy benefits.

- **Network rationalisation:** The company has guided at rationalising its GSM sites by 20.0% to 210000-220000 from the current total of the combined entity of 273000. This will result in proportionate savings in rental and energy costs for the sites so reduced
- The combined entity would have 189000 cumulative sites in the broadband segment wherein it intends to reallocate the overlapping sites for extended coverage

Exhibit 6: Network cost savings potential

	Bharti (With Telenor)	Idea	Vodafone	Combined	20% lower sites of Voda+ Idea
Network Sites	185,000	132,000	141,000	273,000	220,000
Subscriber/ site	1,730	1,443	1,452	1,448	1,796
Subscribers	32	19	20	40	40

Source: Company, ICICIdirect.com Research

- **Selling, general and administrative expenses:** The combined entity intends to maintain both brands and leverage on the brand value of the two names created over time. The merged entity would go for combined advertising and business promotions leading to cost savings
- **IT, customer servicing and other expenses:** The merger of distribution channels and elimination of overlaps would result in cost efficiencies. The company would also share the IT infrastructure, which would result in lower costs for the combined entity

The company expects opex savings of ₹ 8400 crore (14.7% of TTM costs) run rate from the fourth year of operations of the merged entity.

Capex rationalisation: Given the possible redundancy of network presence, we believe the combined entity's capex would be lower than the simple addition of Idea (₹ 8000 crore) and Vodafone (~₹ 9000-10000 crore).

- Higher spectrum availability & high capacity single radio access network deployment would result in lower capex. Moreover, re-deployment of overlapping broadband equipment & avoidance of duplicate 4G network expansion and upgrades would restrain the incremental capex, which would otherwise have been incurred
- The merged entity clarified lack of any meaningful interest in additional spectrum in the near future, which would again contain capex

- The implied capex savings run rate (40% of overall synergy benefit) is expected at ₹ 5600 crore from the fourth year of operation

Monetisation from tower assets & intent to reduce leverage

The leverage of the combined entity was at ₹ 107900 crore as of FY16, which is 4.4x TTM EBITDA. The company has guided for a post merger synergies leverage situation of 3.0x TTM EBITDA after considering the standalone tower sale proceeds, Idea's stake in Indus and estimated run rate opex synergies. The merged company intends to sell its standalone towers (8886 Idea towers with tenancies of 15418 and 10926 Vodafone towers with tenancies of 15846) and Idea's 11.15% stake in Indus Towers before the completion of the transaction.

We note that the effective synergy out of capex and opex would accrue meaningfully only over three to four years from the deal. The initial three years, post the deal, would entail integration costs cumulating to ₹ 13,000 crore. Consequently, there may not be any meaningful debt reduction in the next couple of years.

Deal subject to certain approvals

The company will initiate the process of seeking approval by applying to CCI where the response is expected within a month. Post that there are several other authorities whose approval is required. The company expects the deal to be completed in CY18.

The company clarified that the deal was free from any risk from the pending Vodafone Tax arbitration case of ₹ 22,100 crore.

However, given the lack of precedence in terms of deals of such stature, there exists a risk of elongated approval cycle.

Exhibit 7: Pro-forma financials (CY2016)

Pro-forma financials	Idea Cellular	Vodafone	Merged Company
Revenue	36900	44700	81600
EBITDA	11400	13000	24400
Net Debt	52700	55200	107900
Net Debt/EBITDA	4.6X	4.2X	4.4X
Capex	7500	7900	15300
Total spectrum investment	61700	78800	140500

Source: Company, ICICIdirect.com Research

Other highlights

- The merger ratio has been arrived at with an implied enterprise valuation of Vodafone India ₹ 82,800 crore and that of Idea Cellular at ₹ 72,200 crore (EV/EBITDA of 6.4x and 6.3x respectively), which implies Idea's equity valuation of ₹ 72.5/share (last 30 day volume weighted average price of Idea prior to announcement of deal intent in January). The Aditya Birla group is set to buy the incremental 4.9% from Vodafone at ₹ 110/share, to bring its holding to 26%
- While Idea promoters have the right to appoint Kumar Mangalam Birla as Chairman, the right to appoint the CFO rests with Vodafone. The appointment of CEO and COO will be jointly carried out by both entities together
- The deal has a break fee of ₹ 3300 crore that would become payable under certain circumstances

Valuation

We believe the merger will be positive for the industry as it would be a three to four player market with visibly superior network/spectrum capacity and a huge balance sheet base. Over the long term, the industry pricing discipline could gather pace while exit of marginal players would benefit the top three players. We fathom that telecom players are poised to gather higher wallet share at 2x from current levels of sub ₹ 150 levels, over the next five to six years.

The deal structuring is a win-win for both Vodafone and Idea promoters wherein the former is able to pocket money for its stake while the latter was able to buy time in order to equalise stake in the combined entity.

The cost synergies, brand synergies and extensive spectrum base would benefit the combined entity as a whole, albeit over a longer term horizon. While the deal completion is expected only over the next 18-24 months, an M&A of such stature has longer term approval cycle. Any delay in the same could further elongate the accrual of synergy benefits. Furthermore, near time pricing pressures from Jio's as it attempts to capture market share, would also remain an overhang. **Consequently, we maintain our HOLD recommendation on the stock with a target price of ₹ 100.** We have not incorporated the merger into our valuations given the extended timeline (18+ months) over the completion of the deal.

Exhibit 8: DCF assumptions

Particulars	Amount
WACC	10.0%
Revenue CAGR over FY16E - FY22E	4.4%
PV of Cash Flow Till Terminal Year	-17,100.7
Terminal Growth	4.0%
Present Value of terminal cash flow	92,974.0
PV of firm	75,873.3
Less: Net Debt	39,949.8
Total present value of the Equity (excluding current cash)	35,923.5
Number of Equity Shares outstanding	360.2
DCF - Target price (₹)	100

Source: Company, ICICIdirect.com Research

Exhibit 9: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	35,981.0	19.1	8.6	49.7	10.9	5.7	12.0	9.0
FY17E	35,821.4	-0.4	-1.6	NA	-56.7	8.6	-2.3	3.1
FY18E	34,509.4	(3.7)	(6.0)	NA	(15.6)	10.3	(9.3)	1.0
FY19E	37,603.1	9.0	-4.6	NA	-20.2	8.7	-7.7	2.1

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement				
	₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total operating Income	35981.0	35821.4	34509.4	37603.1
Growth (%)	14.0	-0.4	-3.7	9.0
Employee Expenses	1,659.9	1,793.1	1,780.5	1,959.9
Roaming & Access Charges	4,643.6	4,351.5	4,261.8	4,613.2
Network operating expenditure	8,170.7	10,822.4	11,396.4	11,714.5
License and WPC Charges	4,150.8	4,106.5	3,916.8	4,324.4
SG&A Expenses	3,253.3	3,598.4	3,625.2	3,913.4
Other Costs	972.8	1,099.5	965.0	1,050.1
Total Operating Expenditure	22951.0	25771.4	25945.8	27575.4
EBITDA	13030.0	10050.0	8563.7	10027.7
Growth (%)	20.5	-22.9	-14.8	17.1
Depreciation	6650.8	7701.6	8109.7	8648.7
Interest	1681.6	4001.2	4371.4	4410.4
Other Income	227.1	318.5	360.0	360.0
Non Operating Expenses	0.0	0.0	0.0	0.0
PBT	4724.7	-1334.2	-3557.4	-2671.4
MI/ Profit from associates	0.0	-445.8	-524.9	-475.5
Total Tax	1644.7	-297.9	-889.4	-534.3
PAT	3079.9	-590.6	-2143.2	-1661.6
Growth (%)	20.5	-119.2	262.9	-22.5
EPS (₹)	8.6	-1.6	-6.0	-4.6

Source: Company, ICICIdirect.com Research

Cash flow statement				
	₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit after Tax	3,079.9	-590.6	-2,143.2	-1,661.6
Add: Depreciation	6,650.8	7,701.6	8,109.7	8,648.7
Add: Interest paid	1,881.6	4,001.2	4,371.4	4,410.4
(Inc)/dec in Current Assets	589.3	491.9	549.4	(74.9)
Inc/(dec) in CL and Provisions	1,320.4	446.3	-129.8	601.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	13,522.1	12,050.4	10,757.5	11,924.0
(Inc)/dec in Investments	10,153.7	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-40,367.0	-20,798.0	-7,500.0	-7,000.0
Others	3,498.6	0.0	0.0	0.0
CF from investing activities	-26,714.8	-20,798.0	-7,500.0	-7,000.0
Issue/(Buy back) of Equity	2.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-7,112.0	5,549.0	1,300.0	0.0
Dividend paid & dividend tax	-260.0	0.0	0.0	0.0
Interest Paid	-1,881.6	-4,001.2	-4,371.4	-4,410.4
Others	21,672.1	6,483.3	0.0	0.0
CF from financing activities	12,421.2	8,031.1	-3,071.4	-4,410.4
Net Cash flow	-771.5	-716.4	186.2	513.6
Opening Cash	1,553.7	782.2	65.8	252.0
Closing Cash	782.2	65.8	252.0	765.6

Source: Company, ICICIdirect.com Research

Balance sheet				
	₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	3,600.5	3,600.5	3,600.5	3,600.5
Reserve and Surplus	22,165.1	21,658.8	19,515.6	17,654.1
Others	1.9	1.9	1.9	1.9
Total Shareholders funds	25,767.5	25,261.3	23,118.1	21,456.5
Total Debt	41,503.5	53,451.5	54,751.5	54,751.5
Deferred Tax Liability	3,071.4	3,071.4	3,071.4	3,071.4
Others	3,274.0	3,274.0	3,274.0	3,274.0
Total Liabilities	73,616.4	85,058.2	84,215.0	82,553.4
Assets				
Gross Block	98,676.6	119,073.1	126,573.1	133,573.1
Less: Acc Depreciation	30,384.8	38,086.4	46,196.1	54,844.8
Net Block	68,291.8	80,986.8	80,377.1	78,728.3
Capital WIP	6,098.6	6,500.0	6,500.0	6,500.0
Total Fixed Assets	74,390.4	87,486.8	86,877.1	85,228.3
Investments	1,378.9	1,378.9	1,378.9	1,378.9
Inventory	106.5	106.1	102.2	111.3
Debtors	1,177.6	1,172.4	1,129.5	1,230.7
Loans and Advances	4,784.8	4,298.6	3,796.0	3,760.3
Other Current Assets	2.0	2.0	1.9	2.1
Cash	782.2	65.8	252.0	765.6
Total Current Assets	6,853.2	5,644.8	5,281.6	5,870.0
Creditors	7,959.1	8,243.8	8,131.0	8,653.9
Provisions	1,075.1	1,236.6	1,219.6	1,298.1
Total Current Liabilities	9,034.1	9,480.4	9,350.6	9,952.0
Net Current Assets	-2,180.9	-3,835.6	-4,069.1	-4,081.9
Other Non Current Assets	27.8	27.8	27.8	27.8
Application of Funds	73,616.4	85,058.2	84,215.0	82,553.4

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	8.6	-1.6	-6.0	-4.6
Cash EPS	27.0	19.7	16.8	19.4
BV	71.6	70.1	64.2	59.6
DPS	0.7	0.0	0.0	0.0
Cash Per Share	2.2	0.2	0.7	2.1
Operating Ratios				
EBITDA Margin (%)	36.2	28.1	24.8	26.7
EBIT Margin (%)	17.7	6.6	1.3	3.7
PAT Margin (%)	8.6	-1.6	-6.2	-4.4
Inventory days	1.1	1.1	1.1	1.1
Debtor days	11.9	11.9	11.9	11.9
Creditor days	80.7	84.0	86.0	84.0
Return Ratios (%)				
RoE	12.0	-2.3	-9.3	-7.7
RoCE	9.0	3.1	1.0	2.1
RdC	9.6	3.0	0.6	1.8
Valuation Ratios (x)				
P/E	10.9	-56.7	-15.6	-20.2
EV / EBITDA	5.7	8.6	10.3	8.7
EV / Net Sales	2.1	2.4	2.5	2.3
Market Cap/ Sales	0.9	0.9	1.0	0.9
Price to Book Value	1.3	1.3	1.4	1.6
Solvency Ratios				
Debt/EBITDA	3.2	5.3	6.4	5.5
Debt/ Equity	1.6	2.1	2.4	2.6
Current Ratio	0.7	0.6	0.5	0.5
Quick Ratio	0.7	0.6	0.5	0.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Telecom)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bharti Airtel (BHAAIR)	349	410	Buy	139,669	13.7	10.3	7.2	25.5	33.9	48.6	8.7	8.7	8.9	9.4	8.5	7.7	6.1	6.9	4.2
Bharti Infratel (BHAINF)	314	350	Buy	58,031	11.8	15.5	18.2	26.5	20.3	19.4	10.2	9.7	8.9	15.1	18.5	20.7	12.2	17.6	18.6
Idea Cellular (IDECEL)	93	100	Hold	33,498	8.6	-1.6	-6.0	10.9	NM	NA	5.7	8.6	10.3	9.0	3.1	1.0	12.0	NM	NM
Tata Comm. (TATCOM)	746	785	Buy	21,252	-7.4	56.0	17.8	NM	13.3	41.6	11.2	11.8	10.0	5.1	5.7	7.6	NA	NA	36.4

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/- 10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 1st Floor, Akruti Trade Centre,
 Road No 7, MIDC,
 Andheri (East)
 Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We, I, Bhupendra Tiwary MBA, Sneha Agarwal, MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Bhupendra Tiwary MBA, Sneha Agarwal, MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Bhupendra Tiwary MBA, Sneha Agarwal, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysts activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.