

**BSE SENSEX** 32,310  
**S&P CNX** 10,015

**CMP: INR96 TP: INR110 (+15%) Buy**

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|                       |             |
|-----------------------|-------------|
| Bloomberg             | IDEA IN     |
| Equity Shares (m)     | 3,601       |
| M.Cap.(INRb)/(USDb)   | 344.0 / 5.4 |
| 52-Week Range (INR)   | 124 / 66    |
| 1, 6, 12 Rel. Per (%) | 13/7/-24    |
| Avg Val, INRm         | 1692        |
| Free float (%)        | 57.6        |

### Financials & Valuations (INR b)

| Y/E Mar       | 2017   | 2018E | 2019E |
|---------------|--------|-------|-------|
| Net Sales     | 355.8  | 346.8 | 368.7 |
| EBITDA        | 102.8  | 84.2  | 95.0  |
| Adj PAT       | -4.0   | -39.3 | -40.8 |
| EPS (INR)     | -1.1   | -10.9 | -11.3 |
| Gr. (%)       | -116.2 | 884.1 | 3.6   |
| BV/Sh (INR)   | 68.6   | 57.7  | 46.4  |
| RoE (%)       | -1.6   | -17.3 | -21.7 |
| RoCE (%)      | 1.5    | -0.3  | 0.3   |
| P/E (x)       | -86.2  | -8.8  | -8.5  |
| P/BV (x)      | 1.4    | 1.7   | 2.1   |
| EV/EBITDA (x) | 8.1    | 10.0  | 9.0   |

Estimate change 

TP change 

Rating change 

### Latent synergies to bolster growth

- Flat consolidated revenues – a solace to Idea:** Marred by disruption in the sector over the last two quarters, Idea's revenue for 1QFY18 came in flat QoQ (-14% YoY) at INR81.7b. Recovery in voice revenue growth to 2% QoQ (to INR61b) was offset by data revenue decline of 7% QoQ (to INR13.7b). The risk of down-trading due to unlimited price plans was offset by traffic recovery led by end of RJio's free usage offer. Subsequently, ARPU stabilized to INR141 from INR142 in the quarter. The key negative in Idea's result is the continued fall in data subscribers (10% QoQ), which can be ascribed to broadband subscriber churn due to their migration to 4G devices.
- EBITDA declines 11.5%, commensurating estimate QoQ:** Overall revenues recovered from the lows, but EBITDA continued to decline (-12%QoQ or -39% YoY to INR18.8b), largely due to higher network expenses (+6%QoQ) and roaming and access charges. Consequently, margin shrunk 300bp QoQ (-970bpYoY), and net loss widened QoQ to INR8.1b from INR3.3b.
- Silver linings to the cloud:** We believe competitiveness in the industry is likely to bottom out by end-FY18 and that RJio's VoLTE offering is not price-disruptive. VoLTE network launch by incumbents and improving handset ecosystem may leave only 3-4 telecom players in the market. The CCI approval for Vodafone-Idea merger will: (1) allow them to plan the network synergies sooner, 2) reduce the gestation period and 3) create a strong competitive position in the market.
- Maintain Buy with TP of INR 110:** Idea is valued at 9x EV/EBITDA on FY19E, which partly captures the gains from Vodafone merger. The estimated back-ended synergy gains (not yet modeled in our numbers) in FY20 value the stock at 6.8x on FY20E. Gains from tower sale may provide further upside. We maintain **Buy** with TP of INR110 on 9.5x FY19E EV/EBITDA. However, the merger, as well as its timelines, remains a key risk to our rating.

### Quarterly Performance (INR m)

| Y/E March                        | FY17          |               |               |               | FY18           |                |                |               | FY17           | FY18E          | 1QFY18E        | Variance %   |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|--------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q             | 2QE            | 3QE            | 4QE           |                |                |                |              |
| <b>Gross Revenue</b>             | <b>94,866</b> | <b>93,002</b> | <b>86,627</b> | <b>81,261</b> | <b>81,665</b>  | <b>84,531</b>  | <b>87,974</b>  | <b>92,073</b> | <b>355,758</b> | <b>346,806</b> | <b>79,689</b>  | <b>2.5</b>   |
| YoY Change (%)                   | 7.9           | 7.0           | -3.9          | -14.3         | -13.9          | -9.1           | 1.6            | 13.3          | 12.7           | -2.5           | -16.0          |              |
| Total Expenditure                | 63,917        | 64,601        | 64,973        | 60,062        | 62,911         | 64,590         | 66,687         | 68,398        | 252,995        | 262,618        | 60,713         | 3.6          |
| <b>EBITDA</b>                    | <b>30,949</b> | <b>28,401</b> | <b>21,655</b> | <b>21,199</b> | <b>18,754</b>  | <b>19,941</b>  | <b>21,286</b>  | <b>23,675</b> | <b>102,763</b> | <b>84,188</b>  | <b>18,977</b>  | <b>-1.2</b>  |
| Margins (%)                      | 32.6          | 30.5          | 25.0          | 26.1          | 23.0           | 23.6           | 24.2           | 25.7          | 28.9           | 24.3           | 23.8           | -85 bp       |
| Depreciation                     | 19,192        | 19,543        | 19,653        | 19,885        | 20,679         | 21,348         | 21,889         | 22,545        | 78,272         | 86,461         | 20,857         | -0.9         |
| Share in Profits from Associates | 1,035         | 1,057         | 1,143         | 983           | 818            | 834            | 851            | 868           | 4,218          | 3,371          | 1,003          | -18.4        |
| Net Finance Costs                | 9,431         | 8,753         | 9,232         | 9,366         | 11,539         | 11,131         | 11,131         | 11,131        | 37,342         | 44,932         | 10,513         | 9.8          |
| <b>PBT before EO expense</b>     | <b>3,361</b>  | <b>1,162</b>  | <b>-6,087</b> | <b>-7,069</b> | <b>-12,646</b> | <b>-11,704</b> | <b>-10,882</b> | <b>-9,133</b> | <b>-8,633</b>  | <b>-43,833</b> | <b>-11,391</b> | <b>11.0</b>  |
| <b>PBT</b>                       | <b>3,361</b>  | <b>1,162</b>  | <b>-6,087</b> | <b>-7,069</b> | <b>-12,646</b> | <b>-11,704</b> | <b>-10,882</b> | <b>-9,133</b> | <b>-8,633</b>  | <b>-43,833</b> | <b>-14,291</b> | <b>-11.5</b> |
| Tax                              | 1,158         | 247           | -2,248        | -3,792        | -4,497         | 0              | 0              | 0             | -4,636         | -4,497         | -3,000         | 49.9         |
| Rate (%)                         | 34.5          | 21.3          | 36.9          | 53.6          | 35.6           | 0.0            | 0.0            | 0.0           | 53.7           | 10.3           | 26.3           | 922 bp       |
| <b>Reported PAT</b>              | <b>2,203</b>  | <b>915</b>    | <b>-3,839</b> | <b>-3,277</b> | <b>-8,149</b>  | <b>-11,704</b> | <b>-10,882</b> | <b>-9,133</b> | <b>-3,997</b>  | <b>-39,336</b> | <b>-8,391</b>  | <b>-2.9</b>  |
| YoY Change (%)                   | -74.2         | -88.7         | -150.2        | -156.9        | -469.9         | -1,379.6       | 183.5          | 178.7         | -117.3         | 884.1          | -480.9         | -2.3         |
| Margins (%)                      | 2.3           | 1.0           | -4.4          | -4.0          | -10.0          | -13.8          | -12.4          | -9.9          | -1.1           | -11.3          | -10.5          | -55 bp       |

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## 1QFY18 Earnings call highlights

### Business Performance:

- The fall in realization for Idea was more than compensated by traffic volume growth.
- ARMB saw unprecedented decline due to the impact of unlimited price plans.
- In an environment of steep realization fall, EBITDA declined 11.5% due to higher operating cost, including roaming and access charges.
- Idea reported subscriber VLR of 199m, with 19.5% subscriber market share and 18.9% revenue market share.
- Total data subscribers have declined.
- Voice revenue grew 2%. Voice traffic growth offset the voice price decline.
- Idea sustained market competitiveness and has added subscribers over the last 12 months. Remained the 2nd player in terms of VLR subscriber market share at 19.5%
- 4.1m data users lost during 1QFY18. However, broadband subscribers increased 1.6m, partly offsetting the 2g data subscriber decline of 5.8m.
- Idea Music, Idea Movie Club and Idea Game Spark digital offerings have seen healthy traction.
- Forex gain/loss is regrouped, with interest and finance cost from other expenses before EBITDA.
- Finance and depreciation cost increase is on the back of launch of 3g and 4g service during the quarter.
- Net debt to EBITDA stands at 7.19x.

### Industry Landscape

- Heavily discounted pricing in the market with unlimited price plan is likely to drive industry decline. Smaller players with no 4g network may see more pronounced impact.
- The financial stress remains at its peak with the launch of unlimited plans, resulting in steep decline in profitability and cash flows.
- Operators have urged the inter-ministerial Group (IMG) to a) increase the interconnect charge (IUC) for incoming calls on cost plus basis or help in reducing the asymmetric incoming voice traffic from the new entrant, b.) Rationalize the taxes and levies including 18% GST and high license fee c.) Provide relief towards deferred payment cost of spectrum. Management is hopeful that some positive development will happen.
- The policy of net neutrality may hinder RJio's VoLTE offerings, which limit data usage toward only captive digital apps.
- The MOU on unlimited price plans in the US is much lower v/s India's current unlimited plan. RJio has about 600 MOU, Bharti has 500 MOU and Idea has ~400 MOU on unlimited plans.
- The 14 paise IUC was set by the TRAI, based on the assumption that inflow and outflow traffic ratio will not change. But it has changed post the launch of RJio. International examples also indicate that it should go up to cover the cost. China has IUC of INR0.4 plus incoming call charge. Indonesia has INR1.75/min and Brazil has INR2/min.

- Idea is requesting TRAI to seek the workings of rate reduction and is hopeful that it will provide the details to understand the gap between TRAI workings and Idea's high IUC.
- The data pricing may reduce from 5 paise to 3 paise, but the time spent on internet is significantly growing and the viral effect seen in voice market before may spread to data.

#### **Idea Outlook and Strategy**

- The company is not proactive in dropping voice/data rates, but will follow the aggression by the no 1 player with the requisite discount and unlimited plans.
- The decline of data subscribers witnessed by Idea is predominantly due to the 2g subscribers which are upgrading to 4g handsets and deciding their operator of choice in circles where Idea does not have broadband coverage. However, the shift is on dual sim-card phones, and therefore the impact is not seen on overall VLR subscribers. With the 4g network ramp-up, this trend has started reversing June onwards.
- Idea's ~20% subscribers are using internet services. As 3g/4g subscriber penetration improves, it will be offset the revenue impact.
- Idea's data usage is growing at a high pace, garnering highest data usage/subscriber.
- To counter Rjio's new VoLTE offering, Idea is not offering bundled offers. It has never involved in bundled offering and will maintain that stance to not subsidize handset.
- Idea is working with handset makers to fill the discount gap between Rjio and other handsets.
- The past experience based on 2002 CDMA era indicates that subscribers prefer flexibility of handset in deciding network operator.
- The VoLTE phones v/s current smartphone do not have android platform, it has low memory, and the small screen size doesn't appeal the subscribers.
- Idea is in discussion with handset makers to bridge the gap between Rjio VoLTE feature phones compared to the phones available in the market by reduction of material cost and reduced features.
- Idea will be supporting handset makers in terms of bundle and distribution reach to force them to reduce price based on lower material cost and reduced pricing.
- Management is trying to optimize cost to support margin and safeguard from the loss of revenue.
- Idea is confident of handling voice and data traffic, which will continue to increase due to the unlimited price plans.
- ARPUs of bundled plan are higher than non-bundled plan, so if the bundled offering increases, it will improve the ARPU. This will be based of higher volume growth offsetting the pricing.
- Low data pricing, high data coverage, improving data experience and reducing handset pricing all lead to the possibility of high data subscriber penetration to 30%-50%.
- GST will impact the revenue as telecom companies cannot pass it to subscribers.

**Capex, Network rollout and Leverage**

- The data network covers 106,000 towns covered with 500m population.
- Idea has ramped up its network with about 46,500 4G sites covering 350m population in 20 circles.
- 4g network utilization is well below 30%. The company is taking additional steps of increasing capacity with 2500 and 2300mhz capacity addition. Will focus on 4g data capacity addition with just-in-time approach, instead of deploying far ahead of the time.
- Idea has capacity to support double-digit voice volume growth, but it is also launching VoLTE network.
- Capex in all the 8 leadership markets is ahead of the other operators, only behind RJio, which is a 4g operator. Idea is ensuring deep 4g network in leadership circles.
- Management has maintained its capex guidance. In the first quarter, capex incurred has been low, but will compensate the same by Dec'17 and focus on capacity in 4QFY18. Despite the EBITDA, it will continue capex and add 4g sites.
- Idea is in the process of doubling 4g sites and introduce 2300mhz and 2500mhz spectrum. It will be adding 4g sites to complete population coverage in the respective circles. Post the deployment of 4g sites and 2300mhz and 2500mhz spectrum, it will look at upgrading 2100mhz spectrum and 3g sites to 4g. However, that option may be exercised post the merger.
- Idea is geared to invest enough to manage more than 10 times the capacity compared to its current coverage.
- In the 8 leadership circles, the intention is to cover 90% of 3g sites with 4g by the end of the year. Already 80-90% 2g sites are covered by 3g.
- 77% of population coverage of 2g sites has either 3g or 4g network and it will increase.
- Large pocket of metros, tier 1 areas are fully covered with 4g, and smaller towns are ready for coverage. Once coverage is done, based on capacity growth, the high spectrum deployment will be done just in time instead of far ahead of the time.
- The difference in the quantum of capex between Idea and large operators is mainly due to the timing as Idea is following just in time capex strategy.
- The leverage has increased due to the fall in EBITDA instead of increasing debt. Management is ensuring that it can adequately fund capex.

**Vodafone-Idea Merger**

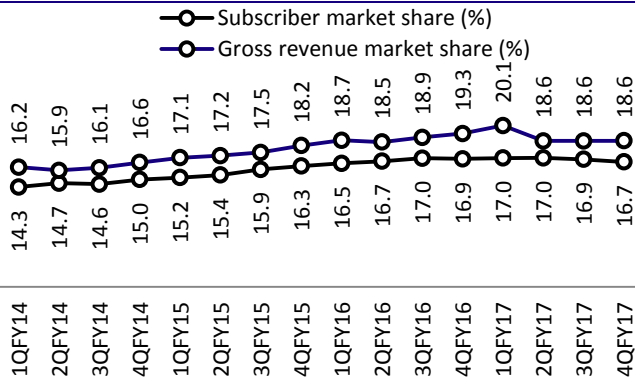
- Vodafone-Idea Merger: Received approval from CCI, which is one out of 4 key approvals required. Scheme of arrangement is filed with the SEBI and stock exchange and waiting for their approvals.
- Approval of CCI on Vodafone-Idea merger will allow both to plan network integration, since it can't be planned now. So once the merger is consummated, the synergy can be brought into effect as soon as possible. Currently, Idea is seeking consultation on the same.
- The IPO of non-Indus Idea tower portfolio remains one of the options to monetize the assets.

**VoLTE**

- Idea should launch VoLTE network in 6-9 months period by early CY18. It has completed network planning and is now finalizing the closure of contract with VoLTE suppliers.

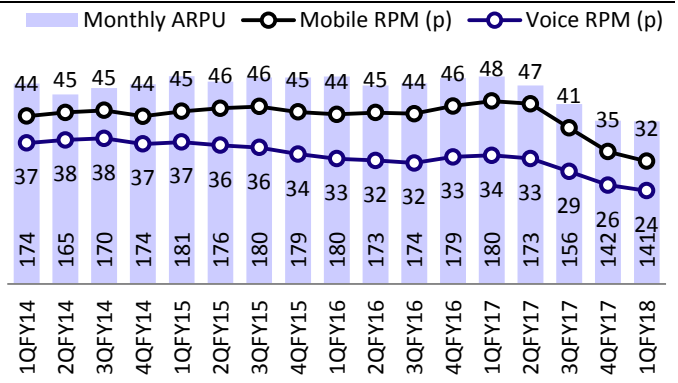
## Story in charts

**Exhibit 1: Idea: Subscriber and gross rev market share (%)**



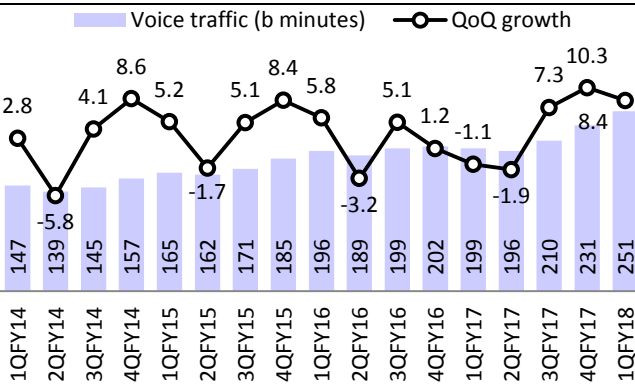
Source: Company, MOSL

**Exhibit 2: Idea: ARPU and RPM trajectory**



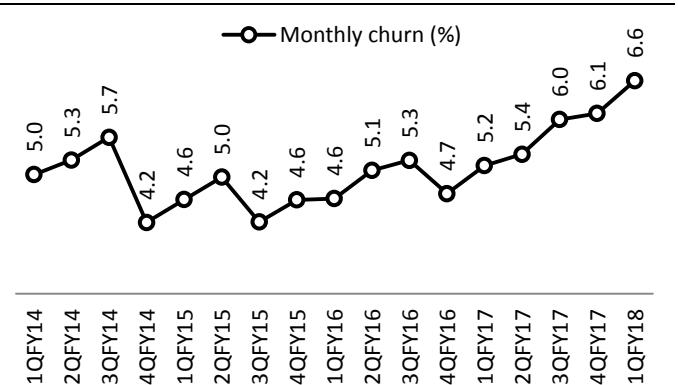
Source: Company, MOSL

**Exhibit 3: Voice traffic and QoQ growth**



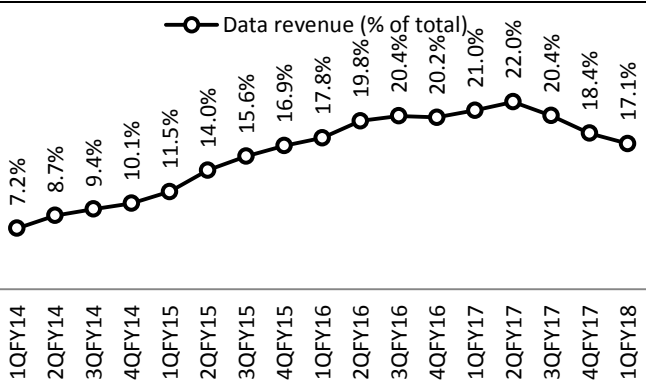
Source: Company, MOSL

**Exhibit 4: Monthly churn (%)**



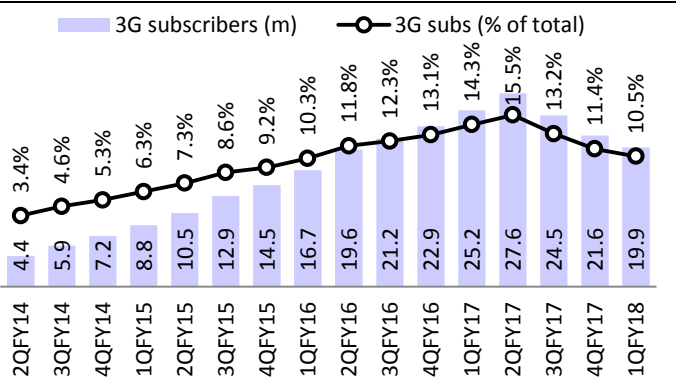
Source: Company, MOSL

**Exhibit 5: Data revenue (% of total)**



Source: Company, MOSL

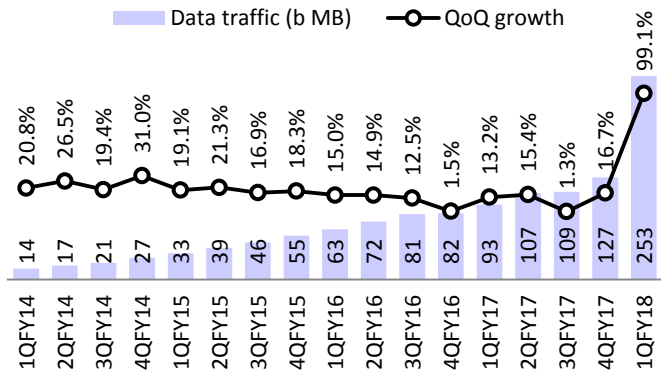
**Exhibit 6: 3G subscriber base ramp-up**



Source: Company, MOSL

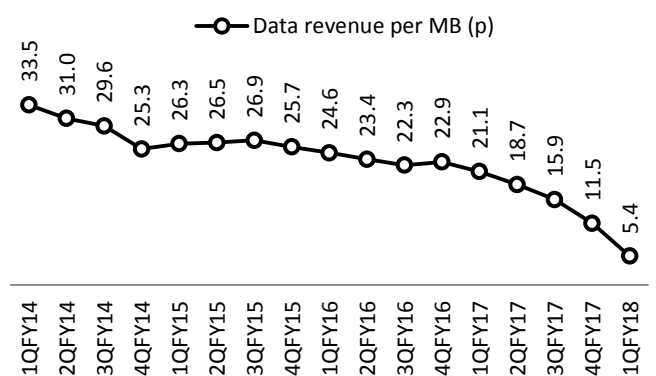
Story in charts

Exhibit 7: Data traffic and QoQ growth



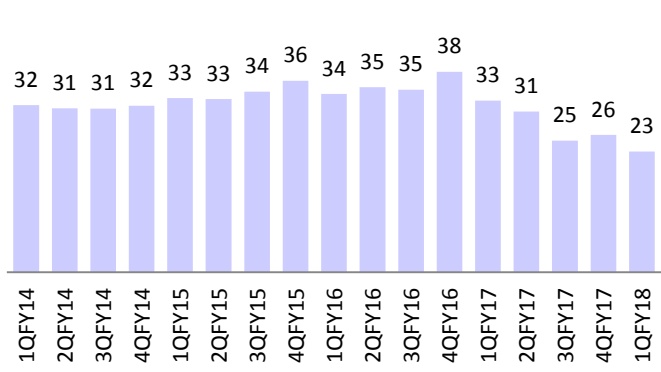
Source: Company, MOSL

Exhibit 8: Data revenue per MB (p)



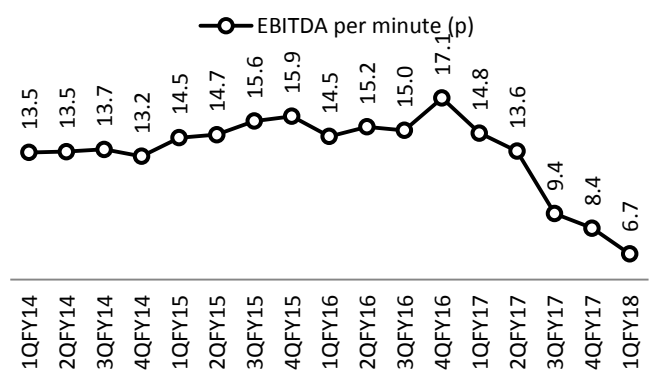
Source: Company, MOSL

Exhibit 9: Reported consolidated EBITDA margin (%)



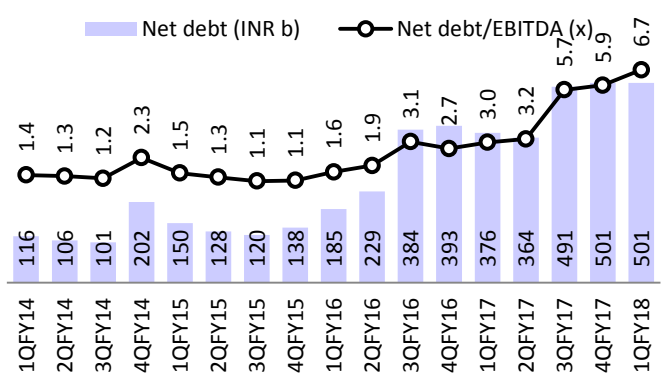
Source: Company, MOSL

Exhibit 10: EBITDA per minute (p)



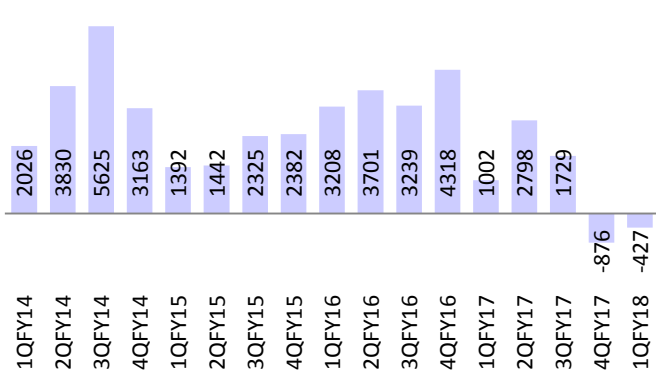
Source: Company, MOSL

Exhibit 11: Net debt and net debt/EBITDA



Source: Company, MOSL

Exhibit 12: 2G cell site additions



Source: Company, MOSL



**Exhibit 13: Consolidated P&L (INR m)**

|                               | 1QFY17        | 4QFY17        | 1QFY18         | YoY%            | QoQ%            | 1QFY18E        | v/s est (%)   |
|-------------------------------|---------------|---------------|----------------|-----------------|-----------------|----------------|---------------|
| <b>Revenue</b>                | <b>94,866</b> | <b>81,261</b> | <b>81,665</b>  | <b>-13.9</b>    | <b>0.5</b>      | <b>79,689</b>  | <b>2.5</b>    |
| <b>EBITDA</b>                 | <b>30,949</b> | <b>21,199</b> | <b>18,754</b>  | <b>-39.4</b>    | <b>-11.5</b>    | <b>18,977</b>  | <b>-1.2</b>   |
| <b>EBITDA margin (%)</b>      | <b>32.6</b>   | <b>26.1</b>   | <b>23.0</b>    | <b>-966bps</b>  | <b>-312bps</b>  | <b>23.8</b>    | <b>-85bps</b> |
| Depreciation and amortization | 19,192        | 19,885        | 20,679         | 7.7             | 4.0             | 20,857         | -0.9          |
| EBIT                          | 11,757        | 1,314         | -1,925         | -116.4          | -246.5          | -1,881         | 2.4           |
| <b>EBIT margin (%)</b>        | <b>12.4</b>   | <b>1.6</b>    | <b>-2.4</b>    | <b>-1475bps</b> | <b>-397bps</b>  | <b>-2.4</b>    | <b>0bps</b>   |
| Net Finance Costs             | 9,431         | 9,366         | 11,539         | 22.4            | 23.2            | 10,513         | 9.8           |
| <b>Profit before Tax</b>      | <b>2,326</b>  | <b>-8,052</b> | <b>-13,464</b> | <b>-678.9</b>   | <b>67.2</b>     | <b>-12,393</b> | <b>8.6</b>    |
| <b>Share of Associates</b>    | <b>1,035</b>  | <b>983</b>    | <b>818</b>     | <b>-21.0</b>    | <b>-16.8</b>    | <b>1,003</b>   | <b>-18.4</b>  |
| Adj Tax                       | 1,158         | -3,792        | -4,497         | -488.3          | 18.6            | -3,000         | 49.9          |
| <b>Tax rate (%)</b>           | <b>34.5</b>   | <b>53.6</b>   | <b>35.6</b>    | <b>111bps</b>   | <b>-1808bps</b> | <b>26</b>      | <b>922bps</b> |
| <b>Profit after Tax</b>       | <b>2,203</b>  | <b>-3,277</b> | <b>-8,149</b>  | <b>-469.9</b>   | <b>148.7</b>    | <b>-8,391</b>  | <b>-2.9</b>   |

Source: Company, MOSL

**Exhibit 14: Key Operating Metrics (QoQ)**

|                               | 1QFY17       | 4QFY17       | 1QFY18       | YoY%         | QoQ%         | 1QFY18E      | v/s est (%)   |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| EOP (mn)                      | 176          | 190          | 189          | 7.3%         | -0.3%        | 194          | -2.4%         |
| ARPU (INR/sub/month)          | 181          | 142          | 140          | -22.4%       | -1.1%        | 135          | 3.9%          |
| <b>Voice metrics</b>          |              |              |              |              |              |              |               |
| Voice revenues (INRm)         | 67,038       | 59,747       | 60,912       | -9%          | 2.0%         | 59,519       | 2.3%          |
| MOU (min/sub/month)           | 379          | 412          | 441          | 16.4%        | 7.0%         | 420          | 4.9%          |
| RPM ex VAS (INR/min)          | 0.336        | 0.258        | 0.243        | -27.5%       | -5.7%        | 0.246        | -1.3%         |
| Total Minutes (bn mins)       | 199.3        | 231.4        | 250.7        | 25.8%        | 8.4%         | 241.6        | 3.8%          |
| Voice ARPU                    | 127.2        | 106.3        | 107.3        | -15.7%       | 0.9%         | 103.5        | 3.6%          |
| <b>Data metrics</b>           |              |              |              |              |              |              |               |
| Data Revenues (INRm)          | 19650        | 14607        | 13652        | -30.5%       | -6.5%        | 13127        | 4.0%          |
| <i>data share</i>             | <i>21.0%</i> | <i>18.4%</i> | <i>17.1%</i> | <i>-3.9%</i> | <i>-1.2%</i> | <i>16.9%</i> | <i>1.3%</i>   |
| non voice contribution        | 28.2%        | 24.9%        | 23.6%        | -4.6%        | -1.3%        | 23.4%        | 0.9%          |
| Data Subs (mn)                | 49           | 42           | 38           | -22.3%       | -9.7%        | 43           | -12.4%        |
| <i>as a % of overall subs</i> | <i>27.8%</i> | <i>22.3%</i> | <i>20.2%</i> | <i>-7.7%</i> | <i>-2.1%</i> | <i>22.5%</i> | <i>-10.2%</i> |
| 3g subs (mn)                  | 25.20        | 21.61        | 19.88        | -21.1%       | -8.0%        |              |               |
| <i>as a % of data subs</i>    | <i>51.4%</i> | <i>51.2%</i> | <i>52.2%</i> | <i>0.8%</i>  | <i>1.0%</i>  |              |               |
| <i>as a % of overall subs</i> | <i>14.3%</i> | <i>11.4%</i> | <i>10.5%</i> | <i>-3.8%</i> | <i>-0.9%</i> |              |               |
| Data ARPU (INR)               | 141          | 110          | 113          | -19.5%       | 3.0%         | 102          | 11.0%         |
| Data ARMB (INR)               | 0.211        | 0.115        | 0.054        | -74.4%       | -53.0%       | 0.098        | -44.8%        |
| Data usage/subs (mb)          | 674          | 957          | 2204         | 227.0%       | 130.3%       | 1044         | 111.1%        |
| Data traffic (mnMBs)          | 93127        | 127014       | 252822       | 171.5%       | 99.1%        | 134294       | 88.3%         |

Source: MOSL, Company

**Exhibit 15: Summary of Estimate change**

|                          | FY17 | FY18E   | FY19E  |
|--------------------------|------|---------|--------|
| <b>Revenue (INRb)</b>    |      |         |        |
| Old                      | 356  | 339     | 363    |
| Actual/New               | 356  | 347     | 369    |
| Change (%)               | 0.0  | 2.3     | 1.5    |
| <b>EBITDA (INRb)</b>     |      |         |        |
| Old                      | 103  | 86      | 95     |
| Actual/New               | 103  | 84      | 95     |
| Change (%)               | 0.0  | -2.1    | 0.3    |
| <b>EBITDA margin (%)</b> |      |         |        |
| Old                      | 28.9 | 25.4    | 26.1   |
| Actual/New               | 28.9 | 24.3    | 25.8   |
| Change (bp)              | 0bps | -109bps | -30bps |

Source: MOSL, Company

**Exhibit 16: Key Operating Metrics (YoY)**

|                                    | FY13   | FY14   | FY15   | FY16   | FY17   | FY18E   | FY19E   |
|------------------------------------|--------|--------|--------|--------|--------|---------|---------|
| Subscribers (m)                    | 122    | 136    | 158    | 175    | 190    | 197     | 205     |
| YoY%                               |        |        |        |        |        |         |         |
| Average subscribers (m)            | 117    | 129    | 147    | 166    | 182    | 193     | 201     |
| YoY%                               |        |        |        |        |        |         |         |
| Data subscribers (m)               | 26     | 25     | 33     | 44     | 42     | 48      | 63      |
| YoY%                               |        |        |        |        |        |         |         |
| Average Rev Per User (INR/month)   | 158    | 169    | 177    | 177    | 159    | 145     | 148     |
| YoY%                               |        |        |        |        |        |         |         |
| Minutes of Use/Sub/Month           | 378    | 381    | 388    | 394    | 383    | 448     | 444     |
| YoY%                               |        |        |        |        |        |         |         |
| Data usage/data sub/month (mb)     | 119    | 257    | 490    | 641    | 843    | 2374    | 3210    |
| YoY%                               |        |        |        |        |        |         |         |
| Voice traffic (m min)              | 531534 | 588272 | 684216 | 787075 | 837449 | 1041008 | 1070099 |
| YoY%                               |        |        |        |        |        |         |         |
| Data traffic (m MB)                | 37380  | 79382  | 172531 | 297920 | 436423 | 1285493 | 2131529 |
| YoY%                               |        |        |        |        |        |         |         |
| Voice revenue per min (p)          | 35.4   | 37.2   | 35.6   | 32.4   | 30.2   | 24.1    | 22.7    |
| YoY%                               |        |        |        |        |        |         |         |
| Data revenue per MB (p)            | 32.3   | 29.1   | 26.3   | 23.2   | 16.4   | 5.1     | 4.6     |
| YoY%                               |        |        |        |        |        |         |         |
| Voice revenue (INR m)              | 188382 | 218808 | 243676 | 255135 | 252601 | 250648  | 243235  |
| YoY%                               |        |        |        |        |        |         |         |
| Data revenue (INR m)               | 12059  | 23105  | 45404  | 69163  | 71654  | 65955   | 97013   |
| YoY%                               |        |        |        |        |        |         |         |
| Data revenue as % of total revenue | 5.4    | 8.9    | 14.6   | 19.6   | 20.5   | 19.6    | 27.1    |
| Non Data VAS revenue (INR m)       | 21038  | 19082  | 22232  | 29148  | 24498  | 19743   | 17478   |
| Capex (INRm)                       | 57145  | 44388  | 43222  | 378140 | 177290 | 0       | 65000   |
| Capex / Sales (%)                  | 25.8   | 17.0   | 13.9   | 107.0  | 50.8   | 0.0     | 18.2    |

Source: MOSL, Company

**Exhibit 17: Valuation Summary**

|                    | Methodology    | Driver | Multiple | Fair Value (INRb) | Value/sh (INR) |
|--------------------|----------------|--------|----------|-------------------|----------------|
| Consol EBITDA      | FY19 EV/EBITDA | 95     | 9.5      | 907               | 252            |
| Less Net debt      |                |        |          | 511               | 142            |
| <b>Total Value</b> |                |        |          | <b>396</b>        | <b>110</b>     |
| Shares o/s (b)     |                |        |          | 3.6               |                |
| CMP (INR)          |                |        |          |                   | 96             |
| <b>Upside (%)</b>  |                |        |          |                   | <b>15</b>      |

Source: MOSL, Company



**Exhibit 18: Proforma statement for Vodafone-Idea merged entity (INR m)**

|                              | Announced      |                | Approval stage | Year 1         | Year 2         | Year 3         | Year 4         | Comments  |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---|
|                              | FY16           | FY17           | FY18           | FY19           | FY20           | FY21           | FY22           |   |
| Idea                         | 359,494        | 392,391        | 346,806        | 368,718        | 374,981        | 392,650        | 411,287        |   |
| Vodafone                     | 403,457        | 355,758        | 385,842        | 418,119        | 452,150        | 482,816        | 513,679        |   |
| <b>Topline</b>               | <b>762,951</b> | <b>748,149</b> | <b>732,648</b> | <b>786,837</b> | <b>827,130</b> | <b>875,466</b> | <b>924,966</b> | Factoring 200-350bp market share dilution for Vodafone and Idea over FY16-21E                         |
| <i>growth</i>                |                | -2%            | -2%            | 7%             | 5%             | 6%             | 6%             |   |
| Idea                         | 119,676        | 102,763        |                |                |                |                |                |   |
| Vodafone                     | 129,234        | 116,320        |                |                |                |                |                |   |
| <b>EBITDA</b>                | <b>248,910</b> | <b>219,083</b> | <b>177,853</b> | <b>202,652</b> | <b>239,868</b> | <b>262,640</b> | <b>295,989</b> | Building recovery from FY19E  |
| <i>margin</i>                | 33%            | 29%            | 24%            | 26%            | 29%            | 30%            | 32%            |   |
| <i>growth</i>                |                | -12%           | -19%           | 14%            | 18%            | 9%             | 13%            |   |
| Synergy                      |                |                |                | -              | 21,000         | 50,400         | 67,200         | Opex synergy is 60% of INR 140b total. Building 0% synergy in FY19 and 80% synergy in 4th year - FY22 |
| <b>EBITDA (post synergy)</b> | <b>248,910</b> | <b>219,083</b> | <b>177,853</b> | <b>202,652</b> | <b>260,868</b> | <b>313,040</b> | <b>363,189</b> |   |
| <i>margin (post synergy)</i> | 33%            | 29%            | 24%            | 26%            | 32%            | 36%            | 39%            |   |
| Debt                         | 945,485        | 1,079,000      | 1,079,000      | 1,079,000      | 1,079,000      | 1,079,000      | 1,079,000      | Not factoring reduction in debt due to potential tower sale in FY19, and FCF generation.              |
| Market cap                   | 687,033        | 687,033        | 687,033        | 687,033        | 687,033        | 687,033        | 687,033        |   |
| EV                           | 1,632,518      | 1,766,033      | 1,766,033      | 1,766,033      | 1,766,033      | 1,766,033      | 1,766,033      |   |
| <b>EV/EBITDA</b>             | <b>6.6</b>     | <b>8.1</b>     | <b>9.9</b>     | <b>8.7</b>     | <b>6.8</b>     | <b>5.6</b>     | <b>4.9</b>     | Value accretion only from FY20E   |
| <b>Net Debt to EBITDA</b>    | <b>3.8</b>     | <b>4.9</b>     | <b>6.1</b>     | <b>5.3</b>     | <b>4.1</b>     | <b>3.4</b>     | <b>3.0</b>     |   |

Source: MOSL, Company

## Financials and Valuations

| Y/E March                           | FY13           | FY14           | FY15           | FY16           | FY17           | FY18E          | FY19E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total Income from Operations</b> | <b>224,577</b> | <b>265,189</b> | <b>315,709</b> | <b>359,494</b> | <b>355,758</b> | <b>346,806</b> | <b>368,718</b> |
| Change (%)                          | 14.9           | 18.1           | 19.1           | 13.9           | -1.0           | -2.5           | 6.3            |
| <b>Total Expenditure</b>            | <b>164,531</b> | <b>181,852</b> | <b>207,592</b> | <b>239,818</b> | <b>252,995</b> | <b>262,618</b> | <b>273,754</b> |
| % of Sales                          | 73.3           | 68.6           | 65.8           | 66.7           | 71.1           | 75.7           | 74.2           |
| <b>EBITDA</b>                       | <b>60,045</b>  | <b>83,337</b>  | <b>108,117</b> | <b>119,676</b> | <b>102,763</b> | <b>84,188</b>  | <b>94,964</b>  |
| Margin (%)                          | 26.7           | 31.4           | 34.2           | 33.3           | 28.9           | 24.3           | 25.8           |
| Depreciation                        | 34,778         | 45,194         | 53,036         | 62,561         | 78,272         | 86,461         | 92,569         |
| <b>EBIT</b>                         | <b>25,268</b>  | <b>38,143</b>  | <b>55,081</b>  | <b>57,115</b>  | <b>24,491</b>  | <b>-2,272</b>  | <b>2,395</b>   |
| Int. and Finance Charges            | 9,495          | 7,700          | 5,755          | 18,831         | 37,342         | 44,932         | 46,800         |
| <b>PBT bef. EO Exp.</b>             | <b>15,773</b>  | <b>30,443</b>  | <b>49,325</b>  | <b>38,284</b>  | <b>-12,851</b> | <b>-47,205</b> | <b>-44,405</b> |
| Share of profits of associates      | 0              | 0              | 0              | 4,217          | 4,218          | 3,371          | 3,649          |
| <b>PBT after EO Exp.</b>            | <b>15,773</b>  | <b>30,443</b>  | <b>49,325</b>  | <b>42,501</b>  | <b>-8,633</b>  | <b>-43,833</b> | <b>-40,756</b> |
| Total Tax                           | 5,664          | 10,765         | 17,396         | 15,220         | -4,636         | -4,497         | 0              |
| Tax Rate (%)                        | 35.9           | 35.4           | 35.3           | 35.8           | 53.7           | 10.3           | 0.0            |
| <b>Reported PAT</b>                 | <b>10,109</b>  | <b>19,678</b>  | <b>31,929</b>  | <b>27,281</b>  | <b>-3,997</b>  | <b>-39,336</b> | <b>-40,756</b> |
| <b>Adjusted PAT</b>                 | <b>10,109</b>  | <b>19,678</b>  | <b>31,929</b>  | <b>24,574</b>  | <b>-3,997</b>  | <b>-39,336</b> | <b>-40,756</b> |
| Change (%)                          | 39.8           | 94.7           | 62.3           | -14.6          | -114.7         | 884.1          | 3.6            |
| Margin (%)                          | 4.5            | 7.4            | 10.1           | 7.6            | -1.1           | -11.3          | -11.1          |

### Consolidated - Balance Sheet

(INR Million)

| Y/E March                           | FY13           | FY14           | FY15           | FY16           | FY17           | FY18E          | FY19E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Equity Share Capital                | 33,143         | 33,196         | 35,978         | 36,005         | 36,053         | 36,053         | 36,053         |
| Total Reserves                      | 111,073        | 132,073        | 194,314        | 221,670        | 211,269        | 171,933        | 131,177        |
| <b>Net Worth</b>                    | <b>144,217</b> | <b>165,269</b> | <b>230,292</b> | <b>257,675</b> | <b>247,322</b> | <b>207,986</b> | <b>167,230</b> |
| Total Loans                         | 140,438        | 206,350        | 268,591        | 415,031        | 550,545        | 576,641        | 613,747        |
| Deferred Tax Liabilities            | 11,180         | 18,133         | 19,015         | 30,714         | 13,218         | 13,218         | 13,218         |
| <b>Capital Employed</b>             | <b>295,834</b> | <b>389,752</b> | <b>517,898</b> | <b>703,420</b> | <b>811,085</b> | <b>797,845</b> | <b>794,195</b> |
| Gross Block                         | 467,357        | 516,970        | 618,207        | 986,766        | 1,149,691      | 1,214,691      | 1,279,691      |
| Less: Accum. Deprn.                 | 175,818        | 221,012        | 262,871        | 303,848        | 382,120        | 468,580        | 561,150        |
| <b>Net Fixed Assets</b>             | <b>291,539</b> | <b>295,958</b> | <b>355,336</b> | <b>682,918</b> | <b>767,571</b> | <b>746,110</b> | <b>718,541</b> |
| Goodwill on Consolidation           | 61             | 61             | 61             | 61             | 61             | 61             | 61             |
| Capital WIP                         | 8,811          | 114,194        | 51,405         | 60,986         | 75,351         | 75,351         | 75,351         |
| <b>Total Investments</b>            | <b>10,280</b>  | <b>2,155</b>   | <b>115,267</b> | <b>13,728</b>  | <b>63,783</b>  | <b>63,783</b>  | <b>63,783</b>  |
| <b>Curr. Assets, Loans&amp;Adv.</b> | <b>53,092</b>  | <b>53,206</b>  | <b>82,598</b>  | <b>68,807</b>  | <b>59,912</b>  | <b>77,513</b>  | <b>110,705</b> |
| Inventory                           | 726            | 683            | 710            | 1,065          | 588            | 1,216          | 702            |
| Account Receivables                 | 9,601          | 8,006          | 9,789          | 11,776         | 13,139         | 14,243         | 15,143         |
| Cash and Bank Balance               | 1,429          | 1,881          | 15,537         | 7,818          | 827            | 10,997         | 39,218         |
| Loans and Advances                  | 41,336         | 42,636         | 56,562         | 48,148         | 45,358         | 51,057         | 55,642         |
| <b>Curr. Liability &amp; Prov.</b>  | <b>67,949</b>  | <b>75,823</b>  | <b>86,769</b>  | <b>123,081</b> | <b>155,592</b> | <b>164,974</b> | <b>174,246</b> |
| Account Payables                    | 64,719         | 68,960         | 78,013         | 112,331        | 151,551        | 159,520        | 169,605        |
| Provisions                          | 3,230          | 6,863          | 8,756          | 10,750         | 4,041          | 5,454          | 4,641          |
| <b>Net Current Assets</b>           | <b>-14,857</b> | <b>-22,616</b> | <b>-4,171</b>  | <b>-54,273</b> | <b>-95,681</b> | <b>-87,461</b> | <b>-63,541</b> |
| <b>Appl. of Funds</b>               | <b>295,834</b> | <b>389,752</b> | <b>517,898</b> | <b>703,420</b> | <b>811,085</b> | <b>797,845</b> | <b>794,195</b> |

## Financials and Valuations

| Y/E March                     | FY13       | FY14       | FY15       | FY16       | FY17        | FY18E        | FY19E        |
|-------------------------------|------------|------------|------------|------------|-------------|--------------|--------------|
| <b>Basic (INR)</b>            |            |            |            |            |             |              |              |
| <b>EPS</b>                    | <b>2.8</b> | <b>5.5</b> | <b>8.9</b> | <b>6.8</b> | <b>-1.1</b> | <b>-10.9</b> | <b>-12.3</b> |
| Cash EPS                      | 13.5       | 19.5       | 23.6       | 24.2       | 20.6        | 13.1         | 13.4         |
| BV/Share                      | 43.5       | 49.8       | 64.0       | 71.6       | 68.6        | 57.7         | 46.4         |
| DPS                           | 0.3        | 0.4        | 0.6        | 0.6        | 0.0         | 0.0          | 0.0          |
| Payout (%)                    | 11.5       | 7.9        | 8.1        | 9.5        | 0.0         | 0.0          | 0.0          |
| <b>Valuation (x)</b>          |            |            |            |            |             |              |              |
| P/E                           |            | 17.5       | 10.8       | 14.0       | -86.2       | -8.8         | -8.5         |
| Cash P/E                      |            |            | 4.0        | 3.9        | 4.6         | 7.3          | 6.6          |
| P/BV                          |            |            | 1.5        | 1.3        | 1.4         | 1.7          | 2.1          |
| EV/Sales                      |            |            | 1.9        | 2.1        | 2.5         | 2.6          | 2.5          |
| EV/EBITDA                     |            | 6.6        | 4.5        | 6.2        | 8.1         | 10.0         | 9.0          |
| Dividend Yield (%)            | 0.3        | 0.4        | 0.6        | 0.6        | 0.0         | 0.0          | 0.0          |
| <b>Return Ratios (%)</b>      |            |            |            |            |             |              |              |
| RoE                           | 7.4        | 12.7       | 16.1       | 10.1       | -1.6        | -17.3        | -21.7        |
| RoCE                          | 5.9        | 7.5        | 8.2        | 6.3        | 1.5         | -0.3         | 0.3          |
| RoIC                          | 6.0        | 9.0        | 11.7       | 7.7        | 1.8         | -0.3         | 0.4          |
| <b>Working Capital Ratios</b> |            |            |            |            |             |              |              |
| Fixed Asset Turnover (x)      | 0.5        | 0.5        | 0.5        | 0.4        | 0.3         | 0.3          | 0.3          |
| Asset Turnover (x)            | 0.8        | 0.7        | 0.6        | 0.5        | 0.4         | 0.4          | 0.5          |
| Inventory (Days)              | 1          | 1          | 1          | 1          | 1           | 1            | 1            |
| Debtor (Days)                 | 16         | 11         | 11         | 12         | 13          | 15           | 15           |
| <b>Leverage Ratio (x)</b>     |            |            |            |            |             |              |              |
| Current Ratio                 | 0.8        | 0.7        | 1.0        | 0.6        | 0.4         | 0.5          | 0.6          |
| Interest Cover Ratio          | 2.7        | 5.0        | 9.6        | 3.0        | 0.7         | -0.1         | 0.1          |
| Net Debt/Equity               | 0.9        | 1.2        | 0.6        | 1.5        | 2.0         | 2.4          | 3.1          |

### Consolidated - Cash Flow Statement

(INR Million)

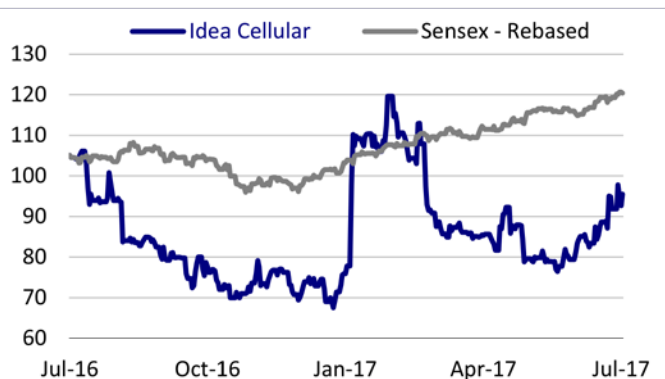
| Y/E March                        | FY13           | FY14           | FY15           | FY16            | FY17            | FY18E          | FY19E          |
|----------------------------------|----------------|----------------|----------------|-----------------|-----------------|----------------|----------------|
| OP/(Loss) before Tax             | 10,109         | 19,678         | 31,929         | 30,799          | -3,997          | -39,336        | -40,756        |
| Depreciation                     | 34,778         | 45,194         | 53,036         | 66,508          | 78,272          | 86,461         | 92,569         |
| Interest & Finance Charges       | 9,963          | 8,564          | 9,337          | 18,498          | 40,411          | 44,932         | 46,800         |
| Direct Taxes Paid                | -4,110         | -6,384         | -11,043        | -10,789         | -11,443         | 0              | 0              |
| (Inc)/Dec in WC                  | 6,096          | 5,354          | 5,540          | -3,429          | 6,960           | 1,951          | 4,301          |
| <b>CF from Operations</b>        | <b>56,836</b>  | <b>72,406</b>  | <b>88,800</b>  | <b>101,587</b>  | <b>110,202</b>  | <b>94,008</b>  | <b>102,915</b> |
| Others                           | 6,135          | 9,786          | 15,379         | 16,560          | -4,829          | 0              | 0              |
| <b>CF from Operating incl EO</b> | <b>62,971</b>  | <b>82,192</b>  | <b>104,179</b> | <b>118,147</b>  | <b>105,373</b>  | <b>94,008</b>  | <b>102,915</b> |
| (Inc)/Dec in FA                  | -34,766        | -36,448        | -41,576        | -75,157         | -52,930         | -65,000        | -65,000        |
| <b>Free Cash Flow</b>            | <b>28,205</b>  | <b>45,744</b>  | <b>62,603</b>  | <b>42,991</b>   | <b>52,443</b>   | <b>29,008</b>  | <b>37,915</b>  |
| (Pur)/Sale of Investments        | 0              | 0              | 0              | 0               | -33,472         | 0              | 0              |
| Others                           | 657            | -29,194        | -15,680        | -68,432         | -68,763         | 0              | 0              |
| <b>CF from Investments</b>       | <b>-34,109</b> | <b>-65,642</b> | <b>-57,256</b> | <b>-143,588</b> | <b>-155,165</b> | <b>-65,000</b> | <b>-65,000</b> |
| Issue of Shares                  | 248            | 263            | 37,374         | 175             | -4,453          | 0              | 0              |
| Inc/(Dec) in Debt                | -10,368        | -15,936        | 52,355         | -86,558         | 84,297          | 26,096         | 37,106         |
| Interest Paid                    | -9,283         | -7,682         | -6,656         | -8,505          | -32,800         | -44,932        | -46,800        |
| Dividend Paid                    | -250           | -1,306         | -2,792         | -2,598          | -2,599          | 0              | 0              |
| Others                           | 0              | 0              | 0              | 0               | 0               | 390            | 0              |
| CF from Fin. Activity            | -19,653        | -24,661        | 80,280         | -97,486         | 44,445          | -18,446        | -9,694         |
| <b>Inc/Dec of Cash</b>           | <b>9,209</b>   | <b>-8,111</b>  | <b>127,202</b> | <b>-122,927</b> | <b>-5,347</b>   | <b>10,562</b>  | <b>28,221</b>  |
| Opening Balance                  | 1,521          | 10,729         | 3,543          | 130,745         | 6,174           | 435            | 10,997         |
| <b>Closing Balance</b>           | <b>1,429</b>   | <b>1,881</b>   | <b>15,537</b>  | <b>7,818</b>    | <b>827</b>      | <b>10,997</b>  | <b>39,218</b>  |

## Corporate profile

### Company description

Idea Cellular, an Aditya Birla Group company, is India's third largest wireless operator with a revenue market share of ~19%. Idea provides GSM based telecommunication services in all the 22 telecom circles of which 15 are classified as established service areas and 7 as new service areas. It owns 3G/4G spectrum in 15/20 service areas respectively.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

|          | Jun-17 | Mar-17 | Jun-16 |
|----------|--------|--------|--------|
| Promoter | 42.4   | 42.4   | 42.2   |
| DII      | 8.8    | 6.8    | 6.5    |
| FII      | 25.9   | 27.0   | 25.7   |
| Others   | 22.9   | 23.8   | 25.6   |

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

| Holder Name  | % Holding |
|--|-----------|
| Axiata Investments1 (India) Limited  | 12.9      |
| Axiata Investments 2 (India) Limited   | 6.9       |
| ICICI Prudential Life Insurance Company Ltd.   | 3.4       |
| National Westminster Bank PLC as Depository of First State Asia Pacific Leaders Fund a Sub Fund of F | 3.2       |
| National Westminster Bank Plc As Depository Of First State Global Emerging Markets Leaders Fund A Su | 1.3       |

Source: Capitaline

Exhibit 4: Top management

| Name                 | Designation               |
|----------------------|---------------------------|
| Kumar Mangalam Birla | Chairman                  |
| HIMANSHU KAPANIA     | Managing Director         |
| Akshaya Moondra      | Whole Time Director & CFO |
| PANKAJ KAPDEO        | Company Secretary         |

Source: Capitaline

Exhibit 5: Directors

| Name                                  | Name             |
|---------------------------------------|------------------|
| Rajashree Birla                       | Sanjeev Aga      |
| Shridhir Sariputta Hansa Wiyayasuriya | Arun Thiagarajan |
| Madhabi Puri Buch                     | Mohan Gyani      |
| P Murari                              | Tarjani Vakil    |
| Alka Bharucha                         |                  |

\*Independent

Exhibit 6: Auditors

| Name                         | Type         |
|------------------------------|--------------|
| Deloitte Haskins & Sells LLP | Statutory    |
| Sanjay Gupta & Associates    | Cost Auditor |

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

| EPS (INR) | MOSL forecast | Consensus forecast | Variation (%) |
|-----------|---------------|--------------------|---------------|
| FY18      | -10.9         | -6.2               | 75.3          |
| FY19      | -12.3         | -5.9               | 108.9         |

Source: Bloomberg

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