

IDEA CELLULAR

Mixed performance; leverage driving volatility

India Equity Research | Telecom

Idea Cellular (Idea) reported weak revenue (down 5.7% versus Street's 4.6% decline estimate), but better profitability (16.4% adjusted EBITDA margin versus 15.8% estimate). We believe, Idea and Vodafone's data capacity utilisation at ~78% (estimate) is high and they will have to accelerate capacity expansion. Idea's balance sheet is stretched (8.7x net debt to TTM EBITDA) due to sharp fall in ARPU and market recovery is crucial for EBITDA recovery. Given high operating and financial leverage, we expect the stock to be volatile. Post healthy correction in stock price, any positive market or corporate development is likely to drive strong stock performance. However, due to uncertainties related to merger and timing of market recovery, we remain cautious. To factor slower recovery in ARPU, we cut FY19/FY20E revenue and EBITDA ~3.5% and ~7.5% each, respectively. Maintain 'HOLD' with revised TP of INR78 (INR100 earlier).

Revenue plunges on ARPU dip; one-off aids EBITDA margin

Idea's revenue declined 5.7% QoQ as higher bundled pack adoption pushed down ARPU to INR105 from INR114. Reported EBITDA margin jumped 480bps QoQ to 23.6% as the company reversed excess provisions of INR4.4bn related to earlier quarters. Adjusted EBITDA margin fell 240bps QoQ to 16.4% versus Street's 15.8% estimate. The company did not see any acceleration in mobile broadband subscriber addition, which stood at 5.0mn versus 5.2mn in Q3FY18.

Merger synergies key for increase in capex

We believe, Idea and Vodafone will need to step-up capex as their data capacity utilisation is high at ~78%. It is translating into relatively lower data speeds, according to various surveys, and is likely to weaken customer experience, impacting data subscriber addition. Due to stretched balance sheet, we expect external funding to become expensive and capex improvement will largely be driven by opex synergies.

Outlook and valuations: Merger key; maintain 'HOLD'

Although Idea will benefit from operating cost and capex synergies post merger with Vodafone, we remain concerned about its relatively low capex and possible loss of market share. The company may lose key customers as users consolidate their usage in one sim to take advantage of unlimited offerings. At CMP, the stock is trading at 10.2x FY20E EV/EBITDA. We maintain 'HOLD/SP' with revised DCF-based TP of INR78.

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Revenues	61,373	81,261	(24.5)	65,096	(5.7)	282,790	289,969	316,662
EBITDA	14,471	21,199	(31.7)	12,234	18.3	60,476	64,018	79,122
Adj. Net profits	(9,306)	(3,277)	NA	(12,856)	NA	(38,151)	(42,730)	(32,739)
Dil. EPS (INR)	(2.8)	(1.0)	NA	(3.9)	NA	(8.8)	(9.8)	(7.5)
Diluted P/E (x)						NA	NA	NA
EV/EBITDA (x)						13.6	12.2	10.2

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: IDEA.BO, B: IDEA IN)

CMP	: INR 69
Target Price	: INR 78
52-week range (INR)	: 119 / 68
Share in issue (mn)	: 4,359.3
M cap (INR bn/USD mn)	: 301 / 4,501
Avg. Daily Vol.BSE/NSE('000)	: 15,323.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	42.6	42.4	42.4
MF's, FI's & BK's	12.2	8.5	8.5
FII's	26.6	26.5	26.5
Others	18.6	22.6	22.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Telecommunication Index
1 month	(8.9)	6.2	(1.8)
3 months	(25.7)	(2.6)	(12.2)
12	(19.5)	15.4	1.6

Sandip Agarwal

+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Pranav Kshatriya

+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

Nikunj Mandowara

+91 22 2286 7431
nikunj.mandowara@edelweissfin.com

April 30, 2018

Table 1: KPIs

Particulars	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Subscriber base (mn)	176	179	185	190	189	182	189	195
Prepaid subscriber propn. (%)	95.4	95.3	95.5	95.6	95.6	95.5	95.6	95.8
Blended churn (%)	5.2	5.4	6.0	6.1	6.7	6.3	4.8	4.3
Operating parameters								
Average revenue per user (INR)	181	173	157	142	141	132	114	105
QoQ change (%)	1.1	(4.5)	(9.2)	(9.6)	(0.7)	(6.4)	(13.6)	(7.9)
Average minutes of use per user	379	368	385	412	441	459	509	577
QoQ change (%)	(2.1)	(2.8)	4.6	7.0	7.0	4.1	10.9	13.4
Average realised rate (INR)	0.477	0.470	0.407	0.345	0.320	0.287	0.225	0.181
QoQ change (%)	2.8	(1.5)	(13.4)	(15.2)	(7.2)	(10.3)	(21.6)	(19.6)
Non-voice revenue (% of ARPU)	28.2	29.6	27.2	24.9	23.6	23.3	25.3	25.8
Minutes of usage (mn)	199,307	195,504	209,828	231,372	250,729	255,035	282,574	330,364
Broadband cell sites	71,170	85,412	100,615	110,054	117,386	133,685	143,565	154,910
Data business								
Total data subscribers (2G+ 3G+4G)('000)	49,050	54,063	48,583	42,233	38,122	38,195	42,607	46,803
QoQ change (%)	11.4	10.2	(10.1)	(13.1)	(9.7)	0.2	11.6	9.8
Data as % of service revenue	20.6	21.9	20.2	18.3	17.1	16.5	18.0	18.8
Total data volume (TB)(2G+ 3G+4G)	93,127	107,439	108,843	127,014	252,822	438,688	571,301	818,085
QoQ change (%)	13.2	15.4	1.3	16.7	99.1	73.5	30.2	43.2
Total data volume (TB) (3G+4G)	66,853	79,861	84,455	104,223	228,805	413,119	548,600	793,457
QoQ change (%)	16.1	19.5	5.8	23.4	119.5	80.6	32.8	44.6
Data ARMB (INR)	0.211	0.187	0.159	0.115	0.054	0.027	0.020	0.014
QoQ change (%)	(7.9)	(11.4)	(15.0)	(27.7)	(53.0)	(50.0)	(25.9)	(30.0)
Data ARPU (INR) (2G+3G+4G)	142	130	111	110	119	105	95	83
QoQ change (%)	(3.4)	(8.5)	(14.6)	(0.9)	8.2	(11.8)	(9.5)	(12.6)
Data usage per subscriber (MB) (2G+3G+4G)	674	694	703	957	2,204	3,805	4,742	6,065
QoQ change (%)	5.1	3.0	1.3	36.1	130.3	72.6	24.6	27.9
Data usage per Broadband Susubscriber (MB)	889	922	971	1,381	3,083	4,853	5,708	7,013
QoQ change (%)	3.7	3.7	5.3	42.2	123.2	57.4	17.6	22.9

Source: Company

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	61,373	81,261	(24.5)	65,096	(5.7)	282,790	289,969	316,662
Direct costs	33,871	43,760	(22.6)	37,019	(8.5)	161,432	165,058	172,624
Employee expenses	2,595	4,367	(40.6)	4,242	(38.8)	15,430	16,528	18,050
Other expenses	10,436	11,935	(12.6)	11,601	(10.0)	45,452	44,365	46,866
Total expenditure	46,902	60,062	(21.9)	52,862	(11.3)	222,314	225,951	237,540
EBITDA	14,471	21,199	(31.7)	12,234	18.3	60,476	64,018	79,122
Depreciation	20,854	19,885	4.9	21,415	(2.6)	84,091	83,543	84,668
EBIT	(6,383)	1,314	NA	(9,181)	NA	(23,615)	(19,525)	(5,546)
Other income	2,504	684	266.1	420	496.2	3,530	1,910	2,336
Interest	12,246	10,050	21.9	11,910	2.8	44,600	53,331	52,626
Profit before tax	(15,380)	(7,069)	NA	(19,853)	NA	(61,461)	(67,561)	(52,281)
Provision for taxes	(5,758)	(3,792)	NA	(7,008)	NA	(23,310)	(24,831)	(19,542)
Associate profit share	745	983	(24.2)	818	(8.9)	3,224	3,385	3,554
Reported net profit	(9,306)	(3,277)	NA	(12,856)	NA	(38,151)	(42,730)	(32,739)
Adjusted Profit	(9,306)	(3,277)	NA	(12,856)	NA	(38,151)	(42,730)	(32,739)
Diluted EPS (INR)	(2.8)	(1.0)	NA	(3.9)	NA	(8.8)	(9.8)	(7.5)
Basic EPS (INR)	(2.8)	(1.0)	NA	(3.9)	NA	(11.5)	(12.9)	(9.9)
As % of sales								
Direct costs	55.2	53.9		56.9		57.1	56.9	54.5
Employee cost	4.2	5.4		6.5		5.5	5.7	5.7
Other operating expenses	17.0	14.7		17.8		16.1	15.3	14.8
EBITDA	23.6	26.1		18.8		21.4	22.1	25.0
Adjusted net profit	(15.2)	(4.0)		(19.7)		(13.5)	(14.7)	(10.3)
Tax rate (% PBT)	37.4	53.6		35.3		37.9	36.8	37.4

Change in estimates

	FY19E			FY20E			Comments
	New	Old	% change	New	Old	% change	
Net revenue	289,969	300,482	(3.5)	316,662	329,043	(3.8)	Revenue cut on expected delay in market recovery
EBITDA	64,018	69,090	(7.3)	79,122	85,399	(7.4)	Operating leverage leads to sharper fall in EBITDA
EBITDA margin (%)	22.1	23.0		25.0	26.0		
Adjusted PAT	(42,730)	(37,244)	NA	(32,739)	(25,431)	NA	
PAT margin (%)	(14.7)	(12.4)		(10.3)	(7.7)		
Capex	70,247	60,969	15.2	75,434	67,247	12.2	

Company Description

Idea is India's third largest telecom operator with a subscriber base of ~190mn and revenue market share of ~19%. Idea provides Pan India GSM mobile services and broadband services in all 22 service areas of India. Idea has started 4G services across 20 circles where it owns 4G spectrum following aggressive rollout in a phased manner since December 2016. The company owns 74 broadband carriers (44 carriers on FDD and 30 carriers on TDD) providing it sufficient capacity to cater its growing broadband data customers base. The 4G spectrum profile of the company covers ~94% of its revenue and ~90% of industry revenue in 20 service areas.

Investment Theme

The industry is going through the turmoil as Reliance Jio (RJIO) has created significant upfront capacity and is looking to gain proportionate volume and revenue share by offering discounts and extended trial offer. We expect the revenue growth for the industry to remain under pressure as incumbent operators extend discounts to retain its subscriber base. Hence we maintain negative stance on the sector. We expect sustained competitive intensity to accelerate consolidation in the industry with emergence of fewer, but stronger players. Idea and Vodafone have also announced consolidation of their operation which can bring in significant synergy benefit in the medium to long term. Stability in the competitive environment is pivotal for the sector's profitable growth and we will wait for industry's subscriber addition and churn to plateau before turning positive.

Key Risks

Increased competition in data may impact data pricing power which may lead to lower data revenue growth. Further escalation in competitive intensity putting pressure on the realization would be negative.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Total subscribers (mn)	175.4	180.8	185.3	188.0
growth	11.4	3.1	2.5	1.5
MOU	397.0	401.0	405.0	409.0
RPM	0.4	0.2	0.3	0.3
growth	(8.1)	(42.8)	5.7	13.6
ARPU (INR)	165	95	102	117
growth	(11.1)	(42.2)	6.7	14.8
Total subscribers	19.9	21.7	23.2	24.1
growth	13.5	9.0	6.9	3.9
MOU	190.7	194.5	198.4	202.4
RPM	0.6	0.4	0.4	0.5
growth	11.8	(37.7)	7.3	15.9
ARPU (INR)	116	74	81	96
growth	(8.4)	(36.4)	9.5	18.2
Cost assumptions				
Capex (INR mn)	(126,319)	(77,033)	(70,247)	(75,434)
Network opex (% of rev)	29.3	34.4	35.3	33.5
Access charge (% of rev)	12.0	12.5	11.5	11.3
Sub. Acq. Exp (% of rev)	10.5	12.8	12.3	12.0
Interest Cost (% of rev)	92.1	137.3	9.4	9.4
Financial assumptions				
Tax rate as % of PBT	36.1	36.0	35.0	35.0
Debtor days	13	14	14	17
Dep. (% gross block)	11.0	10.7	11.0	11.8
Incremental debt	145,132	29,306	(25,000)	10,000

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	355,757	282,790	289,969	316,662
Direct costs	187,788	161,432	165,058	172,624
Employee costs	17,976	15,430	16,528	18,050
Other Expenses	47,788	45,452	44,365	46,866
Total operating expenses	253,553	222,314	225,951	237,540
EBITDA	102,204	60,476	64,018	79,122
Depreciation	78,272	84,091	83,543	84,668
EBIT	23,932	(23,615)	(19,525)	(5,546)
Add: Other income	3,069.16	3,530.00	1,910.05	2,336.4
Less: Interest Expense	39,850	44,600	53,331	52,626
Profit Before Tax	(8,630)	(61,461)	(67,561)	(52,281)
Less: Provision for Tax	(4,635)	(23,310)	(24,831)	(19,542)
Associate profit share	4,219	3,224	3,385	3,554
Reported Profit	(3,995)	(38,151)	(42,730)	(32,739)
Adjusted Profit	(3,995)	(38,151)	(42,730)	(32,739)
Shares o /s (mn)	3,605	4,359	4,359	4,359
Adjusted Basic EPS	(1.1)	(8.8)	(9.8)	(7.5)
Diluted shares o/s (mn)	3,605	4,359	4,359	4,359
Adjusted Diluted EPS	(1.1)	(8.8)	(9.8)	(7.5)
Adjusted Cash EPS	20.6	10.5	9.4	11.9

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	71.3	78.6	77.9	75.0
Materials costs	52.8	57.1	56.9	54.5
Staff costs	5.1	5.5	5.7	5.7
S G & A expenses	13.4	16.1	15.3	14.8
Depreciation	22.0	29.7	28.8	26.7
Interest Expense	11.2	15.8	18.4	16.6
EBITDA margins	28.7	21.4	22.1	25.0
Net Profit margins	(1.1)	(13.5)	(14.7)	(10.3)

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(1.0)	(20.5)	2.5	9.2
EBITDA	(14.6)	(40.8)	5.9	23.6
PBT	(120.3)	612.2	9.9	(22.6)
Adjusted Profit	(114.6)	854.9	12.0	(23.4)
EPS	(114.6)	689.7	12.0	(23.4)

Balance sheet				(INR mn)
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	36,053	43,593	43,593	43,593
Reserves & Surplus	211,270	229,031	183,702	148,365
Shareholders' funds	247,323	272,624	227,295	191,958
Short term borrowings	34,167	10,443	10,443	40,443
Long term borrowings	516,378	569,408	544,408	524,408
Total Borrowings	550,545	579,851	554,851	564,851
Long Term Liabilities	19,144	34,770	34,770	34,770
Def. Tax Liability (net)	13,218	(11,393)	(11,393)	(11,393)
Sources of funds	830,230	875,852	805,523	780,186
Gross Block	518,061	588,061	655,308	730,741
Net Block	228,443	244,549	181,118	185,234
Capital work in progress	75,351	35,853	38,853	38,853
Intangible Assets	539,250	552,431	539,081	525,731
Total Fixed Assets	843,044	832,833	759,052	749,818
Non current investments	47,309	38,541	30,833	30,833
Cash and Equivalents	49,825	56,909	75,149	60,356
Inventories	588	367	870	950
Sundry Debtors	13,139	8,874	13,049	15,833
Loans & Advances	21	20	5,799	7,917
Other Current Assets	12,752	36,174	36,174	36,174
Current Assets (ex cash)	26,500	45,435	55,892	60,874
Trade payable	40,777	35,479	38,412	40,382
Other Current Liab	95,671	62,387	76,991	81,312
Total Current Liab	136,448	97,866	115,402	121,694
Net Curr Assets-ex cash	(109,948)	(52,431)	(59,510)	(60,821)
Uses of funds	830,230	875,852	805,523	780,186
BVPS (INR)	68.6	62.5	52.1	44.0

Free cash flow				(INR mn)
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	(3,995)	(38,151)	(42,730)	(32,739)
Add: Depreciation	78,272	84,091	83,543	84,668
Interest (Net of Tax)	25,475	28,528	34,665	34,207
Others	12,582	(143,562)	(20,506)	(31,587)
Less: Changes in WC	6,960	(57,517)	7,079	1,310
Operating cash flow	105,373	(11,577)	47,893	53,239
Less: Capex	(122,085)	(77,033)	(70,247)	(75,434)
Free Cash Flow	(16,712)	(88,610)	(22,354)	(22,194)

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Idea Cellular	4,501	(7.1)	(9.2)	12.2	10.2	(17.1)	(15.6)
Bharti Airtel	24,519	81.3	40.1	5.0	4.0	3.9	6.6
Bharti Infratel	8,889	20.5	22.0	8.0	8.3	15.6	13.6
Median	-	20.5	22.0	8.0	8.3	3.9	6.6
AVERAGE	-	31.6	17.6	8.4	7.5	0.8	1.5

Source: Edelweiss research

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	105,373	(11,577)	47,893	53,239
Investing cash flow	44,445	78,275	(27,599)	7,401
Financing cash flow	(155,557)	(6,044)	(60,538)	(26,130)
Net cash Flow	(5,739)	60,654	(40,244)	34,511
Capex	(122,085)	(77,033)	(70,247)	(75,434)
Dividend paid	(2,599)	(2,599)	(2,599)	(2,599)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	(1.7)	(14.7)	(17.1)	(15.6)
ROACE (%)	3.8	(2.4)	(2.2)	(0.4)
Debtors Days	13	14	14	17
Payable Days	53	63	60	61
Cash Conversion Cycle	(39)	(47)	(45)	(42)
Current Ratio	0.6	1.0	1.1	1.0
Gross Debt/EBITDA	5.4	9.6	8.7	7.1
Gross Debt/Equity	2.2	2.1	2.4	2.9
Adjusted Debt/Equity	2.2	2.1	2.4	2.9
Interest Coverage Ratio	0.6	(0.5)	(0.4)	(0.1)

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.5	0.3	0.3	0.4
Fixed Asset Turnover	0.5	0.4	0.4	0.4
Equity Turnover	1.5	1.1	1.2	1.5

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	(1.1)	(8.8)	(9.8)	(7.5)
Y-o-Y growth (%)	(114.6)	689.7	12.0	(23.4)
Adjusted Cash EPS (INR)	20.6	10.5	9.4	11.9
Diluted P/E (x)	(62.4)	(7.9)	(7.1)	(9.2)
P/B (x)	1.0	1.1	1.3	1.6
EV / Sales (x)	2.1	2.9	2.7	2.5
EV / EBITDA (x)	7.3	13.6	12.2	10.2

Additional Data

Directors Data

Mr. Kumar Mangalam Birla	Chairman	Mrs. Rajashree Birla	Non-Executive Director
Dr. Rakesh Jain	Non-Executive Director	Mr. Biswajit A. Subramanian	Non-Executive Director
Mr. Juan Villalonga Navarro	Non-Executive Director	Mr. Sanjeev Aga	Non-Executive Director
Mr. Arun Thiagarajan	Independent Director	Mr. Gian Prakash Gupta	Independent Director
Mr. Mohan Gyani	Independent Director	Ms. Tarjani Vakil	Independent Director
Mr. R.C. Bhargava	Independent Director	Mr. P. Murari	Independent Director
Ms. Madhabi Puri Buch	Independent Director	Mr. Himanshu Kapania	Managing Director
Dr. Shridhir Sariputta Hansa Wijayasuriya	Alternate Director to Mr. Juan Villalonga Navarro		

Auditors - Deloitte Haskins and Sells, Chartered Accountants

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Commonwealth Bank of Australia	3.96	First State Investments	3.96
ICICI Prudential Life Insurance	3.34	Vanguard	2.34
Tempelton Asset Management	2.23	Goldman Sachs	1.58
Blackrock	1.45	Franklin Resources	1.26
SBI MF	1.09	ICICI Prudential AMC	1.09

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
17 Apr 2018	Nvb Plc As Dep Of Fs Apac Leaders Fd A Sub Fd Of Fs Invicvc	Sell	39240714	71.50

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
23 Aug 2017	Mr. Suresh Kumar Agrawal	Sell	21422.00
07 Aug 2017	Deepak Rao	Sell	15000.00
04 Jul 2017	Mr. Anil Vasant Arya	Sell	35000.00
03 Jul 2017	Mr. Anil Vasant Arya	Sell	35000.00
30 Jun 2017	Mr. Anil Vasant Arya	Sell	35000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharti Airtel	BUY	SO	L	Bharti Infratel	HOLD	SP	L
Idea Cellular	HOLD	SP	M	Reliance Communication	HOLD	SU	H
Sterlite Technologies	BUY	SO	M	Tejas Networks	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Telecom

Bharti Airtel, Bharti Infratel, Idea Cellular, Reliance Communication, Sterlite Technologies, Tejas Networks

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Apr-18	Bharti Airtel	Well set for long innings; <i>Result Update</i>	420	Buy
24-Apr-18	Bharti Infratel	Consolidation pangs; <i>Result Update</i>	329	Hold
24-Jan-18	Idea Cellular	Weakness persists; merger advancement to drive synergies; <i>Result Update</i>	94	Hold

Distribution of Ratings / Market Cap

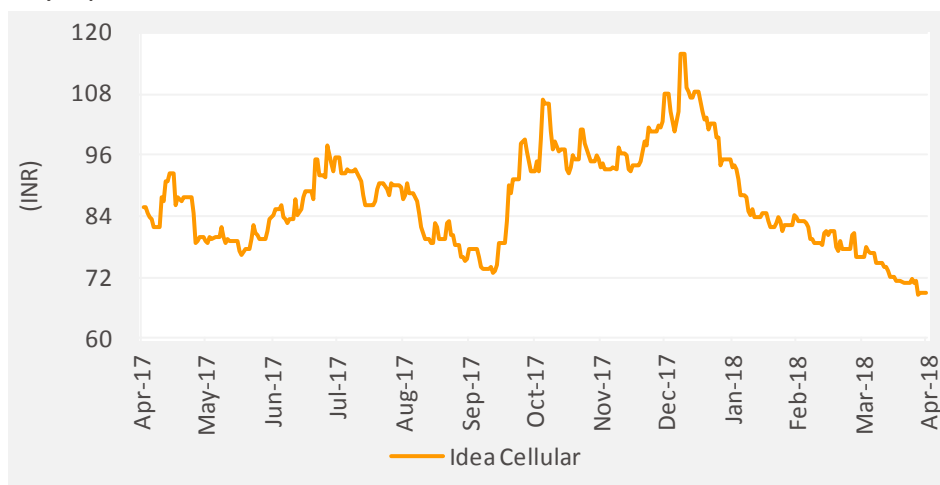
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR). Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved