

Idea Cellular

BSE SENSEX

35,038

S&P CNX

10,589

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Stock Info

Bloomberg	IDEA IN
Equity Shares (m)	3,601
52-Week Range (INR)	118 / 50
1, 6, 12 Rel. Per (%)	-7/-50/-46
M.Cap. (INR b)	202.3
M.Cap. (USD b)	4.8
Avg Val, INRm	1377.0
Free float (%)	57.4

Financials Snapshot (INR b)

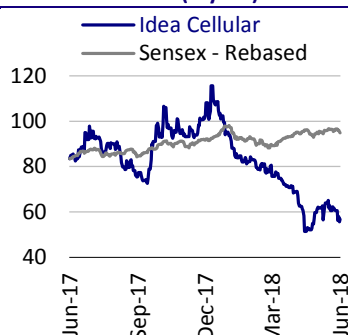
Y/E Mar	2018	2019E	2020E
Net Sales	282.8	248.8	282.4
EBITDA	60.5	51.9	74.8
NP	-41.7	-53.8	-45.7
EPS (INR)	-9.6	-12.3	-10.5
EPS Gr. (%)	762.5	29.0	-15.1
BV/Sh. (INR)	62.5	50.2	40.3
RoE (%)	-16.0	-21.9	-23.2
RoCE (%)	-1.8	-2.9	-1.7
P/E (x)	-6.2	-4.8	-5.7
P/BV (x)	0.9	1.2	1.5
EV/EBITDA (x)	12.6	15.4	10.7

Shareholding pattern (%)

As On	Mar-18	Dec-17	Mar-17
Promoter	42.6	42.4	42.4
DII	11.7	8.1	6.8
FII	26.7	27.2	27.0
Others	19.1	22.3	23.8

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR59
TP: INR75(+27%)
Buy

Near-term headwinds persist

High net debt of ~INR 1.2t in FY19E may necessitate further cash infusion

We met Idea's management and conducted channel checks with network vendor. Our key takeaways:

- ARPU pressure continues due to downtrading towards low tariffs and select offerings below headline tariffs too. However, the impact from RJio's postpaid plans and Jiophone is limited.
- Merger completion may be delayed by a month to July/August. Vodafone-Idea may not get a direct waiver, though the Bharti-Telenor deal had received Supreme Court clearance for one-time spectrum fee.
- There is limited overlapping between both operators' broadband (3g, 4g) network. This should support coverage expansion for the merged company.
- FY19E net debt stands at INR1.2t. INR300b cash from recent fund raising will be used to meet FY19E capex requirements and merger integration cost.

Our view: Maintain Buy

- The stock is trading at 15x/9x on combined FY19/20E EBITDA. We believe headwinds from ARPU downtrading would continue for the next few quarters. This coupled with delay in merger completion and risk of capital dilution lead us to reduce our TP to INR75 (INR85 earlier), assigning 10x to FY20E combined EBITDA of INR187b (including merger synergies).
- However, merger synergies should help tackle competition. Further, market recovery beyond FY19 should lead to a re-rating, triggered by FCF growth. Maintain Buy.
- Key Risk: Ballooning net debt and capex requirements beyond FY19 with limited OCF generation might necessitate further cash infusion.

ARPU downtrading continues

- Pressure on ARPU persists on (a) high ARPU subscribers continuing to downtrade on lower tariffs, and (b) selective offerings below headline tariffs.
- However, at present, the impact of RJio's postpaid plans is limited and company does not intend to match peer price plans in the postpaid category.

Subscriber growth to taper

- High subscriber additions, which resulted from shutting down of smaller operators, are behind. Going forward, subscriber growth of 2m-3m is expected to continue, largely from new subscriber additions.

Merger update

- DOT's intimation is expected to be received in a week's time, listing out the required merger conditions.
- Vodafone-Idea may not get a direct DOT waiver for one-time spectrum fee, despite the Supreme Court's approval for the Bharti-Telenor deal.
- Merger completion may be delayed by another 1-2 months to July/August.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Network integration planning in place

- The merged entity is expected to adopt a combination of two approaches:
 - **Anchor network:** Of the two networks (Vodafone and Idea), the merged entity will migrate subscribers to the operator that has leadership in the specific circle through ICR. This will not be just circle-wise, but at city, district and cluster level.
 - **Keeping two networks:** Circles will be demarcated into two parts and both operators will continue with different equipment in each part. This will be done for optimum utilization of both network equipment, and use the strength of both operators.
- **No concern on capacity:** In places where both operators are present, the merged entity will prefer to deploy anchor network, while the second operator's carrier will be supplemented to anchor tenant keeping combined capacity same.
- **Re-farming voice spectrum to improve data network:** In places where one of the operators does not have broadband spectrum, it will re-farm voice spectrum on anchor network.
- **Complementary broadband coverage:** There is limited broadband (3g, 4g) network overlapping between the two networks, which will help in improving combined network coverage.
- **Network rejig – not a new exercise:** Idea had done a network rejig between different spectrum bands for voice and data network in circles like Rajasthan and Bihar, where single ultra-band equipment (band and technology agnostic BTS) was deployed seamlessly in place of multi BTS. This had limited impact on customer network experience.
- **Switching from TDM to IP network:** Our channel check with network vendor highlights that Idea is switching from TDM to IP backbone to enable seamless data and VoLTE connectivity.

Separate operations of Vodafone-Idea to continue

- Front-end operations of both the companies including the brand name will co-exist initially and gradually get merged.

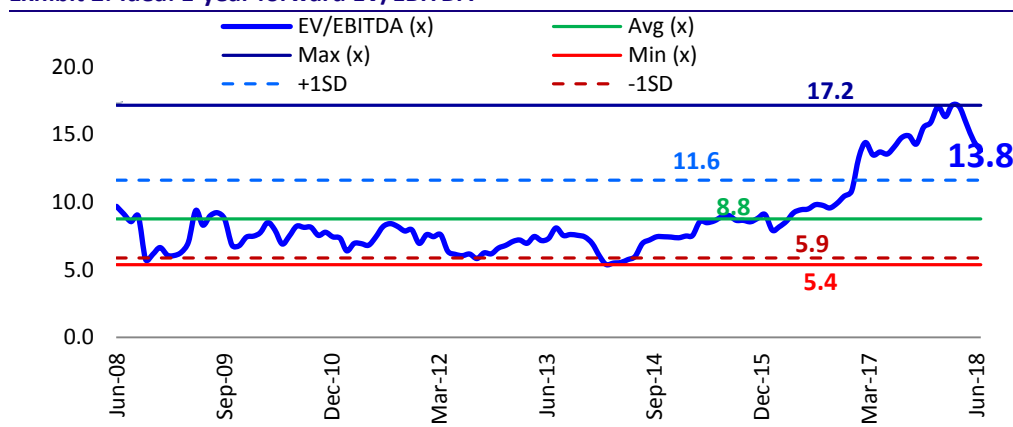
Leverage, capex, cash flow position

- Overall net debt for the combined entity in FY19 would be INR1.2t. This is after accounting for INR300b fund raising (equity infusion by both companies and tower sale), INR160b capex, and INR90b of merger integration cost.
- However, INR300b cash will be available for FY19 capex as well as network integration cost, thus increasing the gross debt to INR1.5t.
- Cash interest cost in FY19 should be INR100b-120b, which should be serviced by EBITDA generation.
- Vodafone-Idea promoter will evaluate fund raising options for capex to sustain in the competitive environment beyond FY19.

Exhibit 1: Valuation based on FY20E combined EBITDA (INR b)

	Methodology	Driver (INR b)	Multiple (x)	Fair Value (INR b)	Value/sh (INR)
Combined EBITDA	FY20E EV/EBITDA	187	10	1,828	210
Less Net debt				1,178	135
Total Value				650	75
Shares o/s (b)				8.7	
CMP (INR)					59
Upside (%)					27

Source: MOSL, Company

Exhibit 2: Idea: 1-year forward EV/EBITDA

Source: Bloomberg, MOSL

Exhibit 3: Proforma statement for Vodafone-Idea merged entity (INR b)

	Announced FY17	Approval stage FY18	Year 1 FY19E	Year 2 FY20E	Year 3 FY21E	Year 4 FY22E	Comments
Revenue	763.1	634.7	559.0	611.8	681.7	756.5	❖ Factoring 200-350bp market share dilution for Vodafone and Idea over FY18-21E
YoY Growth (%)	-3%	-17%	-12%	9%	11%	11%	
EBITDA	219.1	135.7	119.4	152.9	204.5	242.1	❖ Building recovery from FY19E
EBITDA Margin (%)	29%	21%	21%	25%	30%	32%	
YoY Growth (%)	-12%	-38%	-12%	28%	34%	18%	
Synergy			0	33.6	50.4	67.2	❖ Opex synergy is 60% of INR 140b total. Building 0% synergy in FY19 and 80% synergy in 4th year - FY22
EBITDA (post synergy)	219.1	135.7	119.4	186.6	254.9	309.3	
EBITDA margin (post synergy) (%)	29%	21%	21%	30%	37%	41%	
Net Debt	1,038.1	878.1	1,178.3	1,178.3	1,178.3	1,178.3	❖ Factoring debt reduction of INR 78.5b due to tower sale in FY19
EV	1,554.6	1,394.6	1,694.8	1,694.8	1,694.8	1,694.8	
EV/EBITDA (x)	7.0	10.3	14.6	9.1	6.6	5.5	❖ Value accretion only from FY20E
Net Debt to EBITDA (x)	4.7	6.5	10.2	6.3	4.6	3.8	

Source: MOSL, Company

Exhibit 4: Combined net debt workings for FY19E

Particulars	Amount (INR b)
Idea Cellular - FY18 net debt	507
Interest accrued on Spectrum liability	25
-- Cash	10
-- Non Cash	15
Idea Cellular net debt	532
Vodafone India net debt	557
Combined net debt	1,088
Proceeds from tower sale	-80
Net Debt (A)	1,008
Additional Net Debt Impact:	
Integration cost	90
Proceed from Idea's Indus Stake sale	-80
Net impact (B)	10
Capex (C)	160
Combined net debt for FY19E (A+B+C)	1,178

Source: MOSL, Company

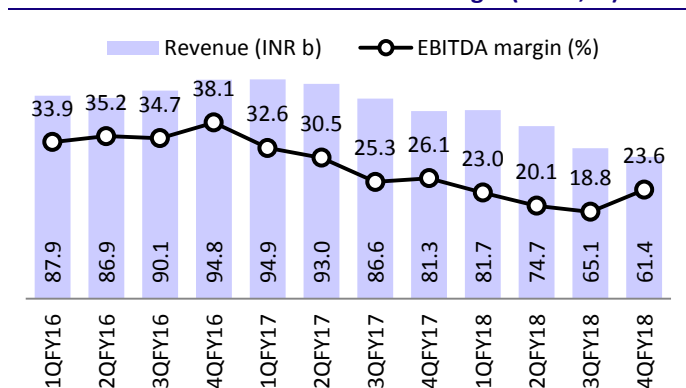
Exhibit 5: Combined cash in hand on day-Zero of merger

Particulars	Amount (INR b)
Equity Funding	135
Tower Sale	80
Indus stake sale	80
Total cash available	295
Less: Integration cost	-90
Net Cash available for FY19 capex	205

Source: MOSL, Company

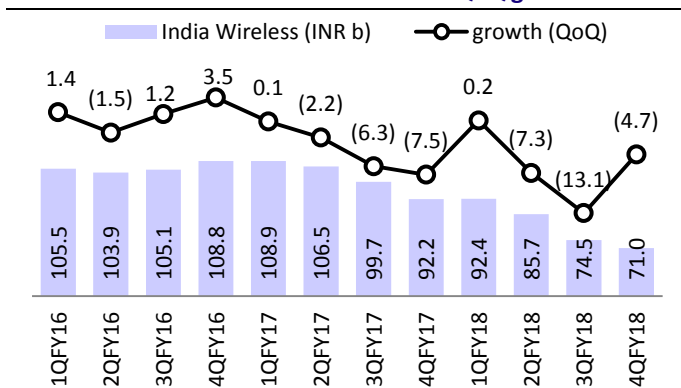
Story in charts

Exhibit 6: IDEA: Revenue and EBITDA margin (INR b, %)



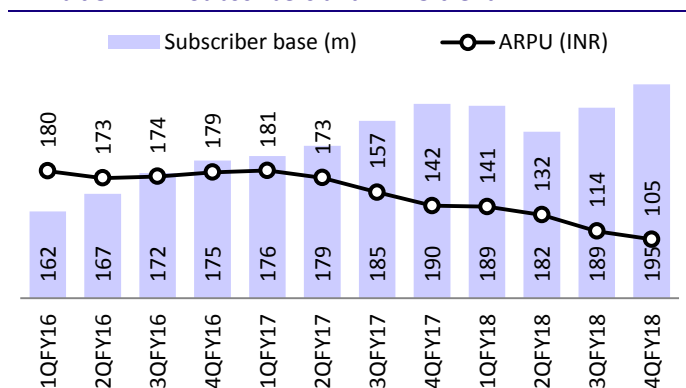
Source: MOSL, Company

Exhibit 7: Vodafone India: Revenue and QoQ growth trend



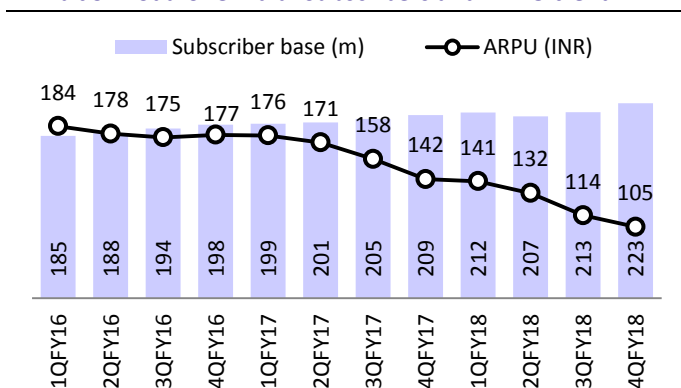
Source: MOSL, Company

Exhibit 8: IDEA: Subscribers and ARPU trend



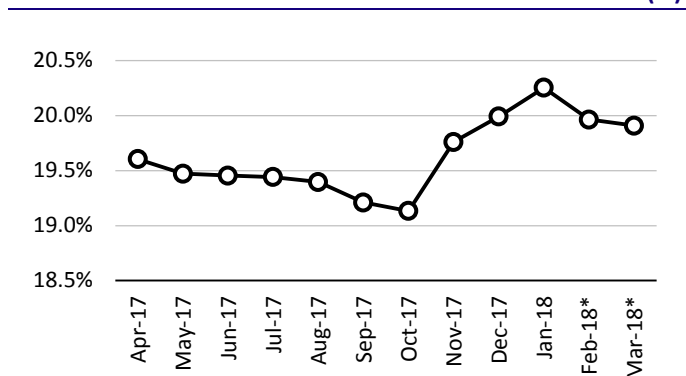
Source: MOSL, Company

Exhibit 9: Vodafone India: Subscribers and ARPU trend



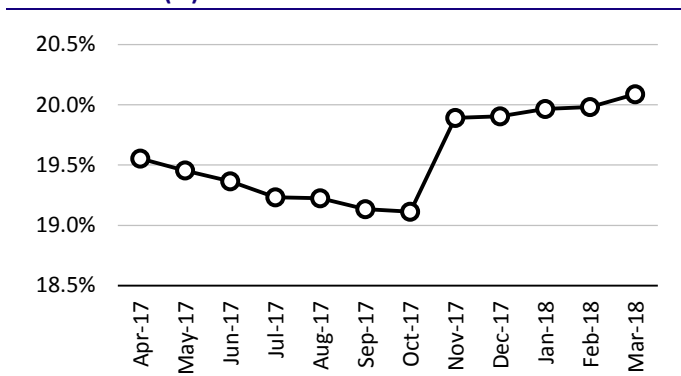
Source: MOSL, Company

Exhibit 10: IDEA: Trend in active subscriber market share (%)

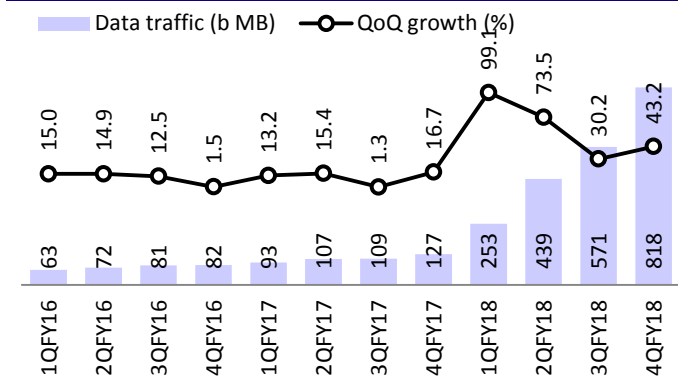


*Assuming VLR data for Aicel, same as Jan-18 Source: TRAI, MOSL

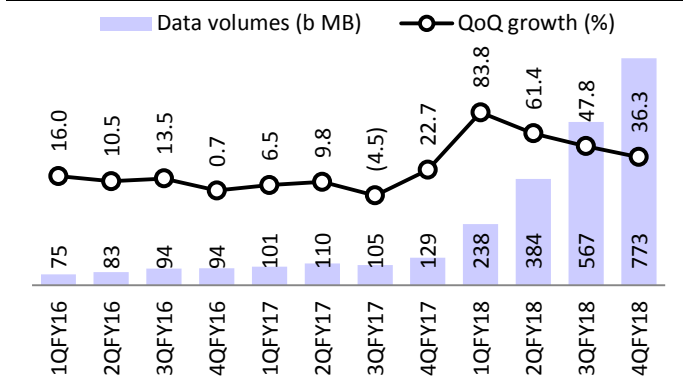
Exhibit 11: Vodafone India: Trend in active subscriber market share (%)



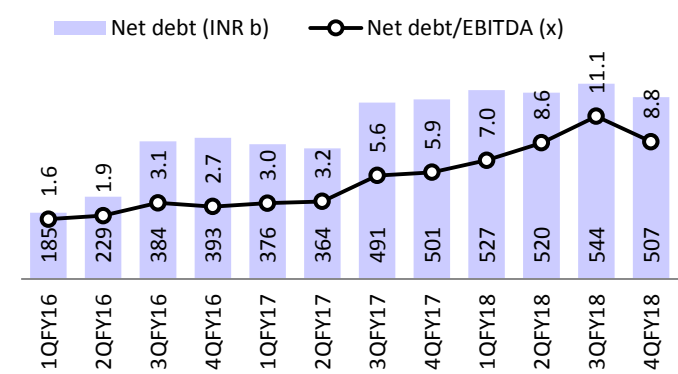
*Assuming VLR data for Aicel, same as Jan-18 Source: TRAI, MOSL

Exhibit 12: IDEA: Trend in QoQ data traffic

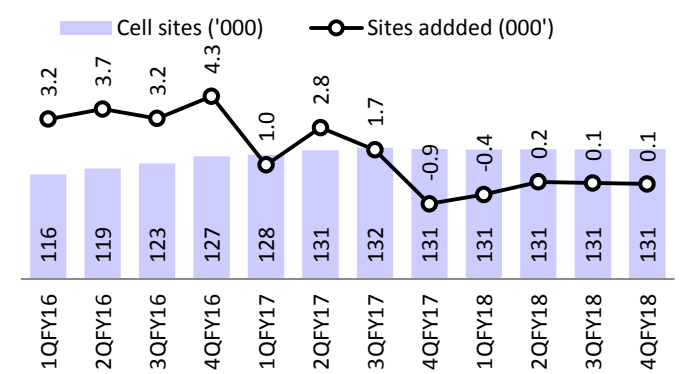
Source: MOSL, Company

Exhibit 13: Vodafone India: Trend in QoQ data traffic

Source: MOSL, Company

Exhibit 14: IDEA: Net debt and net debt/EBITDA

Source: Company, MOSL

Exhibit 15: IDEA: 2G cell site base and quarterly additions

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	2,24,577	2,65,189	3,15,709	3,59,494	3,55,758	2,82,789	2,48,838	2,82,369
Change (%)	14.9	18.1	19.1	13.9	-1.0	-20.5	-12.0	13.5
Total Expenditure	1,64,531	1,81,852	2,07,592	2,39,818	2,52,995	2,22,314	1,96,916	2,07,536
% of Sales	73.3	68.6	65.8	66.7	71.1	78.6	79.1	73.5
EBITDA	60,045	83,337	1,08,117	1,19,676	1,02,763	60,475	51,922	74,833
Margin (%)	26.7	31.4	34.2	33.3	28.9	21.4	20.9	26.5
Depreciation	34,778	45,194	53,036	62,561	78,272	84,091	88,528	96,182
EBIT	25,268	38,143	55,081	57,115	24,491	-23,616	-36,607	-21,349
Int. and Finance Charges	9,495	7,700	5,755	18,831	37,342	44,600	46,787	46,787
PBT bef. EO Exp.	15,773	30,443	49,325	38,284	-12,851	-68,216	-83,393	-68,136
Share of profits of associates	0	0	0	4,217	4,218	3,224	3,132	3,390
PBT after EO Exp.	15,773	30,443	49,325	42,501	-8,633	-64,992	-80,261	-64,746
Total Tax	5,664	10,765	17,396	15,220	-4,636	-23,310	-26,486	-21,366
Tax Rate (%)	35.9	35.4	35.3	35.8	53.7	35.9	33.0	33.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	10,109	19,678	31,929	27,281	-3,997	-41,682	-53,775	-43,380
Adjusted PAT	10,109	19,678	31,929	24,574	-3,997	-41,682	-53,775	-45,651
Change (%)	39.8	94.7	62.3	-14.6	-114.7	942.8	29.0	-15.1
Margin (%)	4.5	7.4	10.1	7.6	-1.1	-14.7	-21.6	-16.2

Consolidated - Balance Sheet								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	33,143	33,196	35,978	36,005	36,053	43,593	43,593	43,593
Total Reserves	1,11,073	1,32,073	1,94,314	1,99,501	2,11,269	2,29,031	1,75,256	1,31,876
Net Worth	1,44,217	1,65,269	2,30,292	2,35,506	2,47,322	2,72,624	2,18,849	1,75,469
Total Loans	1,40,438	2,06,350	2,68,591	4,05,413	5,50,545	5,79,851	6,13,747	6,35,747
Deferred Tax Liabilities	11,180	18,133	19,015	19,539	13,218	-11,393	-11,393	-11,393
Capital Employed	2,95,834	3,89,752	5,17,898	6,60,458	8,11,085	8,41,082	8,21,203	7,99,823
Gross Block	4,67,357	5,16,970	6,18,207	7,13,532	9,06,838	10,20,216	10,85,216	11,50,216
Less: Accum. Deprn.	1,75,818	2,21,012	2,62,871	61,692	1,39,267	2,23,358	3,11,887	4,08,068
Net Fixed Assets	2,91,539	2,95,958	3,55,336	6,51,840	7,67,571	7,96,858	7,73,330	7,42,148
Goodwill on Consolidation	61	61	61	61	61	61	61	61
Capital WIP	8,811	1,14,194	51,405	60,397	75,351	35,853	35,853	35,853
Total Investments	10,280	2,155	1,15,267	34,709	63,783	72,905	72,905	72,905
Curr. Assets, Loans & Adv.	53,092	53,206	82,598	54,247	59,912	66,069	56,576	81,317
Inventory	726	683	710	1,065	588	367	926	542
Account Receivables	9,601	8,006	9,789	11,424	13,139	8,874	3,904	4,430
Cash and Bank Balance	1,429	1,881	15,537	7,691	827	291	254	16,963
Loans and Advances	41,336	42,636	56,562	34,067	45,358	56,537	51,491	59,383
Curr. Liability & Prov.	67,949	75,823	86,769	1,40,798	1,55,592	1,30,664	1,17,521	1,32,461
Account Payables	64,719	68,960	78,013	1,36,418	1,51,551	1,27,333	1,14,366	1,28,254
Provisions	3,230	6,863	8,756	4,380	4,041	3,331	3,155	4,206
Net Current Assets	-14,857	-22,616	-4,171	-86,550	-95,681	-64,595	-60,945	-51,143
Appl. of Funds	2,95,834	3,89,752	5,17,898	6,60,458	8,11,085	8,41,082	8,21,203	7,99,824

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	2.8	5.5	8.9	6.8	-1.1	-9.6	-12.3	-10.5
Cash EPS	13.5	19.5	23.6	24.2	20.6	9.7	8.0	11.6
BV/Share	43.5	49.8	64.0	65.4	68.6	62.5	50.2	40.3
DPS	0.3	0.4	0.6	0.6	0.0	0.0	0.0	0.0
Payout (%)	11.5	7.9	8.1	9.5	0.0	0.0	0.0	0.0
Valuation (x)								
P/E			6.7	8.7	-53.4	-6.2	-4.8	-5.7
Cash P/E			2.5	2.4	2.9	6.1	7.4	5.1
P/BV			0.9	0.9	0.9	0.9	1.2	1.5
EV/Sales			1.5	1.7	2.1	3.0	3.5	3.1
EV/EBITDA		6.9	3.2	4.8	6.8	12.6	15.4	10.7
Dividend Yield (%)	0.3	0.4	1.0	1.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	7.4	12.7	16.1	10.6	-1.7	-16.0	-21.9	-23.2
RoCE	5.9	7.5	8.2	6.4	1.6	-1.8	-2.9	-1.7
RoIC	6.0	9.0	11.7	8.2	1.8	-2.2	-3.4	-2.1
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.2
Asset Turnover (x)	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.4
Inventory (Days)	1	1	1	1	1	0	1	1
Debtor (Days)	16	11	11	12	13	11	6	6
Leverage Ratio (x)								
Current Ratio	0.8	0.7	1.0	0.4	0.4	0.5	0.5	0.6
Interest Cover Ratio	2.7	5.0	9.6	3.0	0.7	-0.5	-0.8	-0.5
Net Debt/Equity	0.9	1.2	0.6	1.5	2.0	1.9	2.5	3.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	10,109	19,678	31,929	42,501	-8,632	-41,682	-53,775	-43,380
Depreciation	34,778	45,194	53,036	62,561	78,272	84,091	88,528	96,182
Interest & Finance Charges	9,963	8,564	9,337	20,685	39,736	44,600	46,787	46,787
Direct Taxes Paid	-4,110	-6,384	-11,043	-8,611	-6,808	0	0	0
(Inc)/Dec in WC	6,096	5,354	5,540	-3,980	6,960	-23,102	-12,221	6,906
CF from Operations	56,836	72,406	88,800	1,13,155	1,09,527	63,907	69,319	1,06,495
Others	6,135	9,786	15,379	-3,669	-4,154	-24,611	0	0
CF from Operating incl EO	62,971	82,192	1,04,179	1,09,486	1,05,373	39,296	69,319	1,06,495
(Inc)/Dec in FA	-34,766	-36,448	-41,576	-1,29,118	-1,26,319	-73,880	-65,000	-65,000
Free Cash Flow	28,205	45,744	62,603	-19,632	-20,946	-34,584	4,319	41,495
(Pur)/Sale of Investments	0	0	0	1,03,909	-33,472	-9,122	0	0
Others	657	-29,194	-15,680	2,835	4,626	-8,519	8,535	0
CF from Investments	-34,109	-65,642	-57,256	-22,373	-1,55,165	-91,521	-56,465	-65,000
Issue of Shares	248	263	37,374	175	-4,453	67,497	0	0
Inc/(Dec) in Debt	-10,368	-15,936	52,355	-86,485	84,297	29,306	33,896	22,000
Interest Paid	-9,283	-7,682	-6,656	-4,393	-32,800	-44,600	-46,787	-46,787
Dividend Paid	-250	-1,306	-2,792	-2,598	-2,599	0	0	0
Others	0	0	0	0	1	-513	0	0
CF from Fin. Activity	-19,653	-24,661	80,280	-93,301	44,445	51,690	-12,891	-24,787
Inc/Dec of Cash	9,209	-8,111	1,27,202	-6,188	-5,346	-535	-37	16,709
Opening Balance	1,521	10,729	3,543	13,879	6,174	827	291	254
Closing Balance	1,429	1,881	15,537	7,691	827	291	254	16,963

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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