Project Dissertation

Valuation of Idea Cellular

SUBMITTED BY:

Sugandha Bali

(2K13/MBA/71)

UNDER THE GUIDANCE OF:

Dr. Archana Singh

Assistant Professor, DSM, DTU

Delhi School of Management

DELHI SCHOOL OF MANAGEMENT

Delhi Technological University

Bawana Road Delhi 110042

Jan -May 2015

CERTIFICATE

This is to certify that the Project Report titled **'*Valuation of Idea Cellular'*** is a bonafide work carried out by Ms. **Sugandha Bali** of MBA 2013-2015 batch and submitted to Delhi School of Management, Delhi Technological University, New Delhi – 42 in partial fulfillment for the award of the Degree of Masters of Business Administration.

The matter embodied in the report is original and has not been submitted for the award of any degree.

Signature of Guide:

Place:

Date:

Signature of HOD:

Place:

Date:

DECLARATION

I ***Sugandha Bali,*** student of MBA 2013-15 batch of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi - 42 declare that the Summer Internship Report on **'*Valuation of Idea Cellular'*** submitted in partial fulfillment of Degree of Masters of Business Administration is the original work conducted by me.

I assert that the report is based on my own work carried out during my 4th Semester under the guidance of Dr. Archana Singh, Assistant Professor, DSM, DTU. I further declare that the information and data given in the report is authentic to the best of our knowledge.

This report is not being submitted to any other University for award of any other Degree, Diploma or Fellowship.

Date: 1st May, 2015

Sugandha Bali
Roll No.: 2K13/MBA/71
Delhi School of Management
Delhi Technological University

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I gratefully acknowledge my profound indebtedness towards my esteemed guide, Dr. Archana Singh, Assistant Professor, Delhi School of Management, Delhi Technological University for her invaluable guidance, excellent supervision and constant encouragement during the entire duration of the project work. This project would never have been possible without her guidance and supervision.

I am also thankful to Prof. P.K.Suri, Head of Department and all the faculty members of Delhi School of Management, DTU, Delhi

Sugandha Bali

EXECUTIVE SUMMARY

The objective of the project is to help the investor in decision making regarding the financial position of Idea Cellular. The motive is to find out whether Idea Cellular has the strength to fulfill its obligations or not. To analyze the performance from a creditors point of view for granting credit loan, to embark upon the growth rate, to know the liquidity position and long term solvency status; To analyze the operational efficiency and to know the overall profitability of the firm.

The objective of this case study is to carry out the in-depth study and analysis of Idea Cellular in order to provide insights about the company, to help decide on whether to buy or sell the share of the company. It involves building a financial model of the company in order to derive the intrinsic share price for fair valuation of the firm. The process would involve constructing a financial representation of some aspects of the firm, projecting the financial numbers of the firm, characterizing and performing calculations for making recommendations. Fundamental Analysis is used to measure the intrinsic value of the stock involving the EIC analysis.

Also, the research is performed to carry out the financial statement analysis, ratio analysis, multiples analysis etc to understand how Idea Cellular works to increases the shareholder's wealth and help an investor decide on buying or selling decision.

The important findings established from the report are that the intrinsic value of the share is much higher than its market value which indicates that the actual worth of the share is more than its current selling price so the stock is undervalued and a good investor decision would be to buy and hold the stock.

Also, an increasing trend in EPS suggests that Idea Cellular will outperform the market and hence the best decision at the moment is to buy and hold the stock.

TABLE OF CONTENTS

1. INTRODUCTION

1.1 Introduction

This case study is based on Telecom Sector with in-depth study of Idea Cellular. The objective of this case study on *Idea Cellular* is to help the investors earn profits in their investments. What's the cost of carrying business? What's the breakeven point? What if I invest in this company? What is the probability of success?

All these questions are answered through a Financial Statement analysis of the company.

Financial Statement analysis refers to the process of determining financial strength and weakness of the firm by properly establishing strategic relationship between the items of the balance sheet and profit and loss account. There are various methods and techniques used in analyzing financial statements, such as comparative statements, trend analysis cash flow analysis and ratio analysis of financial statement

Financial Modeling is the task of building an abstract representation of a financial decision making situation. This is a mathematical model, such as a computer simulation, designed to represent the performance of a financial asset or a portfolio, of a business, a project, or any other form of financial investment. Theoretically speaking, a financial model is a set of assumptions about future business conditions that drive projections of a company's revenue, earnings, cash flows and balance sheet accounts.

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Also, the research would be performed to carry out the financial statement analysis, ratio analysis, multiples analysis etc to understand how *Idea Cellular* works to increases the shareholder’s wealth and help an investor decide on buying or selling decision.

Industry Profile

Telecom Sector

The Indian telecommunications industry is one of the fastest growing in the world. Government policies and regulatory framework implemented by *Telecom Regulatory Authority of India* (TRAI) have provided a conducive environment for service providers. This has made the sector more competitive, while enhancing the accessibility of telecommunication services at affordable tariffs to the consumers. In the last two decades, the Indian Telecom Sector and mobile telephony in particular has caught the imagination of India by revolutionizing the way we communicate, share information; and through its staggering growth helped millions stay connected. This growth, however, has and continues to be at the cost of the Climate, powered by an unsustainable and inefficient model of energy generation and usage. Simultaneously, this growth has also come at significant and growing loss to the state exchequer, raising fundamental questions on the future business and operation model of the Telecom sector.

Telecommunication services are globally recognized as one of the driving forces for overall economic development in a nation. They are also one of the prime support services needed for rapid growth and modernization of various sectors of the economy. The Government of India recognizes this fact and hence, has taken several major initiatives to provide a business friendly environment for companies in this sector.

Driven by 3G and 4G services, it is expected that there will be huge machine-to-machine (M2M) growth in India in 2016-17, according to UST Global. There is also a lot of scope for growth of M2M services in the government's ambitious US$ 1.1 billion Smart City program. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government of India that provide easy market access for telecom equipment and a fair regulatory framework for offering telecom services at affordable prices.

According to a study by GSMA, it has been expected that smart phones will account for two out of every three mobile connections globally by 2020 and India is all set to become the fourth largest smart phone market.

Current Scenario

In Indian telecom sector the number of telephone subscribers in India increased from 957.61 million at the end of September, 2014 to 962.63 million at the end of October, 2014, thereby showing a monthly growth rate of 0.52%. The urban subscription increased from 569.56 million at the end of September, 2014 to 570.58 million at the end of October, 2014 and the rural subscription increased from 388.05 million to 392.05 million during the same period. The monthly growth rates of urban and rural subscription were 0.18% and 1.03% respectively.

The overall Tele-density in India increased from 76.75 at the end of September, 2014 to 77.07 at the end of February, 2015. The shares of urban subscribers and rural subscribers at the end of February, 2015 were 59.27% and 40.73% respectively.

Total wireless subscriber base increased from 930.20 million at the end of September, 2014 to 957.61 million at the end of February, 2015, thereby registering a monthly growth rate close to 0.59%.

India saw the fastest growth in new mobile-phone connections with 18 million net additions in the third quarter of 2014, according to a report by Swedish mobile network equipment maker *Ericsson*. The number of smart phones, which account for just 37 per cent of all mobile-phone subscriptions growing at 15 per cent compounded annual growth rate, will cross *6,100* by 2020. The falling cost of handsets, coupled with improved usability and increasing network coverage, are factors that are making mobile technology a popular phenomenon in the country. The broadband services user-base in India is expected to grow to 250 million connections by 2017, according to *GSMA*. It also expects to see increased mobile broadband penetration in India, with over 250 million on either 3G /4G by 2017.

Composition of telephone subscribers in India -The wireless segment (96.9 per cent of total telephone subscriptions) dominates the market, while the wire line segment accounts for the rest.

Composition of telephone subscribers in India

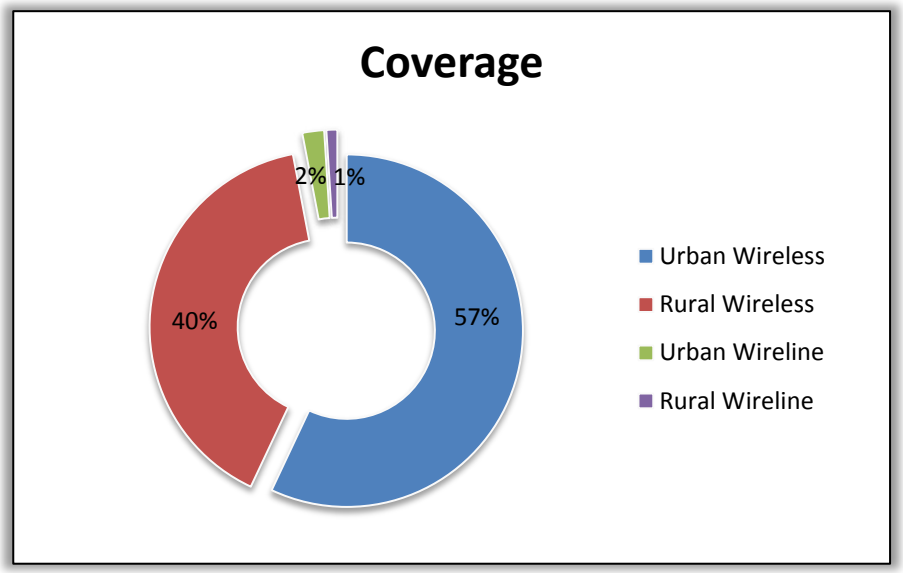


Figure 1.1

Latest Developments

With daily increasing subscriber base, there have been a lot of investments and developments in the sector. Some of the major developments in the recent past are:

- FDI of 74% is allowed subject to license granted by *Department Of Telecommunication.*
- FDI of 100% was allowed in telecom manufacturing.
- Mobile Number Portability is the service which allows any subscriber to change his service provider without changing his mobile phone number. The announcement of the guidelines has made telecom service providers to improve the quality of service to avoid losing subscribers.
- Japanese telecom company SoftBank has planned to invest around US$ 10 billion in India's IT sector over the next few years.
- Increasing income has been a key determinant of demand growth in the telecommunication sector in India. The IMF forecasts income to expand at a CAGR of 5.7 per cent to US$ 1,869.3 during 2013-18.

Market Players

The key players of the telecom market with their shareholdings are depicted below, with Bharti Airtel leading the sector, followed by BSNL, Vodafone and Idea.

Service Provider-wise Market share of Broadband (wired+wireless) Services

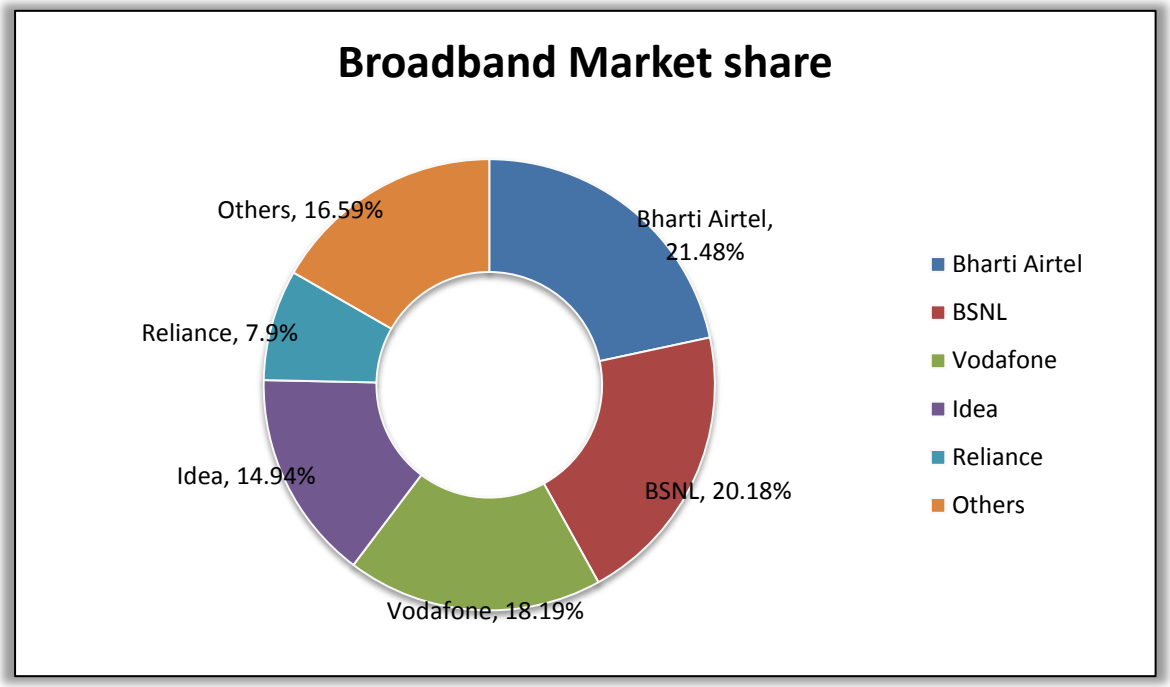


Figure 1.2

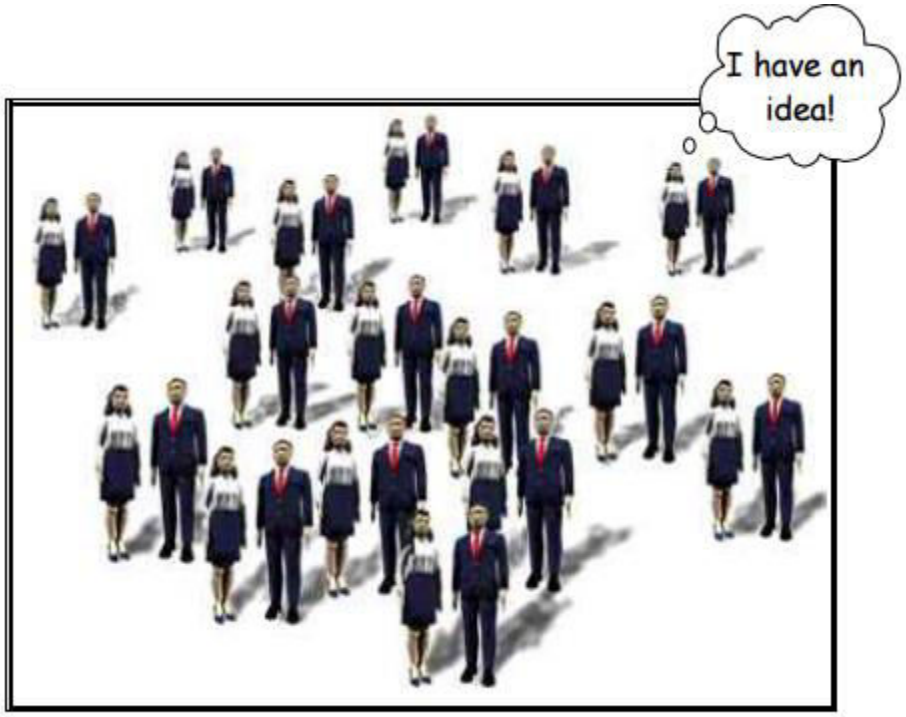
Organization Profile

Overview of Company

Idea Cellular is an Aditya Birla Group Company, India's first truly multinational corporation. Idea is a pan-India integrated GSM operator offering 2G and 3G services, and has its own NLD and ILD operations, and ISP license. With revenue in excess of *$4 billion*; revenue market share of nearly *15%*; and subscriber base of over 121 million in FY 2013, Idea is India's 3rd largest mobile operator. Idea ranks among the Top 10 country operators in the world with a traffic of over 1.5 billion minutes a day.

Idea won the 'Best Brand Campaign' at the esteemed World Communication Awards in 2012 & '11. It won the GSM Association Award for 'Best Billing and Customer Care Solution' for two consecutive years, and was awarded 'Mobile Operator of the Year Award – India' for 2007 and 2008 at the Annual Asian Mobile News Awards.

Idea has been ranked #1 in the Telecom sector in "India's Best Companies to Work for Study – 2013 and the "Best Place to Work" at the Asia Communication Awards 2013.



1.2 Objective of Study

- The objective of this study is to carry out the in-depth study and analysis of Idea Cellular in order to provide insights about the company, to help decide on whether to buy or sell the share of the company.
- It involves building a financial model of the company in order to derive the intrinsic share price for fair valuation of the firm.
- The process would involve constructing a financial representation of the firm, projecting the financial numbers of the firm, characterizing and performing calculations for making recommendations.
- The objective of the project is to help the investor in decision making regarding the financial position of Idea Cellular.
- To analyze the performance from a creditors point of view for granting credit loan, to embark upon the growth rate, to know the liquidity position and long term solvency status; To analyze the operational efficiency and to know the overall profitability of the firm.
- The motive is to find out whether Idea Cellular has the strength to fulfill its obligations or not.
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2. LITERATURE REVIEW

Corporate finance requires complete understanding of the mechanisms of company and for that matter valuation is an important requisite. The process of valuing a company and its business units helps identifying the sources that can create economic value as well as those which can cause destruction of the company. Valuation is also indispensable from the perspective of mergers and acquisitions. A common criterion used for the assessment of the expected stock price is the Discounted Cash Flow (DCF) method.

Pablo Fernández, Francis; Prestbo, John (2007), University of Navarra, For many plan sponsors, the greatest allocation to a single asset class is generally to domestic large-cap equities, so even a marginal difference in the performance of this asset class over a long period can result in significant differences in the value of overall plan.

Jacobson, Brian J (2006), one of the challenges of using downside risk measures as an alternative constructor of portfolios and diagnostic device is in their computational complexity, intensity, and opaqueness. The question investors, especially high-net-worth investors who are concerned about tax efficiency, must ask is whether downside risk measures offer enough benefits to offset their implementation costs in use.

Perez Gladish; M V Rodríguez (2006), Expert estimations that of future Betas of each financial asset have also been included in the portfolio selection model denoted simply as `Expert Betas' and modeled as strange fuzzy numbers. Value, ambiguity & fuzziness are 3 important basic concepts involved in the model which provide systematic information about fuzzy numbers that represent `Expert Betas' & that are simple to handle. Clarke, Roger (2002), The ex-ante relationship is a generalized version of a previously developed "fundamental law of active management" and provides an important strategic perspective on the potential for active management to add value.

Pablo Fernández, Francis; Prestbo, John (2007), The field of corporate finance requires complete understanding of the mechanisms of company and for that matter valuation is an indispensable requisite. The process of valuing a company and its business units helps identifying the sources that can create economic value as well as those which can cause destruction of the company. Valuation is also indispensable from the perspective of mergers and acquisitions. A common criterion used for the assessment of the expected stock price is the Discounted Cash Flow (DCF) method.

The ex post correlation relationship represents a practical decomposition of performance into the success of the return-prediction process and the "noise" associated with portfolio constraints. Rudin, Alexander M; Morgan, Jonathan S,(2006), Despite the importance of diversification in portfolio construction, our current methods of measuring it are inefficient. Implementation in hedge fund strategies reveals that various hedge funds offer less diversification than may have been thought and that there has been reduced diversification in the past several years,

Kangari, R, Riggs, L S,(1988)Two major obstacles are risk evaluation associated with each project and the correlation coefficient between projects, which describes the efficiency of the diversification. The probabilistic approach that is suggested is a more realistic approach to the evaluation of correlation. It is not possible for a contractor to completely diversify a portfolio, so industry risk cannot be eliminated. Borkovec, Milan; Domowitz, Ian(2010)Accounting for trading costs ex ante delivers superior net returns, broader diversification, lower turnover, and a portfolio robust to noisy alpha signals, relative to standard mean-variance stock selection and portfolio construction. Mitigation of transaction costs, leading to improvement in realized returns and better alignment of return with risk, begins at the portfolio construction stage and therefore should not be controlled only at the level of trading desks.

Assuming that the rational investor seeks to maximize the expected net return for a given level of volatility, or equivalently seeks to minimize portfolios ex- ante risk for any given expected return, Markowitz [1952, 1959] triggered the development of modern

portfolio theory with the introduction of the mean-variance framework. The concept of portfolio efficiency quantifies existing link between risk and return of a portfolio and the complete set of optimal (or efficient) portfolios consequently forms the mean-variance frontier. Built upon the mean-variance framework, the Capital Asset Pricing Model (CAPM) as developed by Sharpe [1964], Lintner [1965] and Mossin [1966] states that under some certain conditions and taking different levels of investors' risk tolerance into account, the portfolio that provides the highest reward per unit of risk, better known as Maximum Sharpe Ratio (MSR) portfolio should be held by all market participants.

Although mean-variance analysis and the CAPM are two pillars of modern finance, these models have been scrutinized since their introduction. Especially simplified assumptions, namely the aim of rational and risk averse investors to maximize economic utilities without influencing prices, having homogeneous investment views based on all information to be available at the exact time to all investors, trading without any costs and holding a well-diversified portfolio, have been strongly criticized. While Roll [1977] passed criticism on the observability of the tangential portfolio, Merton [1980] found that already small changes in return estimates can lead to completely different optimal weights in a portfolio construction process. In a nutshell, due to the CAPM general assumptions and the question about availability of risk and return estimates, the mean-variance framework is known to have difficulties in its practical implementation.

Extending the work from Pablo Fernández, (2007), University of Navarra, found that the field of corporate finance requires complete understanding of the mechanisms of company and for that matter valuation is an indispensable requisite. The process of valuing a company and its business units helps identifying the sources that can create economic value as well as those which can cause destruction of the company. Valuation is also indispensable from the perspective of mergers and acquisitions. A common criterion used for the assessment of the expected stock price is the Discounted Cash Flow (DCF) method. This paper adopts the question of how to construct a valuation model for determining the intrinsic stock price and contributes to existing literature by examining using CAPM and DCF method.

DCF method as discussed below:

The Discounted Cash Flow method is used to determine the company's value by estimating the company's potential cash flows in the future, and then discounting those cash flows using suitable discount rate. Now a day, the DCF method is widely used because it is one of the conceptually correct methods for valuation of a firm. In this method, the firm is viewed as a cash flow generator and the company's intrinsic value is obtained by calculating the present value of these cash flows using an appropriate discount rate.

DCF method is based on the detailed, careful forecast, for respective periods, of each of the financial items that pertain to the generation of the cash flows corresponding to the company's operations. For example, sales collection, personnel, raw materials consumed, SGA (sales, general and administrative expenses), loan repayments. The DCF approach is somewhat similar to that of a cash budget.

In DCF valuations, a suitable discount rate is determined for each type of cash flow. Determining the appropriate discount rate is one of the crucial tasks and takes into account the factors like, associated risk, the volatilities in the past, in practice, the minimum discount rate is often set by the interested parties as the buyers/sellers would not be interested to invest/sell for less than a certain expected return.

Cash Flow Discounting

The DCF method starts with the following expression:

$$V = CF1/(1+K) + CF2/ (1+K)^2 + (CFn +VRn)/ (1+K)^n$$

Where: CFi=Cash Flow generated by the company in the period i.

Vn=Residual Value of the company in they earn.

k=Appropriate Discount rate.

Calculating the Value of the Company Using the Free Cash Flow

The free cash flows are discounted using the weighted average cost of capital (WACC)

E + D = present value [FCF; WACC]

where WACC = $\frac{E}{E} Ke \; D Kd (1 - T)$

D = market value of the debt.

E = market value of the equity.

Kd = cost of the debt before tax = required return to debt.

T = tax rate.

Ke = required return to equity, which reflects the equity's risk.

The WACC is calculated by weighting the cost of the debt (Kd) and the cost of the equity (Ke) with respect to the company's financial structure.

Calculating the Value of the Company's Equity by Discounting the Equity Cash Flow

The market value of the company's equity is obtained by discounting the equity cash flow at the rate of required return to equity for the company (Ke). When this value is added to the market value of the debt, the company's total value is determined. The required return to equity can be estimated using any of the following methods:

1. Gordon and Shapiro's constant growth valuation model:

$Ke = [Div_1 / P_0] + g.$

Div_1 = dividends to be received in the following period = $Div_0 (1 + g)$.

P_0 = share's current price. g = constant, sustainable dividend growth rate.

2. The capital asset pricing model (CAPM), which defines the required return to equity in the following terms:

$Ke = R_F + ß\ (R_M - R_F)$

R_F = rate of return for risk-free investments (Treasury bonds).

ß = share's beta.

R_M = expected market return.

$R_M - R_F$ = market risk premium or equity premium.

Thus, given certain values for the equity's beta, the risk-free rate and the market risk premium, it is possible to calculate the required return to equity.

3. RESEARCH METHODOLOGY

3.1 Data Collection

The paper describes a Research Methodology for constructing financial planning model using a computer inbuilt package- MS Excel. It is built in order to provide the general management and the investors with a flexible and easy-to-use out modeling facility capable of supporting the development of dynamic simulation models.

This paper mainly comprises of Secondary Research. The analysis is done through MS Excel and the performance hypotheses are empirically confirmed through a variety of statistical tests.

Secondary Data

Secondary data for analysis was gathered through various internet sources available about the organization. These sources include Idea Cellular website, Idea Cellular Annual Reports, Expert's Excerpts, AGM notes etc, Chairman's Address. Sources include various analysts' reviews about the company and Industry Experts at Corporate Bridge who guided me at every stage of analysis i.e. from deciding scope of assessment to developing insights upon data analysis. Secondary data included details about the financial position of the company, its future plans, and its past acquisitions. The reports from previous year's portfolio assessment were used for comparative analysis on performance.

3.2 Tools of Analysis

The data collected was primarily analyzed in MS Excel. Reports were prepared in the form of presentations, prepared on Microsoft PowerPoint. Microsoft Excel Tools were used.

EIC Analysis is used to measure the intrinsic value of the stock using DCF method.

EIC analysis involves studying the Economy, Industry and Company in order understand the strengths, weaknesses, opportunities and threats from an Investor perspective.

Data was collected from the Annual Reports for FY11, FY12, FY13 & FY14 and were used to record the actual financial figures which were then used for forecasting future data in MS Excel to extract useful information such as intrinsic share price, overall robustness, profitability, sales and delivery capabilities, assets and external positioning using various statistical tools. Post data extraction, the apt representation of data was accomplished. The extracted data for each parameter was then analyzed to be represented in decided formats such as tables and graphs.

The financial model is constructed based on DCF model. DCF is a method of valuation that is used to determine and provide an estimate of quality of an investment opportunity.DCF uses the future free cash flow projections and then discounts them, using the WAAC. This would then help in arriving at the present value, which is then used to evaluate the potential for investment. If the value arrived through DCF analysis is higher than the current value of the stock, a Buy decision is taken. However if the evaluated value is lower than the current stock price then a Sell decision is taken.
The first order of business when doing discounted cash flow (DCF) analysis is to determine how far out into the future we should project cash flows. In this model the cash flows have been projected for the next 5 years.

4. DATA ANALYSIS

4.1 Introduction to Case

This case study carries out the in-depth study and analysis of Idea Cellular in order to provide insights about the company, to help decide on whether to buy or sell the share of the company. It involves building a financial structure of the company for deriving the intrinsic price of share for fair valuation of the firm. The process would involve constructing a financial representation of some aspects of the firm, projecting the financial numbers of the firm, characterizing and performing calculations for making recommendations. EIC Analysis is used to measure the intrinsic value of the stock using DCF method.

The Annual Reports for FY11, FY12, FY13 and FY14 were used to record the actual financial figures which were then used for forecasting future data in MS Excel to extract useful information such as intrinsic share price, overall robustness, profitability, sales and delivery capabilities, assets and external positioning using various statistical tools. Post data extraction, the apt representation of data was accomplished. The extracted data for each parameter was then analyzed to be represented in decided formats such as tables and graphs.

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The first order of business when doing discounted cash flow (DCF) analysis is to determine how far out into the future we should project cash flows. In this model the cash flows have been projected for the next 5 years.

A company's value is different for different buyers and sellers. It should not be confused with the price agreed between the seller and the buyer during the sale of a company. It can be different for many reasons. Let's say a MNC wants to buy a local national company for the purpose of gaining entry into the local market and for that matter it would only consider the value of the brand and not anything else. However from the sellers' perspective the value of its assets would be much greater. Negotiations are carried upon these two prices until a price is decided that usually lies somewhere between the two extremes.

A valuation is used for a variety of purposes like -

- Buying and selling operations:
    - ✓ Buyer, valuation tells him the highest price he should pay.
    - ✓ Seller, valuation tells him the lowest price to sell.
- Valuations of listed companies:
    - ✓ The valuation is used to compare the obtained value with the stock market and to decide whether to buy, sell or hold the shares.
    - ✓ The valuation of companies is used to decide on securities to keep in a portfolio, those that are undervalued in market.
- Public offerings:
    - ✓ The valuation is used to ensure the price at which shares are offered to public.
- Inheritances and wills:
    - ✓ The valuation is used to compare the other assets with the shares' value.
- Strategic decisions:
    - ✓ The valuation of a company is used to decide whether to continue in the business, sell, merge, or acquire other companies.
- Strategic planning:
    - ✓ The valuation of the company is fundamental for deciding what products, business lines, countries to grow or quit.

4.2 Data Analysis

Data Analysis begins with the study of the overall Economy, Industry and Company in order to understand the real scenario for preparing the financial model of the Idea Cellular.

Economy Analysis-

The Indian Telecom Industry plays an important role in the economy of the world with revenues approximating *USD 33,350 Million.* The sector is growing at a fast pace leaving behind various competitor emerging economies. The average growth rate is expected around 11% for the future years.

Telecom contributes approximately 3% to India's GDP. It contributes around two-thirds of total exports of country. Telecommunication in India has a support of the Indian INSAT system, one of the largest domestic satellite systems in the world.

Drivers responsible for growth of the Telecom Sector are Rising Disposable Incomes, Greater Networks Coverage, Falling Call Rates, Falling Mobile Prices, Better Facilities and many more.

Telecommunication has supported the socioeconomic development of India and has played an exceptional role in curbing the digital divide at least to some extent. It also has helped to increase the transparency of governance with the introduction of 'E-*governance*' in India.

As of 2015, India had no laws governing net neutrality, which implies that all Internet users be treated equally. No user shall be charged differentially by usage of content, site, platform, and application, type of attached equipment & mode of communication.

Industry Analysis-

In Indian telecom sector the number of telephone subscribers in India increased from 957.61 million at the end of September, 2014 to 962.63 million at the end of October, 2014, thereby showing a monthly growth rate of 0.52%. The urban subscription increased from 569.56 million at the end of September, 2014 to 570.58 million at the end of October, 2014 and the rural subscription increased from 388.05 million to 392.05 million during the same period. The monthly growth rates of urban and rural subscription were 0.18% and 1.03% respectively.

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Company Analysis-

IDEA Cellular Ltd is a publicly listed company, having listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in March 2007.

Idea Cellular has a Top line of *264319.7 M* INR for FY14 and has maintained its enviable track record of growing faster than the industry with a service Revenue growth of almost *18%* pa.

The Bottom Line of Idea Cellular is *19,678.2 M* INR for FY14.

Income Statement Analysis-

Idea Cellular Income Statement

IDEA CELLULAR	Actuals				Estimated					
INCOME STATEMENT (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
INCOME										
Service Revenue	153,965.5	193,381.9	221,409.9	262,071.3						
Sale of Trading Goods	418.5	1,505.0	2,664.6	2,248.4						
TOTAL REVENUE	154,384.0	194,886.9	224,074.5	264,319.7	290,751.6	319,826.8	351,809.5	386,990.4	425,689.5	468,258.4
Cost of Trading Goods Sold	412.2	1,413.7	2,318.4	1,927.0						
Network Operating Expenditure	42,057.3	48,608.4	55,360.6	64,990.3						
License and WPC Charges	17,728.0	23,231.8	24,752.5	29,238.0						
Roaming & Access Charges	24,754.5	32,798.8	40,145.3	41,615.6						
Subscriber Acquisition & Servicing Expenditure	15,884.5	19,869.0	20,467.3	19,806.6						
COGS	100,836.5	125,921.7	143,044.0	157,577.5	174,451.0	191,896.1	211,085.7	232,194.3	255,413.7	280,955.1
COGS (% of Revenue)	*65%*	*65%*	*64%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*
GROSS PROFIT	53,547.5	68,965.2	81,030.4	106,742.2	116,300.7	127,930.7	140,723.8	154,796.2	170,275.8	187,303.4
Personnel Expenditure	8,055.5	9,499.2	11,225.3	13,121.2	14,537.6	15,991.3	17,590.5	19,349.5	21,284.5	23,412.9
Personnel Expenditure(% of Revenue)	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Advertisement and Business Promotion Expenditure	3,858.2	4,281.2	4,720.3	4,867.0	5,353.7	5,889.1	6,478.0	7,125.8	7,838.4	8,622.2
Advertisement and Business Promotion Expenditure(% of Revenue)	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Administration & Other Expenses	4,373.6	4,786.2	5,541.6	6,286.6	6,915.2	7,606.7	8,367.4	9,204.2	10,124.6	11,137.0
Administration & Other Expenses(% of Revenue)	*3%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Total Operating Expenditure	117,123.8	144,488.3	164,531.2	181,852.3	201,257.5	221,383.3	243,521.6	267,873.7	294,661.1	324,127.2

Figure 4.1

- Top line for FY14 is *264319.7 M* INR and is estimated to be *468258M* INR by FY20.
- Gross Profit for Idea Cellular is reported as *106742M* INR for FY14 which is estimated to grow to *187303M* INR by FY20.

Idea Cellular Income Statement

IDEA CELLULAR	Actuals				Estimated					
INCOME STATEMENT (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBITDA	37,260.2	50,398.6	59,543.3	82,467.4	89,494.1	98,443.6	108,287.9	119,116.7	131,028.4	144,131.2
Depreciation	21,452.9	24,356.9	29,589.5	38,855.2	38,855.2	38,855.2	38,855.2	38,855.2	38,855.2	38,855.2
Amortisation of Intangible Assets	2,520.6	5,456.4	5,188.2	6,338.9	6,338.9	6,338.9	6,338.9	6,338.9	6,338.9	6,338.9
Depriciation and Amortisation	*23,973.4*	*29,813.4*	*34,777.7*	*45,194.0*	*45,194.0*	*45,194.0*	*45,194.0*	*45,194.0*	*45,194.0*	*45,194.0*
EBIT	13,286.8	20,585.2	24,765.6	37,273.4	44,300.1	53,249.6	63,093.9	73,922.7	85,834.4	98,937.2
Other Income	648.2	524.8	502.1	869.4	872.3	959.5	1,055.4	1,161.0	1,277.1	1,404.8
Other Income(% of Revenue)	*0.4%*	*0.3%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Finance and Treasury Charges	3,966.4	10,557.3	9,494.5	7,700.1	13,132.4	14,911.7	17,038.6	19,540.7	22,448.7	25,796.8
Finance and Treasury Charges(% of Total Debt)	*4%*	*9%*	*8%*	*4%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
PROFIT BEFORE TAX (PBT)	9,968.6	10,552.7	15,773.2	30,442.7	32,040.0	39,297.4	47,110.8	55,543.0	64,662.7	74,545.2
Provision for Taxation -										
Current	1,802.4	2,227.5	3,507.0	6,688.0						
Deferred	957.3	3,173.6	4,907.5	5,454.1						
MAT Cred	(1,778.2)	(2,078.3)	(2,750.5)	(1,377.6)						
Total Tax	981.5	3,322.9	5,664.0	10,764.5	11,214.0	13,754.1	16,488.8	19,440.1	22,631.9	26,090.8
Tax Rate (% of PBT)	*10%*	*31%*	*36%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
PROFIT AFTER TAX(PAT)	8,987.1	7,229.9	10,109.3	19,678.2	20,826.0	25,543.3	30,622.0	36,103.0	42,030.8	48,454.4
EARNINGS PER SHARE (in `)										
Basic	2.72	2.19	3.05	5.93	6.27	7.70	9.23	10.88	12.66	14.60
Diluted	2.72	2.18	3.05	5.92						

Figure 4.2

- EBITDA for FY14 is reported to be *82467M* INR which is estimated to reach *144132M* INR by FY20. Idea ranks second in Telecom sector on EBITDA figures indicating that it is earning good Operating Profits.
- The profit after tax (PAT) is reported to be *19678M* INR for F14 which is expected to grow at a rate of around *12%* per annum and is estimated to stand at *48454M* INR by FY20 indicating that Idea Cellular is performing well in the market.
- PAT for FY14 almost doubled from last year due to increase in Operating profits and lower finance and treasury charges partially offset by higher depreciation and amortization charge during the year.
- A dividend of INR *0.40* per equity share of INR *10* each has been announced for FY14 year ending.
- The total subscriber base for Idea Cellular for FY14 stands at *135.8 M*, representing an increase of *11%* over previous year.
- *The growth rate of company is fair and the overall profitability is expected to rise.*

Balance Sheet Analysis-

- Idea Cellular Balance Sheet reports *165250M* INR as Shareholder's Funds in FY14 which is estimated to grow to *368829M* INR by FY20.
- The *Debt to Equity Ratio* for Idea is around *0.8* for last 5 financial years but it is estimated to be around *1.1* for the future financial years which indicates that the company is very aggressive in financing its growth with debt and hence marks unstable earnings.
- Total Long-Term Liabilities have been continuously increasing and it stands at *213632M* INR and is estimated to reach INR *462942M* by FY20. Although it stands a big amount.
- Deferred Tax Liability is expected to grow at *5%* for future years. The increasing amount signals that Idea Cellular might end up paying more Income Tax for the transactions taking place in current financial year.

Idea Cellular Balance Sheet-Equity & Liabilities

IDEA CELLULAR	Actuals				Estimated					
BALANCE SHEET (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EQUITY AND LIABILITIES										
Shareholder's Funds										
Share Capital	33,032.7	33,088.5	33,143.2	33,196.3	33,196.3	33,196.3	33,196.3	33,196.3	33,196.3	33,196.3
Reserves and Surplus	89,947.4	97,394.5	109,890.4	132,054.2	152,880.2	178,423.5	209,045.5	245,148.4	287,179.2	335,633.6
Sub Total	122,980.1	130,482.9	143,033.6	165,250.5	186,076.5	211,619.8	242,241.8	278,344.7	320,375.5	368,829.9
Compulsorily Convertible Preference Shares (issued by Subsidiary Company)	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Non Current Liabilities										
Long Term Borrowings	89,947.6	95,221.6	118,047.2	181,284.1	208,405.7	237,014.2	271,310.8	311,746.1	358,820.6	413,089.5
D/E Ratio	*0.7*	*0.7*	*0.8*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*
Deferred Tax Liability (Net)	3,099.3	6,273.0	11,180.3	18,132.8	14,537.6	15,991.3	17,590.5	19,349.5	21,284.5	23,412.9
Deferred Tax Liability (Net) (% of Revenue)	*2%*	*3%*	*5%*	*7%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Other Long Term Liabilities	2,346.4	6,058.0	7,946.1	9,229.1	8,722.5	9,594.8	10,554.3	11,609.7	12,770.7	14,047.8
Other Long Term Liabilities(% of Revenue)	*2%*	*3%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Long Term Provisions	1,709.5	1,920.4	3,142.1	4,986.0	6,252.2	7,110.4	8,139.3	9,352.4	10,764.6	12,392.7
Long Term Provisions(% of Long Term Borrowings)	*2%*	*2%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Sub Total	97,102.8	109,472.9	140,315.7	213,632.0	237,918.0	269,710.7	307,594.9	352,057.7	403,640.4	462,942.8

Figure 4.3

Idea Cellular Balance Sheet-Current Liabilities

IDEA CELLULAR	Actuals				Estimated					
BALANCE SHEET (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current Liabilities										
Short Term Borrowings	17,903.9	17,275.3	4,585.3	6,471.6	10,467.1	11,513.8	12,665.1	13,931.7	15,324.8	16,857.3
Short Term Borrowings(% of COGS)	*18%*	*14%*	*3%*	*4%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Trade Payables	35,779.6	21,840.4	26,871.0	27,880.0	31,401.2	34,541.3	37,995.4	41,795.0	45,974.5	50,571.9
Trade Payables(% of COGS)	*35%*	*17%*	*19%*	*18%*	*18%*	*18%*	*18%*	*18%*	*18%*	*18%*
Other Current Liabilities	28,264.0	47,188.2	47,707.3	50,444.4	55,824.3	61,406.7	67,547.4	74,302.2	81,732.4	89,905.6
Other Current Liabilities(% of COGS)	*28%*	*37%*	*33%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
Short Term Provisions	67.1	72.7	1,248.5	1,876.9	3,035.6	3,339.2	3,673.1	4,040.4	4,444.5	4,888.9
Short Term Provisions(% of Short Term Borrowings)	*0%*	*0%*	*27%*	*29%*	*29%*	*29%*	*29%*	*29%*	*29%*	*29%*
Sub Total	82,014.6	86,376.7	80,412.1	86,672.9	100,728.2	110,801.0	121,881.1	134,069.2	147,476.1	162,223.8
TOTAL LIABILITIES	302,116.7	326,351.8	363,780.7	465,574.6	524,741.9	592,150.8	671,737.1	764,491.0	871,511.3	994,015.7

Figure 4.4

- The above figure depicts the Current Liabilities for Idea Cellular.
- Short Term Borrowings have been grown as a percentage of Cost of Goods Sold which stands as a diverse figure for last 5 financial years. It is estimated to grow at *6%* per annum as a function of COGS for next financial years. The short term debt figure for Idea Cellular is much higher than its Cash and Bank Balance figures for the corresponding periods signaling that Idea may not be in a very good position to pay-off the debts due in 1 year.
- Trade Payables stand a big percentage of Cost of Goods Sold. For future financial years, it is estimated to be around *18 %* per annum. It is a creditors figure and is much greater than Trade Receivables for Idea Cellular.
- Other Current Liabilities account for the capex creditors, unearned incomes, dividend payables and bank overdrafts for Idea Cellular. It is estimated to be almost *32%* of Cost of Goods Sold for future financial years.
- Thus, Total Liabilities for Idea Cellular stand at *465574M* INR in FY14 and is estimated to grow to *994015M* INR by FY20.

Idea Cellular Balance Sheet-Fixed Assets

IDEA CELLULAR	Actuals				Estimated					
BALANCE SHEET (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASSETS										
Non Current Assets										
Fixed Assets										
Tangible Assets	175,997.7	201,304.8	208,947.4	218,632.4						
Intangible Assets	48,851.2	68,571.9	82,591.8	77,326.1						
Capital Work-in-Progress	36,005.5	6,798.5	8,810.8	114,194.1						
TOTAL (Fixed Assets)	260,854.5	276,675.1	300,349.9	410,152.6	458,522.9	515,615.8	582,303.5	659,545.5	748,397.2	850,019.6
Capex	-	*40,177.6*	*53,264.3*	*148,657.8*	*87,225.5*	*95,948.0*	*105,542.8*	*116,097.1*	*127,706.8*	*140,477.5*
Capex(% of Revenue)	-	*21%*	*24%*	*56%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Goodwill	61.2	61.2	61.2	61.2	61.2	61.2	61.2	61.2	61.2	61.2
Long-Term Loans and Advances	9,217.5	22,562.7	30,479.2	28,970.7	31,484.5	35,529.0	40,304.2	45,869.5	52,290.7	59,640.9
Long Term Loan and Advances(% of Total Assets)	*3%*	*7%*	*8%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Other Non Current Assets	-	-	-	1,448.4	-	-	-	-	-	-
Sub Total	270,133.2	299,299.1	330,890.3	440,632.8	490,068.7	551,206.1	622,668.9	705,476.2	800,749.1	909,721.7

Figure 4.5

- Capital expenditure for FY14 stands at *148657M* INR as it is more than 50% of Revenue and is estimated to be *140477M* INR by FY20. It is estimated to be *30%* of Revenue for future financial years.
- Purchase of 2G & 3G sites and fiber cable transmission networks accounted for INR *46049M* of Capital expenditure in FY14.
- Idea Cellular participated in global spectrum auction conducted by Government and incurred a capital expenditure of INR *104242M* in FY14.
- Idea extended a lesser amount as long term loan for FY14 as compared to previous year but is expected to maintain a rate of *6%* of Total Assets as a loan figure for future years.
- Other Non Current Assets for FY14 comprise of Revenue equalization reserve.

Idea Cellular Balance Sheet-Current Assets

IDEA CELLULAR	Actuals				Estimated					
BALANCE SHEET (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current Assets										
Current Investments	10,200.0	976.0	10,280.2	2,155.3	5,815.0	6,396.5	7,036.2	7,739.8	8,513.8	9,365.2
Current Investments(% of Revenue)	*7%*	*1%*	*5%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Inventories	659.2	925.7	726.4	683.1	872.3	959.5	1,055.4	1,161.0	1,277.1	1,404.8
Inventories Turnover Ratio(% of COGS)	*153.0*	*136.0*	*196.9*	*230.7*	*200.0*	*200.0*	*200.0*	*200.0*	*200.0*	*200.0*
Trade Receivables	5,557.1	8,227.0	9,600.8	8,006.2	9,691.7	10,660.9	11,727.0	12,899.7	14,189.6	15,608.6
Trade Receivables Turnover	*27.8*	*23.7*	*23.3*	*33.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*
Cash and Bank Balances	4,577.4	1,520.7	1,429.1	1,881.0	3,727.6	6,904.5	11,623.8	17,826.1	25,454.6	34,455.7
Short-Term Loans and Advances	10,981.7	15,385.7	10,845.3	12,181.5	14,537.6	15,991.3	17,590.5	19,349.5	21,284.5	23,412.9
Short Term Loan and Advances(% of Revenue)	*7%*	*8%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Other Current Assets	8.1	17.7	8.7	34.7	29.1	32.0	35.2	38.7	42.6	46.8
Other Current Assets (% of Revenue)	*0.01%*	*0.01%*	*0.00%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*
Sub Total	31,983.5	27,052.7	32,890.4	24,941.7	34,673.3	40,944.7	49,068.1	59,014.8	70,762.2	84,294.0
TOTAL ASSETS	302,116.7	326,351.8	363,780.7	465,574.6	524,741.9	592,150.8	671,737.1	764,491.0	871,511.3	994,015.7

Figure 4.6

- Current Investments are a percentage of Revenue. It mainly comprises of investments in units of mutual funds. It stands at *INR 2153M* for FY14.
- Idea Cellular may not be one of the cash rich companies but it still manages to invest an average 5% in short term investments with the motive to earn higher interests.
- Inventories for FY14 stand at INR *683.1M* and is estimated to grow to INR *1404M* by FY20.Inventory Turnover ratio for Idea Cellular is *387* for FY14 which is quite low as compared to industry norms indicating low sales.
- Trade Receivables for FY14 stand at INR *8006M* and is estimated to grow to INR *15608M* by FY20. Debtors Turnover Ratio for Idea Cellular is *33* with an average collection period of *11* days. It is better than the industry norms.
- Cash and Bank Balances for FY14 stand at INR *1881M* which is quite low in comparison to competitor Bharti Airtel.
- Total Assets for Idea Cellular for FY14 stand at INR *465574M* and is estimated to grow to INR *994015M* by FY20.
- *The overall financial position of the company is satisfactory.*

Cash Flow Statement Analysis-

Idea Cellular Cash Flow – Operating Activities

IDEA CELLULAR	Actuals				Estimated					
CASHFLOW STATEMENT (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cashflow from Operating Activities-										
PAT	8,987.1	7,229.9	10,109.3	19,678.2	20,826.0	25,543.3	30,622.0	36,103.0	42,030.8	48,454.4
Adjustment for interest	3,966.4	10,557.3	9,494.5	7,700.1	13,132.4	14,911.7	17,038.6	19,540.7	22,448.7	25,796.8
Adjustment for Depriciation	23,973.4	29,813.4	34,777.7	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0
Movements in working capital :										
Increase in Trade Payables		(13,939.2)	5,030.6	1,009.0	3,521.2	3,140.1	3,454.1	3,799.5	4,179.5	4,597.4
Increase in Other Current Liabilities		18,924.2	519.1	2,737.1	5,379.9	5,582.4	6,140.7	6,754.7	7,430.2	8,173.2
Increase in Deferred Tax Liability (Net)		3,173.7	4,907.3	6,952.5	(3,595.2)	1,453.8	1,599.1	1,759.0	1,935.0	2,128.4
Increase in Inventories		(266.5)	199.2	43.3	(189.2)	(87.2)	(95.9)	(105.5)	(116.1)	(127.7)
Increase in Trade Receivables		(2,669.9)	(1,373.8)	1,594.6	(1,685.5)	(969.2)	(1,066.1)	(1,172.7)	(1,290.0)	(1,419.0)
Increase in Other Current Assets		(9.6)	9.0	(26.0)	5.6	(2.9)	(3.2)	(3.5)	(3.9)	(4.3)
Increase in Current Investments		9,224.0	(9,304.2)	8,124.8	(3,659.7)	(581.5)	(639.7)	(703.6)	(774.0)	(851.4)
Increase in Other Non Current Assets		-	-	(1,448.4)	1,448.4	-	-	-	-	-
Increase in Other Long Term Liabilities		3,711.6	1,888.1	1,283.0	(506.6)	872.3	959.5	1,055.4	1,161.0	1,277.1
SubTotal Operating Activities		**65,748.8**	**56,256.9**	**92,842.3**	**79,871.3**	**95,056.7**	**103,203.1**	**112,221.0**	**122,195.2**	**133,219.1**

Figure 4.7

- Cash Flows from Operating Activities stand at INR *92843M* for FY14 and is estimated to be INR *1333219M* by FY20 for Idea Cellular signaling strong growth.
- The cash generated comes from sales of company's good and services less the cost of those goods.
- Idea produces a positive cash flow from Operating activities which is a positive sign for the investor. Differential between PAT and cash flow from Operating Activities is quite an amount signaling growth of Idea Cellular.
- Change in cash flow from Operations offer a preview of changes in net future Income.

Idea Cellular Cash Flow – Investing & Financing Activities

IDEA CELLULAR	Actuals				Estimated					
CASHFLOW STATEMENT (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cashflow from Investing Activities-										
Increase in Short-Term Loans and Advances		(4,404.0)	4,540.3	(1,336.2)	(2,356.1)	(1,453.8)	(1,599.1)	(1,759.0)	(1,935.0)	(2,128.4)
Increase in Long-Term Loans and Advances		(13,345.2)	(7,916.4)	1,508.5	(2,513.8)	(4,044.5)	(4,775.2)	(5,565.2)	(6,421.2)	(7,350.3)
Increase in Short Term Provisions		5.7	1,175.8	628.4	1,158.7	303.6	333.9	367.3	404.0	444.4
Increase in Long Term Provisions		210.9	1,221.7	1,843.8	1,266.2	858.3	1,028.9	1,213.1	1,412.2	1,628.1
Increase in Capex		(45,634.0)	(58,452.4)	(154,996.7)	(93,564.3)	(102,286.9)	(111,881.7)	(122,436.0)	(134,045.7)	(146,816.4)
SubTotal Investing Activities		**(63,166.6)**	**(59,431.1)**	**(152,352.1)**	**(96,009.3)**	**(106,623.4)**	**(116,893.2)**	**(128,179.9)**	**(140,585.6)**	**(154,222.6)**
Cashflow from Financing Activities-										
Increase in Share Capital		55.7	54.8	53.1	-	-	-	-	-	-
Dividend		217.2	2,386.7	2,485.6	-	-	-	-	-	-
Increase in Preference Shares		-	-	-	-	-	-	-	-	-
Increase in Long Term Borrowings		5,274.0	22,825.6	63,236.9	27,121.6	28,608.5	34,296.6	40,435.3	47,074.5	54,268.9
Increase in Short Term Borrowings		(628.6)	(12,690.0)	1,886.3	3,995.4	1,046.7	1,151.4	1,266.5	1,393.2	1,532.5
Interest Payments		(10,557.3)	(9,494.5)	(7,700.1)	(13,132.4)	(14,911.7)	(17,038.6)	(19,540.7)	(22,448.7)	(25,796.8)
SubTotal Financing Activities		**(5,638.9)**	**3,082.5**	**59,961.7**	**17,984.7**	**14,743.5**	**18,409.5**	**22,161.2**	**26,018.9**	**30,004.6**
Net Cash Flows		**(3,056.7)**	**(91.7)**	**451.9**	**1,846.7**	**3,176.9**	**4,719.4**	**6,202.3**	**7,628.5**	**9,001.0**
Increase in Cash and Bank Balances		**3,056.7**	**91.7**	**(451.9)**	**(1,846.7)**	**(3,176.9)**	**(4,719.4)**	**(6,202.3)**	**(7,628.5)**	**(9,001.0)**

Figure 4.8

- Cash Flows from Investing Activities reflect a negative INR *152352M* for FY14 which means that Idea Cellular has invested a lot capital expenditure, plant & equipment and other acquisitions.
- Cash Flows from Financing Activities stand at INR *59961M* for FY14 comprising of mainly long term and short term borrowings.
- The issuance of stock has been estimated to be much less frequent and is kept at *3319M* for all future year prediction.
- Net Cash Flows for Idea tend to stand at INR *9001M* for FY20.

Free Cash Flow Statement-

Idea Cellular Free Cash Flow Statement

IDEA CELLULAR	Actuals				Estimated					
FREE CASHFLOW STATEMENT (Rs Million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
PAT	-	65,748.8	56,256.9	92,842.3	79,871.3	95,056.7	103,203.1	112,221.0	122,195.2	133,219.1
Add: Depriciation	23,973.4	29,813.4	34,777.7	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0	45,194.0
Add: Interest(1-t)	2,578.1	6,862.2	6,171.4	5,005.1	8,536.0	9,692.6	11,075.1	12,701.4	14,591.7	16,767.9
Add:Working Capital Changes		18,148.3	1,875.5	20,269.9	718.9	9,407.8	10,348.5	11,383.4	12,521.7	13,773.9
Less:Capex	-	(40,177.6)	(53,264.3)	(148,657.8)	(87,225.5)	(95,948.0)	(105,542.8)	(116,097.1)	(127,706.8)	(140,477.5)
FCF	**-**	**87,778.1**	**107,645.7**	**221,230.1**	**166,377.9**	**181,597.0**	**198,397.4**	**216,934.8**	**237,380.3**	**259,922.7**
NPV of Future Cash Flows					150,775.7	149,135.1	147,653.2	146,309.2	145,085.1	143,965.4

Figure 4.9

- Free Cash flow statement reflects Idea Cellular's ability to pay its debts, pay dividends, and buy back stock and all important undertakings from an investor's point of view.
- Free cash flows stand at INR *221230M* for FY14 and has been grown constantly to be INR *259922M* by FY20 which signals increased earnings.
- Net Present Value of future cash flows has been calculated based on the Weighted Average Cost of Capital using Discounted Cash Flow Model.

Intrinsic Value	882,923.7
No of Outstanding Shares (Million)	3,319.0
Share Price	**266.0**
TaxRate	35%
Riskfree Rate(Rf)	7.78%
Beta(5 yr)	**0.457**
Market Rate of Return(Rm)	15.00%
Cost of Equity	11.08%
Cost of Debt	12.00%
After Tax Cost of Debt	7.80%
Total Market Cap	656,966.38
Total Debt	187,755.7
Debt Ratio	0.2
WACC	**10.35%**

Figure 4.10

Share Price Calculations- By DCF

- Intrinsic Value of Free Cash Flows = INR 882923M
- Total No of Outstanding shares = 3319M
- Intrinsic Share Price = INR 266
- Tax Rate for Idea Cellular = 35%
- Risk Free Rate (Govt. 5 yr Bond) = 7.78%
- Market Rate of Return = 15%
- **Beta = 0.46**

CAPM Model→ Cost of Equity, Ke = Rf + B(Rm – Rf)

- Cost of Equity, Ke = 11.08%
- Cost of Debt, Kd = 12%
- After Tax Cost of Debt = Kd(1-t) = 7.80%
- Debt Ratio, d = 0.2
- **WACC = Ke*d + Kd*(1-d)**
- WACC = 10.35%

The Intrinsic Price of a share of Idea Cellular comes out to be INR 266.
The Market Price of a share is INR 190.

The intrinsic value of the share is much higher than its market value which indicates that the actual worth of the share is more than its current selling price so the stock is undervalued and a good investor decision would be to buy and hold the stock.

Ratio Analysis-

Idea Cellular Liquidity Ratios

IDEA CELLULAR	Actuals				Estimated					
RATIO ANALYSIS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Liquidity Ratios-										
Current Ratio	0.39	0.31	0.41	0.29	0.34	0.37	0.40	0.44	0.48	0.52
Quick Ratio	0.38	0.30	0.40	0.28	0.34	0.36	0.39	0.43	0.47	0.51

Figure 4.11

- Current Ratio for Idea Cellular for FY14 is *0.29* and is expected to remain around an average *0.40* and stand at *0.52* by FY20.
- This ratio reflects the number of times short-term assets cover short-term liabilities and is a fairly accurate indication of a company's ability to service its current obligations.
- Current Ratio is less than 1 which is not a very good sign and it indicates that Idea may not be in a position to pay off its short term obligations if they fall due in time.
- Also, Current Ratio of Idea is falling short of Industry norms which are an average of *0.90*, again not a good signal.
- Quick Ratio, also known as Acid-Test Ratio reflects upon the Idea Cellular's ability to assess the short term solvency. It measures the immediate liquidity - the number of times cash, accounts receivable, and marketable securities cover short-term obligations.
- This ratio is a more reliable variation of the Current ratio because inventory, prepaid expenses, and other less liquid current assets are removed from the calculations.
- Quick Ratio for FY14 stands at *0.28,* close to the Current Ratio, indicating that the Inventory balance is just fine.
- For future estimations also, quick ratio is expected to grow in-line with current ratio. Telecom Industry norms for Quick Ratio are an average of 1.

- Idea lies significantly below of industry norms, and thus can lead an investor to re-think on its decision if he wants to hold the stock for a short period because the company doesn't seem to be in a position to liquidate its assets at a speed greater than the obligations fall due.

Liquidity Ratios

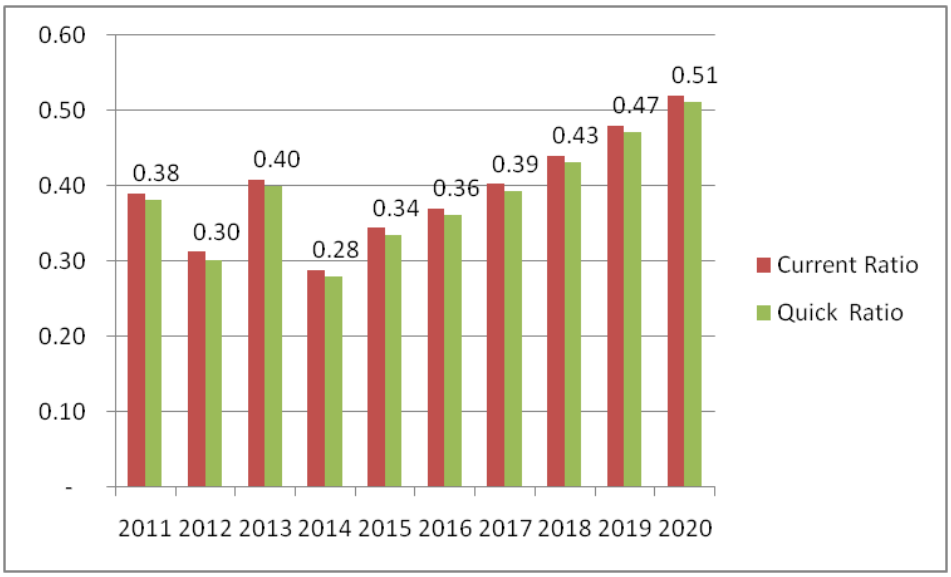

Figure 4.12

Solvency Ratios

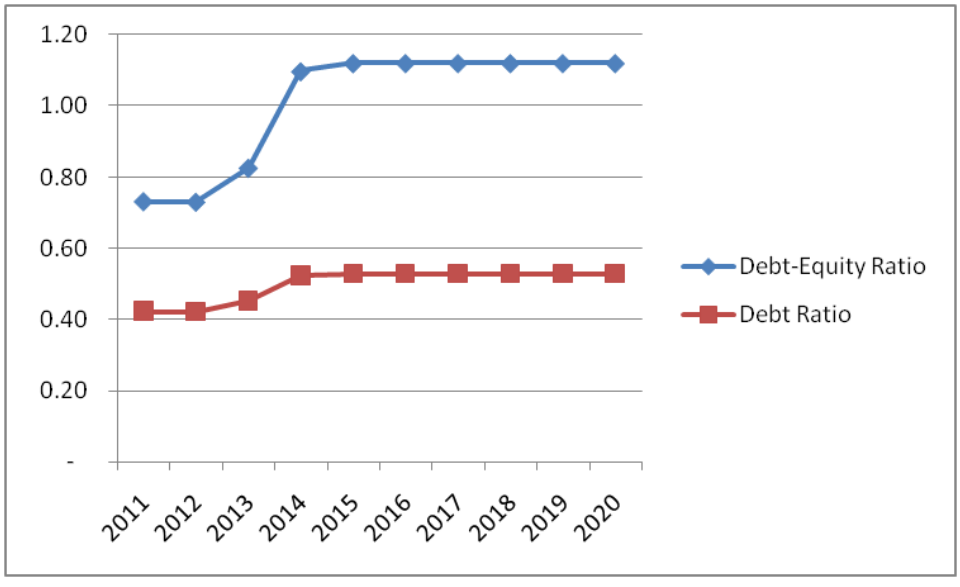

Figure 4.13

Idea Cellular Solvency Ratios

IDEA CELLULAR	Actuals				Estimated					
RATIO ANALYSIS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Solvency Ratios-										
Debt-Equity Ratio	0.73	0.73	0.83	1.10	1.12	1.12	1.12	1.12	1.12	1.12
Debt Ratio	0.42	0.42	0.45	0.52	0.53	0.53	0.53	0.53	0.53	0.53
Proprietary Ratio	0.58	0.58	0.55	0.48	0.47	0.47	0.47	0.47	0.47	0.47
Interest Coverage ratio	3.35	1.95	2.61	4.84	3.37	3.57	3.70	3.78	3.82	3.84

Figure 4.14

- Debt to Equity Ratio of Idea Cellular stands at *1.1* for FY14 and is expected to be maintained till FY20, much higher than the Industry norms.
- A high debt/equity ratio indicates that Idea Cellular has been aggressive in financing its growth with debt. It can result in volatile earnings as a result of the additional interest expense.
- Idea is leveraged and thus faces a greater financial risk.
- Proprietary Ratio is important from a creditor's point of view as it helps to ascertain the shareholder's wealth in total assets employed in the company. Idea Cellular has a bit low proprietary ratio indicating improper mix of loans and proprietors' funds resulting in a lower return on Investment.
- Interest Coverage Ratio is important from the perspective of debenture holders and lenders of long term funds to the company.
- It ascertains the amount of profit to cover the Interest expense. Idea has a ratio of *0.48* for FY14, which is in-line with the industry norms.

Idea Cellular Profitability & Valuation Ratios

IDEA CELLULAR	Actuals				Estimated					
RATIO ANALYSIS	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability Ratio										
Gross Profit Margin Ratio	35%	35%	36%	40%	40%	40%	40%	40%	40%	40%
Net Profit Margin Ratio	6%	4%	5%	7%	7%	8%	9%	9%	10%	10%
Valuation Ratios										
No of Shares(Million)	3,304.1	3,301.3	3,314.5	3,318.4	3,319.4	3,319.4	3,319.4	3,319.4	3,319.4	3,319.4
Earnings Per Share(EPS)	2.72	2.19	3.05	5.93	6.27	7.70	9.23	10.88	12.66	14.60

Figure 4.15

- Gross Profit Margin Ratio measures the gross profit earned on sales and reports how much of each rupee sales is available to cover operating expenses and contribute to profits.
- Gross Profit Margin Ratio for Idea Cellular stands at *40%* annually for FY14 and has been maintained for future estimations.
- It is in-line with the Industry norms. This ratio is high for Idea Cellular throwing up light on higher growth.
- Net Profit Margin Ratio for Idea Cellular stands at *7%* annually for FY14 and has been estimated to grow to *10%* for future years.
- It tells the overall efficiency of the business in terms of operations, thus an increase from FY13 indicates that Idea's operational efficiency has been improved.
- It is estimated to improve for all future years.
- Valuation Ratios are important from an investor's point of view.
- Earnings per Share serve as an indicator of company's profitability. It tells the portion of company's profits allocated to each outstanding share.
- The total outstanding shares of Idea Cellular are *3319M.*
- The intrinsic value of a share of Idea is INR *266.*
- Idea Cellular has reported an EPS of INR *5.93* in FY14 and is expected to earn INR *14.60* per share by FY20.
- *An increasing trend in EPS suggests a buy and hold decision to an investor.*

Competitor Analysis-

Idea Cellular Competitor Analysis (INR Crores)

Comparables	Idea Cellular	Bharti Airtel	Reliance Comm	Tata Comm	MTNL
Share Price	176.0	381.0	60.5	435.5	18.2
Market Cap	62,962.3	152,340.9	15,058.3	12,410.3	1,143.5
Sales Turnover	31,279.5	55,496.4	11,176.0	4,376.4	3,391.7
PAT	2,809.8	13,200.5	730.0	542.4	7,825.1
EBITDA	7,323.31	16,945.1	3,086.00	1,543.2	11,093.79
EBIT	3,230.1	9,713.8	1,038.0	863.2	9,928.1
EV	80,715.5	160,863.6	45,185.3	13,351.5	15,263.9
Debt	17,753.24	8,522.70	30,127.00	941.18	14,120.44
Book Value	46.95	166.93	153.62	276.69	80.01
EPS	5.09	16.51	3.57	19.03	124.21
PE	**34.6**	**23.1**	**16.9**	**22.9**	**0.1**
PB	**3.7**	**2.3**	**0.4**	**1.6**	**0.2**
EV to EBIT	**25.0**	**16.6**	**43.5**	**15.5**	**1.5**
EV to EBITDA	**11.0**	**9.5**	**14.6**	**8.7**	**1.4**

Figure 4.16

- Idea Cellular ranks third in term of its Market Price and second in terms of Market Capitalization as compared to competitors.
- Market capitalization is the *product* of company's total outstanding shares and the current market price of one share. It is used to determine the size of the company.
- Idea Cellular has a Market cap of INR *62962Cr*.
- Idea Cellular has a good annual Turnover as compared to Industry average with a figure of INR *312279Cr* for FY14.
- Net Profit After Tax figures for Idea Cellular have shown continuous improvements for the last 5 years with an increase of almost *100%* in FY14 from FY13, thereby holding its base strong in the market and securing a third rank after Bharti Airtel and MTNL.

- In-line with the PAT figures, EBITDA for Idea Cellular also ranks third in competitors. It indicates that the operating profits for Idea are satisfactory.
- Enterprise Value, EV, is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization.
- Enterprise value is calculated as the market capitalization *plus* debt, minority interest and preferred shares, *minus* total cash and cash equivalents.
- EV of Idea Cellular is INR *80715Cr* and ranks second in industry after Bharti Airtel.
- EPS for Idea Cellular is bit low as compared to rivals that sometimes create negative sentiments about the company leading to further decline in share price.
- Book Value of Idea Cellular is reported to be the lowest amongst the industry participants, INR *46* per share for FY14.
- The most important multiple PE- Price to Earnings ratio is the highest for Idea Cellular amongst industry competition at *34.6.*
- A high PE ratio for Idea Cellular indicates that the investors are expecting higher earnings growth in the future. It shows how much investors are willing to pay per rupee of earnings.
- It is not advisable for an investor to base its sole decision on the PE ratio as it is only as good as the quality of the underlying earnings number and earnings are susceptible to forms of manipulation.
- Price to Book ratio is again the highest for Idea Cellular compared to Industry norms which indicates that stocks are fairly valued.
- The EV/EBIT ratio provides a better comparison than a more conventional net Income/Equity ratio. Idea Cellular is in-line with the market norms.
- EBIT as a measure of profitability eliminates the potential distorting effects of differences in tax rates.
- Also, EV/EBIT normalizes the effects of different capital structures.
- Lastly, EV/EBITDA multiple is used to determine the value of the company. The enterprise multiple looks at a firm as a potential acquirer would as it takes debt into account, which other multiples like the P/E ratio do not include.
- EV/EBITDA is *11* for Idea Cellular FY14, satisfactory as per market analysis.

- *Thus, after Competitor Analysis, it can be affirmed that Idea Cellular holds a strong position in the market and the investors expect the company's earnings to grow, citing from a high PE ratio, thus it is recommended to buy and hold the stock.*

Competitor Analysis

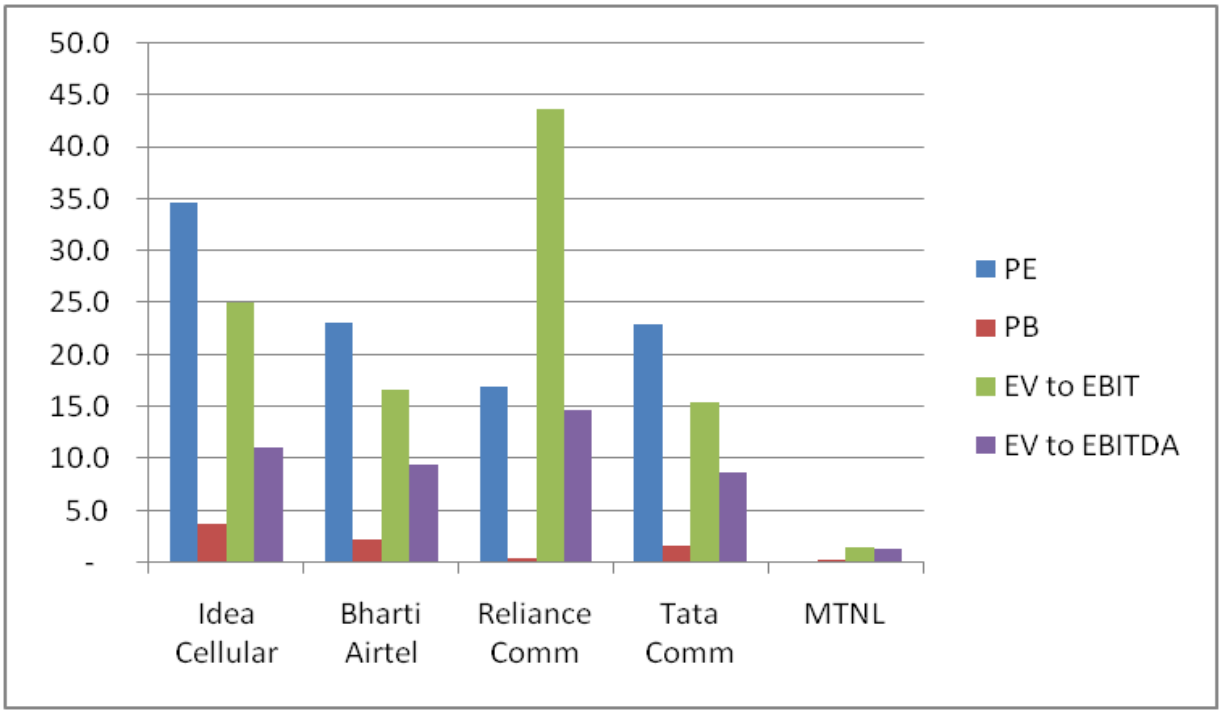

Figure 4.17

4.3 Findings and Recommendations

- Idea Cellular has a Top line of *264319.7 M* INR for FY14 and has maintained its enviable track record of growing faster than the industry with a service Revenue growth of almost *18%* on consolidated basis.
- The Bottom Line of Idea Cellular is *19,678.2 M* INR for FY14.
- EBITDA for FY14 is reported to be *82467M* INR which is estimated to reach *144132M* INR by FY20. Idea ranks second in Telecom sector on EBITDA figures indicating that it is earning good Operating Profits.
- The profit after tax (PAT) is reported to be *19678M* INR for F14 which is expected to grow at a rate of around *12%* per annum and is estimated to stand at *48454M* INR by FY20 indicating that Idea Cellular is performing well in the market.
- PAT for FY14 almost doubled from last year due to increase in Operating profits and lower finance and treasury charges partially offset by higher depreciation and amortization charge during the year.
- A dividend of INR *0.40* per equity share of INR *10* each has been announced for FY14 year ending.
- The issued, subscribed and paid up equity share capital of Idea Cellular for FY14 stands at INR *33,196,317,610* comprising of *33,196,317,61* equity shares of INR *10* each.
- The total subscriber base for Idea Cellular for FY14 stands at *135.8 M*, representing an increase of *11%* over previous year.
- *The growth rate of company is fair and the overall profitability is expected to rise.*
- The Compulsorily Convertible Preference Shares (issued by Subsidiary Company) stands at 19.3M constant throughout the future estimations.
- Total Long-Term Liabilities have been continuously increasing and it stands at *213632M* INR and is estimated to reach INR *462942M* by FY20. Although it stands a big amount.

- Short Term Borrowings have been grown as a percentage of Cost of Goods Sold which stands as a diverse figure for last 5 financial years.
- It is estimated to grow at *6%* per annum as a function of Cost of Goods Sold for next financial years.
- The short term debt figure for Idea Cellular is much higher than its Cash and Bank Balance figures for the corresponding periods signaling that Idea may not be in a very good position to pay-off the debts due in 1 year.
- Capital expenditure for FY14 stands at *148657M* INR as it is more than 50% of Revenue and is estimated to be *140477M* INR by FY20. It is estimated to be *30%* of Revenue for future financial years.
- Purchase of 2G & 3G sites and fiber cable transmission networks accounted for INR *46049M* of Capital expenditure in FY14.
- Idea Cellular participated in global spectrum auction conducted by Government and incurred a capital expenditure of INR *104242M* in FY14.
- Current Ratio is less than 1 which is not a very good sign and it indicates that Idea may not be in a position to pay off its short term obligations if they fall due in time.
- Idea lies significantly below of industry norms, and thus can lead an investor to re-think on its decision if he wants to hold the stock for a short period because the company doesn't seem to be in a position to liquidate its assets at a speed greater than the obligations fall due.
- A high debt/equity ratio indicates that Idea Cellular has been aggressive in financing its growth with debt.
- It can result in volatile earnings as a result of the additional interest expense.
- Idea Cellular has a good annual Turnover as compared to Industry average with a figure of INR *312279Cr* for FY14.
- EV of Idea Cellular is INR *80715Cr* and ranks second in industry after Bharti Airtel.
- A high PE ratio for Idea Cellular indicates that the investors are expecting higher earnings growth in the future. It shows how much investors are willing to pay per rupee of earnings.

Recommendations-

- ***The overall financial position of the company is satisfactory.***
- ***The Intrinsic Price of a share of Idea Cellular comes out to be INR 266.***
- ***The Market Price of a share is INR 185.***
- ***The intrinsic value of the share is much higher than its market value which indicates that the actual worth of the share is more than its current selling price so the stock is undervalued and a good investor decision would be to buy and hold the stock.***
- ***Year on year, both dividends per share and earnings per share excluding extraordinary items growth increased 50.00% and 51.86%, respectively. The positive trend in dividend payments is noteworthy as very few companies in the Communications Services industry pay a dividend. Additionally, five year annualized earnings per share growth ranks above the industry average relative to its peers.***
- ***An increasing trend in EPS suggests a buy and hold decision to an investor.***
- ***Thus, it can be affirmed that Idea Cellular holds a strong position in the market and the investors expect the company's earnings to grow, citing from a high PE ratio, thus it is recommended to buy and hold the stock.***

4.4 Limitations of the Study

- Financial analysis is a powerful mechanism of determining financial strengths and weaknesses of a firm. This analysis is based on inputs availed from the financial statements. Hence, the analysis method carries serious inherent limitations of financial statements.
- The financial analyst has also be careful about the impact of price level changes, windows dressing of financial statements, changes in the policies of a firm, accounting concepts and conventions etc.
- It is only a study of interim reports.
- Financial analysis is based upon only monetary information.
- It does not consider changes in price levels.
- As the financial statements are prepared on the basis of a going concern, it does not give actual position. Thus accounting concepts and conventions are a serious limitation of financial analysis.
- Changes in accounting procedure by a firm may often make financial analysis misleading.
- Analysis is only a means and not an end in itself. It is completely based on the analyst's discretion and may vary from person to person.
- DCF analysis certainly has its merits, but it also has its share of shortcomings. DCF model totally depends upon the input assumptions. DCF valuations may vary wildly.

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6. ANNEXURES

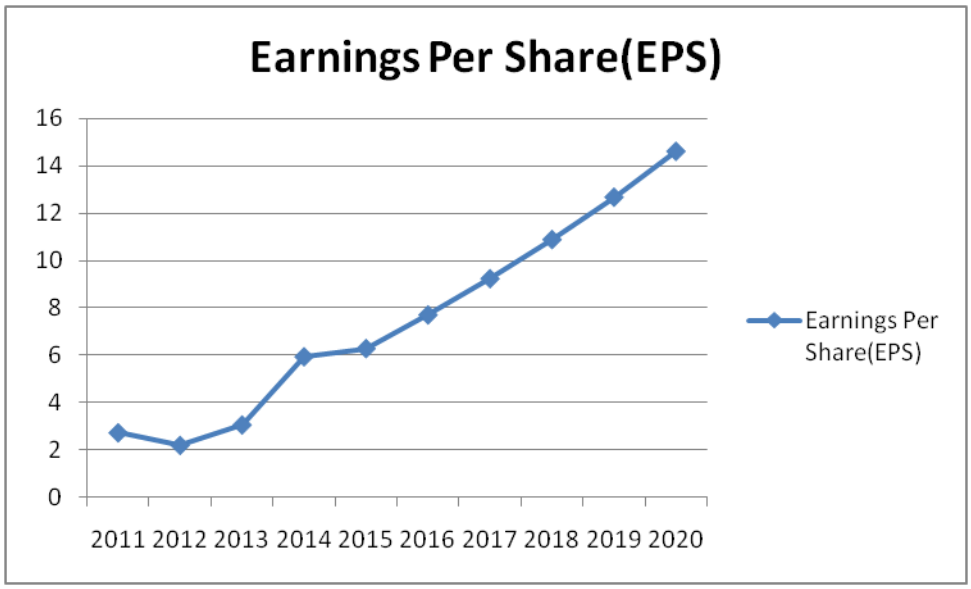
Below is attached the Financial Model -

IdeaCellular.xlsx

Idea Cellular 5 Year Stock Prices

Idea Cellular 5-Day Moving Average Stock Prices

Idea Cellular-EPS



Idea Cellular-PAT