Idea Cellular, the country's third largest telecom operator by users and revenue, has been performing better than its peers on the financial front. In the past two years, even as incumbents like Bharti Airtel and Reliance Communications (RCOM) witnessed a sequential quarterly decline in net profits, Idea continued to register positive growth. In the January-March 2014 quarter too, the company has delivered an outstanding performance with a 91 per cent growth in net profits as over the quarter ended March 2013.

One of the biggest beneficiaries of mobile number portability (MNP), Idea has used an astute customer acquisition strategy to scale up in the wireless pecking order. In November 2013, it replaced RCOM as the third largest operator in the Indian telecom market. During the year, Idea added 14 million subscribers on its network, of which about 40 per cent were in the 3G segment. The operator's 3G subscriber base has doubled from 5.1 million as of March 2013 to 10.2 million as of March 2014. This base is expected to expand further with the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) allowing 3G intra-circle roaming (ICR) amongst operators. In fact, the company has already resumed 3G services through ICRs in 10 circles.

The company is betting big on data as reflected in its enthusiastic participation in the February 2014 spectrum auction. It acquired 5 MHz spectrum each in the 900 MHz band in the Punjab and Delhi circles, which it plans to use for launching 3G services by early 2015. In fact, the company, which has often been seen as a "data-laggard" when compared to Bharti Airtel and Vodafone India, has recorded significant progress on its data metrics in the past one year. In the quarter ended March 2014, the company's data ARPU stood at Rs 104, against Rs 55 in the corresponding quarter of 2013. This was also significantly higher than Bharti Airtel's data ARPU of Rs 79 in the quarter ended March 2014.

Growth map

Idea's early years of operations were fraught with challenges on account of promoter-related issues. It was incorporated as a three-way alliance between the Tata Group, AT&T and the Birla Group. However, AT&T exited the venture in 2005, followed by the Tata Group in 2006, which resulted in the Aditya Birla Group taking full ownership of the company. This was followed by a public listing of the company.

In less than a decade, Idea has exhibited strong performance with a subscriber base of 135.8 million, accounting for 15.01 per cent of the country's total wireless user base as of March 2014. According to Dr Mahesh Uppal, director, ComFirst, "Idea Cellular currently has a significant subscriber market share in the industry and has high-income subscribers in several circles, particularly in Maharashtra and Gujarat."

Its unique "outside-in" approach – moving from the hinterland (rural and suburban areas) to the metro circles - has helped it garner a significant market share in the rural areas. As of December 2013, 54.69 per cent of the company's total subscribers belonged to rural areas and served as a potential base for data service adoption in the future. In contrast, rural subscribers account for 44.68 per cent of Bharti Airtel's and 53.67 per cent of Vodafone India's total user base.

Idea Cellular has gained significantly from MNP. It has been able to maintain a healthy lead over its competitors since June 2011 in terms of overall MNP net additions, barring the period between October and December 2012. As of March 31, 2014, Idea recorded a net gain of 9.14 million MNP customers.

To ensure high brand visibility, the company has been aggressive in its marketing efforts. It has addressed the issues of caste, language and other social situations through its ad campaigns, which has increased its mass appeal and subscriber base. Its popular advertisement, featuring an owl and the jingle "No ullu banaoing", highlights the fact that mobile internet empowers users and protects them from being duped, and is designed to encourage the use of mobile internet amongst first-time users as well as rural and suburban subscribers.

While the intelligent branding exercise has helped Idea achieve brand stickiness, it is the expansion of its footprint and infrastructure that has played a key role in strengthening its presence. Idea provides pan-Indian GSM mobile services in all 22 service areas. It has categorised these circles as established service areas (15 in number, where the company has evolved in terms of profitability) and new service areas (seven in number, where services were launched during 2009-10 and are yet to achieve profitability). Further, Idea won 3G spectrum (2100 MHz in May 2010) in 11 service areas. In the recently concluded spectrum auction in the 900 MHz and 1800 MHz bands, Idea won 5 MHz spectrum in the 900 MHz band in the Delhi circle, and long term evolution (LTE)-compatible 1800 MHz spectrum in eight service areas, along with top-up GSM spectrum in seven service areas.

In terms of infrastructure, Idea Cellular had 104,778 2G sites and 21,381 3G sites as of March 2014. Further, the operator holds licences for national long distance, international long distance, internet service provider (ISP) and infrastructure provider 1 services. It has over 82,000 km of fibre cable transmission network, which will enable it to tap the future potential of wireless broadband. The company has 2,500 optic fibre cable points of presence in major cities as well as linked highways. During 2011-12, Idea launched its ISP services to cater to the captive requirement of its mobile business. It is now extending the service to small ISPs and enterprise customers to meet their wholesale internet backhaul needs.

Consistent performance

Idea Cellular has remained on steady ground, both financially and operationally. According to its performance report for the quarter-ended March 2014, it is the fastest growing Indian operator with 17.3 per cent growth in revenues, which stood at Rs 265.04 billion during 2013-14, nearly double the industry growth rate. The revenue growth was driven by the expansion of voice minutes and mobile data volumes. The earnings before interest, taxes, depreciation and amortisation during 2013-14 stood at Rs 72.88 billion, registering a growth of 37.5 per cent over the previous year. “We have strong financials and free cash flows,” notes Himanshu Kapania, managing director, Idea Cellular. “In the last year, we generated Rs 64 billion of free cash flows. We have sufficient head room to raise additional debt and we have other opportunities available as well.”

The company’s ARPUs increased from Rs 167 during the quarter ended March 2013 to Rs 173 during the corresponding quarter in 2014. The average realisation per minute increased from Re 0.412 to Re 0.436 during the same period. While the total minutes of use (MoUs) on its network increased by 9.5 per cent to reach 157,055 million, the total data volume grew by over 100 per cent to reach 27,299 million MB.

According to the Telecom Regulatory Authority of India’s report for the quarter ended December 2013, Idea Cellular’s revenue market share (RMS) in the telecom industry grew by 0.27 percentage points (and stood at 16.1 per cent) as it recorded higher MoUs as compared to Bharti Airtel, Uninor and Aircel, which gained 0.21, 0.18 and 0.08 percentage points respectively.

Further, as per the company's recent quarterly report, it took the lead amongst operators with a combined RMS of 26.8 per cent in eight service areas – Kerala, Madhya Pradesh, Uttar Pradesh (West), Maharashtra, Haryana, Punjab, Andhra Pradesh and Gujarat. These service areas contribute over 40 per cent to the country's total mobile industry revenue and about 68 per cent to Idea Cellular's revenues. Despite intense market competition, Idea has improved its RMS by 1.9 per cent to 26.8 per cent in these circles over the past one year.

Data services – The new growth driver

Like its peers, Idea Cellular is banking on the growth of the data segment in the coming years. It has taken several initiatives such as reducing data tariffs (especially 3G), launching affordable 3G smartphones and bundling data plans with handsets in order to encourage service adoption. Although the massive decline in tariffs has impacted the growth in ARPUs, the company's overall revenues have remained unaffected due to the strong volume of data traffic. In fact, data contribution to service revenue has increased from 6.6 per cent in January-March 2013 to 10.1 per cent in the corresponding quarter in 2014. Revenues are expected to increase with TDSAT's decision to allow ICR. The operator also plans to extend 3G services to two more circles – Punjab (where it recently received approval) and Delhi (through the recently acquired spectrum). "It is critical for Idea to ensure adequate and appropriate investments in the data business, in terms of continuous network build-out and fibre roll-out," says Harit Shah, senior research analyst, Institutional Equities, Nirmal Bang.

Idea Cellular did not acquire broadband wireless access (BWA) spectrum during the 2010 auction. However, it has made up for the missed opportunity by acquiring liberalised spectrum in the 1800 MHz band during the recent auction. That said, the operator has no firm plans for the segment and is likely to wait for the ecosystem to be fully developed before setting sail in the 4G direction. According to Swati Agrawal, general manager and regional head-North, CARE Ratings, "Idea Cellular has focused on increasing its 2G and 3G service penetration and has chosen to stay away from the 4G space until now. This is likely to contribute to better utilisation and return on capital employed."

Challenges remain

Unlike its rivals, Idea has had a relatively smooth ride on the regulatory front. Barring the merger of Idea and Spice licences in a few circles, it has been smooth sailing for the operator. However, there are several industry-wide challenges that continue to hamper the operator's

margins.

While the introduction of data services has ushered in a new wave of growth in the sector, it has brought with it the challenge of over-the-top players cutting into its voice and SMS revenues. For instance, Idea Cellular's non-data (messaging) revenue contribution to the total service revenue dropped from 8.6 per cent during the quarter ended March 2013 to 6.4 per cent in the corresponding quarter in 2014. This trend can be partly attributed to the growing adoption of applications such as WhatsApp, LINE and Viber.

Further, high monetary outgo on account of several fees and charges imposed by the government as well as the high price of spectrum has impacted Idea's balance sheet. The company's net debt stood at Rs 191.85 billion as of March 31, 2014, after accounting for the upfront spectrum payment in the February 2014 auction. Another round of payments for spectrum acquisition is expected over the next two years, as seven of its licences will complete their 20-year term in December 2015 while another two will come up for renewal in April 2016.

That said, the operator's monthly churn, at 4.2 per cent, is higher than that of Bharti Airtel, which stood at 2.4 per cent during the quarter ended March 2014. Besides, the company needs to improve its ARPUs, which, despite healthy growth, continue to be lower than that of Airtel and Vodafone. Idea Cellular registered an ARPU of Rs 173 against Bharti Airtel's Rs 196 during the quarter ended March 2014. This can be attributed to the lack of a significant number of post-paid urban customers in its user base.

The way forward

The company intends to build on its impressive performance of the past one year and remains committed to its 3G drive. It has earmarked a capex of about Rs 35 billion for 2014-15, the majority of which will be dedicated to strengthening its 3G footprint and increasing its fibre reach. Leveraging its strong rural presence to enhance its mobile data user base would be crucial to Idea's growth strategy. "The company is expected to derive increased growth in voice revenues, especially from rural areas, and benefit from the growing data usage," notes Agrawal. Meanwhile, its healthy cash profits will ensure that its financial performance remains strong.

The company has come a long way in the past one decade and could pose strong competition

to its peers, if it sustains its growth momentum.

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