IDEA Cellular IDEA IN

TELECOMS | INDIA

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Initiating

BUY

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Action

IDEA has held its ground amid aggressive competition. Consistent execution has driven a steady rise in revenue share to 13%; its financial outlook is improving as losses from its new circles peak, and possible sector consolidation could provide a surprise. At 15x FY12F P/E, the stock is not inexpensive; but, FY12F EV/EBITDA of 6x is reasonable and a 21% FY09-12F EPS CAGR is ahead of peers. IDEA is our preferred pick among Indian telcos. We initiate at BUY, with a INR78 PT.

Catalysts

Improving quarterly trends, diminishing losses from new circles, possible M&A opportunities and regulatory clarity on MNP and 3G are all potential catalysts.

Anchor themes

The Indian telcos are hurt by competitive and regulatory uncertainty. However, incremental negative surprises on price wars are diminishing, and clarity on 3G, MNP and M&A guidelines should boost sentiment.

Closing price on 12 Mar	Rs60.3
Price target	**Rs78.0**
Upside/downside	29.4%
Difference from consensus	**36.8%**
FY10F net profit (Rsmn)	8,237
Difference from consensus	**8%**

Source: Nomura

Nomura vs consensus

We are more optimistic on earnings growth as IDEA narrows its losses in new circles and builds scale.

A timely IDEA

① Solid execution and improving financials

Amid volatile markets, IDEA has executed well. It completed its pan-India rollout in 2009 and only lost 100bps in margin to 27% despite initial losses at the new circles. We estimate a break-even scenario for the new circles (on a consolidated basis) in FY12F that should provide further support to earnings and margins. IDEA's net add share tracked at 11% throughout 2009. More significant, revenue share increased to 13% at end-2009 — up 130bps from December 2008.

② 3G participation likely, but capex burden manageable

Rather than pursuing a pan-India 3G license, IDEA will likely focus on its nine 900MHz circles, and / or where it is among the top three to five operators (seven to ten circles). Assuming a 1.7x reserve price, a 3G license could cost INR24-34bn. Net debt (including investments) would rise to 2x EBITDA, which would be manageable, we think. IDEA has INR60-80bn in debt facilities, according to management.

③ A likely player in the domestic consolidation story

IDEA's current positioning and strong fundamentals make it a likely participant in any domestic consolidation story, which should provide share price support. Three possible scenarios we see (in order of probability) are: a) merger with another carrier; b) purchase of a mid-tier carrier, or; c) acquisition by a major operator.

④ Valuation: attractive growth; reasonable price; BUY

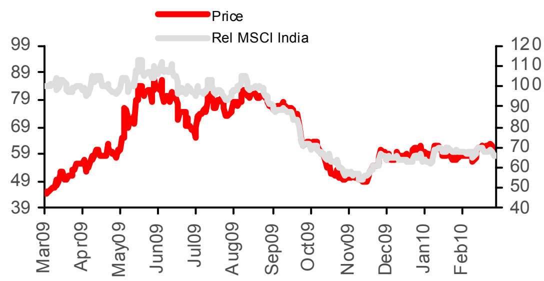
Earnings for the next two years include higher costs from the new circle launches, with limited revenue contribution at the outset. On FY12F earnings, the stock is at a P/E of 15x, which is not inexpensive, in our view. We think its 6x EV/EBITDA is reasonable and the FY09-12F EPS CAGR of 21% is well ahead of peers'.

Key financials & valuations

31 Mar (Rsmn)	FY09	FY10F	FY11F	FY12F
Revenue	101,484	123,344	140,252	155,336
Reported net profit	9,009	8,237	9,076	12,388
Normalised net profit	7,086	8,057	9,076	12,388
Normalised EPS (Rs)	2.29	2.60	2.93	4.00
Norm. EPS growth (%)	(36.8)	13.7	12.6	36.5
Norm. P/E (x)	26.4	23.2	20.6	15.1
EV/EBITDA (x)	8.6	7.6	7.4	6.4
Price/book (x)	1.4	1.3	1.2	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	10.7	6.0	6.2	7.9
Net debt/equity (%)	43.9	45.6	62.3	57.7
Earnings revisions				
Previous norm. net profit		na	na	na
Change from previous (%)		na	na	na
Previous norm. EPS (Rs)		na	na	na

Source: Company, Nomura estimates

Share price relative to MSCI India



	1m	3m	6m
Absolute (Rs)	3.3	0.9	(21.5)
Absolute (US$)	5.6	3.4	(16.3)
Relative to Index	(3.4)	(0.1)	(32.4)
Market cap (US$mn)			4,112
Estimated free float (%)			29.3
52-week range (Rs)			87.0/44.25
3-mth avg daily turnover (US$mn)			5.85
Stock borrowability			Hard
Major shareholders (%)			
Aditya Birla Group			49.1
Axiata			20.0

Source: Company, Nomura estimates

Contents

Executive summary

Initiating with BUY rating

Pan-India coverage offers incremental opportunities, while new circle breakeven should support earnings

We initiate coverage on IDEA Cellular with a BUY rating and an INR78 price target. Within the Indian telco sector, it is our preferred pick. IDEA is now one of the few Indian carriers to have a pan-Indian business, which should allow it to tap into revenue opportunities from new circles and leverage its nationwide presence to better control costs. Moreover, we think the EBITDA losses from its new circles will likely peak in the coming 4Q FY10 (ending March). In fact, we estimate a break-even scenario in new circles (consolidated basis) by mid- to end- FY12F, which would provide further support to earnings and margins.

IDEA's expansion phase continues, and perhaps its FY12F earnings are more comparable with those of domestic peers like Bharti and RCOM, which completed their nationwide rollout a few years back. On our estimates, IDEA is at 15x FY12F P/E — which is not inexpensive in our view; but 6x EV/EBITDA looks reasonable. Importantly, 21% normalised EPS FY09-12F CAGR is ahead of domestic peers'.

The Indian telco sector is dealing with competitive and regulatory uncertainties at the moment – and no one player is spared. Even in this environment, however, IDEA: appears to be executing consistently; is improving its balance sheet and financials, and; could benefit from possible consolidation within the sector.

Bharti Airtel is a solid franchise no doubt, but its current pursuit for Zain-Africa raises execution risks. Moreover, the element of positive operational or financial surprises is unlikely in the near term, we believe, given the competitive pressure in the sector. Reliance Communications (RCOM) is inexpensive at present, but the company's execution seems to be lagging that of its peers, as evidenced by a lack of traction in its plans. In addition, its earnings quality remains questionable still.

IDEA has been the best performer among the three listed Indian wireless players in the year to date, following on from its calendar 2009 performance. We think this trend will continue this year. We make the following points on IDEA:

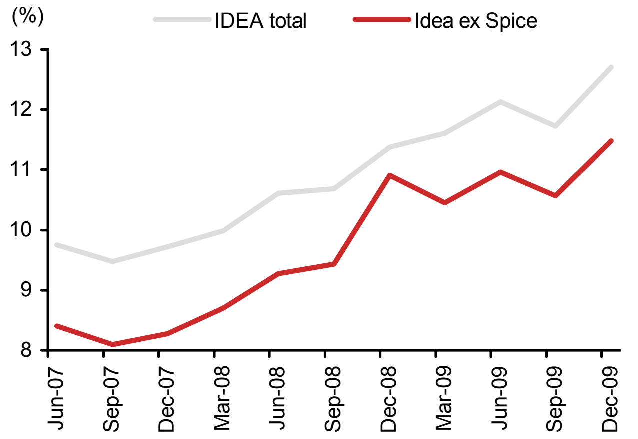
Idea has a reasonable position in circles it is already present in…

- *Operationally*, IDEA has a reasonable position in the circles where it was already present. It is a top three player in six of its 13 older circles (including Spice) in subscriber terms. In eight of 13 circles, it is in the top three in revenue share as well. IDEA has improved its revenue share from 9.5% as of September 2007 to 12.7% as of December 2009 (including Spice); this is a good indicator of consistent execution, in our view. Even excluding Spice, its revenue share improved from 8.4% to 11.5% over the same period.

… though it may take a measured approach in new circles

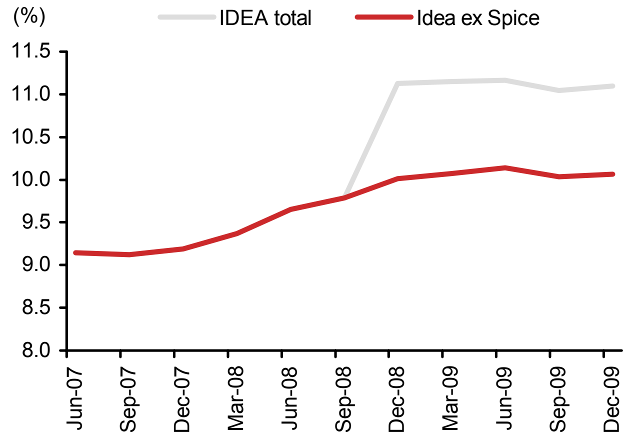
  The company naturally expects the revenue pie to continue to increase and is confident in its ability to maintain share despite competition. We also note that competing in the new circles will be challenging, and perhaps management will be less aggressive in rolling out in these circles, with incremental investment driven by demand. Management also cut its capex guidance twice recently from INR60bn at the beginning of last year to INR40bn for FY10F, which may be a sign of a measured approach to investment in new circles.

Exhibit 1. IDEA and IDEA ex Spice — revenue share



Source: TRAI, Nomura research

Exhibit 2. IDEA and IDEA ex Spice — subscriber share



Source: TRAI, Nomura research

- *Financially*, we expect revenue and EBITDA FY09-12F CAGRs of 15.2% and 15.8%, respectively. IDEA's current consolidated EBITDA margin is 26%, which is below Bharti's 31%. This differential reflects Bharti's more integrated business and greater scale, as well as the impact of IDEA's recent launches, which incur higher costs. We do not expect these margins will converge anytime soon; IDEA has a greater number of 1800Mhz circles, which carry higher operating costs. (See Exhibit 19 for detailed cost comparisons.)

  IDEA's ROIC of 6% is still below its cost of capital of ~10%, reflecting poor asset turn, reflecting the company's acquisitions over the past five years. Indeed, several have yet to yield significant benefits. There is no talk of a dividend yet, and we do not expect FCF break-even until FY13F.

  Bidding for or winning pan-India 3G license seems unlikely

  IDEA will take part in the 3G auctions, we believe, but a scenario of it bidding on or winning a pan-India 3G license is unlikely. We think it will more likely focus on its traditional nine circles (900Mhz), or the circles where it is currently in the top three or five (seven to 10 circles). Management will most likely bid selectively for other circles too, but we expect limited pricing tension in B and C circles (see Exhibit 12 for more details on IDEA's positioning in different circles). If we assume an average auction price of 1.7x the reserve price (consistent with our estimates for Bharti and RCOM), that translates into a INR24-34bn 3G payment in FY11F. Given the limitation of three to four licenses in each circle, IDEA may not win licenses in each of these circles, so at this stage, we assume a total 3G payment of INR25bn (see Exhibit 28). For the 3G rollout, the company does not expect a significant incremental capex burden. However, we think there is room for upside surprises and assume FY12F capex of INR42bn, in addition to the FY11F 3G license payment of INR25bn and capex of INR42bn.

Idea could be a key player in consolidation in the industry

- *Strategically*, the company does not appear to us to have the financial capacity or the interest to expand outside India. Adjacent markets like Bangladesh and Sri Lanka, among others, may be reviewed from time to time, but we think the focus will very much remain on improving operational performance within India.

  A key agenda item for the telecom regulator, TRAI, is a review of the M&A guidelines, as at present, there is little clarity on how spectrum can be traded / migrated in the event of a merger or a take-over. Our recent discussions with TRAI suggest that an "amendment" is likely in the near term — the form of which is still unknown, but the mechanism to allow for further consolidation can be expected. In our view, this could clear the way for consolidation among Indian telcos — and likely be good for near-term sentiment.

We think IDEA would be a key participant in any domestic consolidation story that were to emerge. We see three possible scenarios: 1) IDEA could merge with another carrier; b) IDEA could buy another mid-tier carrier, or; c) IDEA could be acquired by a major operator. Axiata holds 20% of IDEA and has a portfolio of regional investments of which IDEA is a key part. We do not necessarily think Axiata is looking to exit the Indian market at this stage, nor is it likely to increase its stake, given the shareholder agreement that restricts additional investment.

- *About IDEA,* it is the fourth-largest player in India, with revenue market share of 13% as of end-2009. It is the fifth-largest player on a subscriber basis and has 60mn subscribers (including all Spice subscribers). The company is among the top three operators in eight circles in revenue market share. It launched services in 1997 in two circles and has since expanded both organically and through acquisition to build a presence throughout the country. In December 2009, IDEA completed its nationwide rollout and is now a pan-India operator. IDEA's primary shareholder, the Aditya Birla group, is a leading conglomerate in India. Axiata is the second-largest shareholder with 20%.

FY12F valuations look reasonable, given relatively higher growth outlook

Exhibit 3. Comparative valuation — Indian telcos

Year end Mar 31	Bharti	RCOM	IDEA Cellular
Current price (Rs)	299	158	60
Rating	NEUTRAL	REDUCE	BUY
Price target	335	154	78
Upside/downside (%)	12	(2)	29
Valuation (x)			
FY11F PER	13.9	12.2	20.6
FY12F PER	13.1	8.9	15.1
FY11F EV/EBITDA	7.4	6.6	6.8
FY12F EV/EBITDA	6.8	5.4	6.0
Growth rates (FY09-12F) (%)			
Revenues	6.4	11.1	15.2
EBITDA	4.3	5.9	15.8
NPAT	0.9	(12.3)	11.2
Normalized NPAT	(2.8)	(1.6)	20.6
EPS	0.7	(1.6)	20.6
Profitability (%)			
EBITDA Margin FY09E	41	41	28
EBITDA Margin FY12E	39	35	28
Change in Margins	*-243bps*	*-542bps*	*40bps*
Shareholder Returns			
F10F Ordinary dividend	2.2	0.9	-
F10F Dividend yield (%)	1	0.6	0
F10F FCF yield (%)	1	na	na
Dividend payout ratio (%)	10	8	0
% FCF paid out	1	0	0
DPS CAGR (F07-F10e)	na	38.6	na
Balance Sheet FY10F			
Gearing (ND/ND+E) (%)	19	44	24
EBITDA interest cover (x)	33.1	6.6	8.3
Net debt/EBITDA (x)	0.4	3.8	1.3
FY10F Capex/sales (%)	34	52	33

Note: Share price as on 12 March. EV includes short-term investments

Source: Bloomberg, company reports, Nomura estimates

Key themes

A check-list of current issues

We address the following questions:

- How long will it take for new circle break-even?
- Would IDEA take part in any possible consolidation?
- Can it win market/ revenue share?
- What are the current operational trends and the near term outlook?
- Margin outlook and cost structure comparisons?
- Balance sheet capacity — with and without 3G?

New circle launches and profitability outlook

We think new circles could break even in FY12F

Based on our analysis of IDEA's new circle launches (see Exhibit 4), we think these circles could break-even by mid- to end-FY12F on a consolidated basis. The company expects peak losses from the new circles in the March FY10 quarter and estimates a range of 24-36 months to break-even for each circle from the time of the initial launch. Although we are relatively conservative in our assumptions, another round of severe price cuts remains a downside risk. On the other hand, the ability to tap into the mass market (versus lower end now) or higher data contribution could surprise positively.

IDEA launched two new circles in 1Q FY10 and five circles in 3Q FY10. This follows the Mumbai and Bihar launches that occurred in FY09. On a standalone basis, we think some circles could see break-even by late FY12 to early FY13 (see Exhibit 5 below).

We assume IDEA adds 1.7-1.8mn subscribers per quarter in these new circles, only slightly higher than the 1.5mn net adds seen in the last quarter. Management does not expect to be aggressive in subscriber acquisition in all new circles. Focus will likely be on the metros and A circles, as well as those circles where IDEA is gaining traction.

We expect blended ARPUs for new circles to decline by 3-10% q-q or by an average of ~20-25% y-y. This compares with the 13% pa decline we have modelled for IDEA overall in the next couple of years. Note that the average ARPU in the new circles is around INR150, versus INR200 on a consolidated basis. We assume average incremental opex of INR300mn per quarter.

Exhibit 4. New circle launches and potential breakeven

Circle	Launch date	Potential time line for breakeven (stand-alone basis)
Mumbai	Aug-08	F2Q11 — F3Q11
Bihar	Oct-08	F3Q11 — F4Q11
Orissa	Apr-09	F2Q12 — F3Q12
TN	May-09	F2Q12 — F3Q12
Kolkata	Oct-09	F3Q12 — F1Q13
W.B. & A & N	Oct-09	F3Q12 — F1Q13
Assam	Nov-09	F3Q12 — F1Q13
N.E.	Dec-09	F3Q12 — F1Q13
J&K	Oct-09	F3Q12 — F1Q13

Source: Company reports, Nomura estimates

Exhibit 5. Break-even on new circles

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10F	1Q11F	2Q11F	3Q11F	4Q11F	1Q12F	2Q12F	3Q12F
Revenue	52	483	985	1,427	1,822	2,384	2,857	3,398	3,919	4,412	4,863	5,282	5,679	6,119
Chg % q-q		*829*	*104*	*45*	*28*	*31*	*20*	*19*	*15*	*13*	*10*	*9*	*8*	*8*
EBITDA	**(337)**	**(765)**	**(654)**	**(644)**	**(830)**	**(1,288)**	(1,329)	(1,144)	(918)	(716)	(547)	(370)	(189)	46
Opex	389	1,248	1,639	2,071	2,652	3,672	4,186	4,542	4,837	5,127	5,409	5,653	5,868	6,073
Chg % q-q		*221*	*31*	*26*	*28*	*38*	*14*	*9*	*7*	*6*	*6*	*5*	*4*	*4*
Abs. chg q-q		859	391	432	581	1,020	514	356	295	290	282	243	215	205
ARPU (implied)	**173**	**464**	**297**	**225**	**186**	**171**	153	143	134	127	121	116	112	109
Chg % q-q			*(36)*	*(24)*	*(17)*	*(8)*	*(10)*	*(7)*	*(6)*	*(5)*	*(5)*	*(4)*	*(4)*	*(3)*
Cost per sub	1,294	1,198	495	326	270	263	224	191	166	148	135	124	116	109

Source: Company reports, Nomura estimates

Would IDEA take part in any possible consolidation?

IDEA does not have the financial capacity or the interest to expand outside India, we believe. Adjacent markets like Bangladesh and Sri Lanka, among others, are be reviewed from time to time, but we think management's focus will remain on improving operational performance within India.

Regulatory amendments likely to be a precursor for M&A

A key agenda item for regulator TRAI is a review of the M&A guidelines, as currently, there is little clarity on how spectrum can be traded/migrated in the event of a merger or a takeover. Our recent discussions with TRAI suggest that an "amendment" can be expected in the near term — the form of which is still unknown, but the mechanism to allow for further consolidation can be expected. In our view, this would be a precedent for any possible consolidation among the Indian telcos.

We think IDEA would be a key participant in a domestic consolidation story. In our view, three possible scenarios, in the likely order of probability, could be: a) IDEA merges with another carrier; b) IDEA buys another mid-tier carrier, or; c) IDEA is acquired by a major operator. Axiata, a 20% shareholder in IDEA, has a portfolio of regional investments of which IDEA is a key part. We do not necessarily think Axiata is looking to exit the Indian market at this stage, nor is it likely to increase its stake, given the shareholder agreement in place that restricts additional investment.

Among other players in the market, IDEA has a long history of acquisitive growth. Starting out as a regional operator in two circles, the company has expanded its presence to be a pan-India operator by winning new licenses, as well as acquiring licenses/operations from other players. As shown in Exhibit 7, of the company's 22 circles, it acquired licenses and/or operations from other players in ten circles. It received fresh licenses for the remaining nine circles and has now completed a pan-India launch of its services.

IDEA is likely to be a participant in sector consolidation, in our view

We think the company's history makes it a potential participant in the telecom M&A scene (Exhibit 6 lists the probability for different players to participate as buyer, seller or merger candidates). Management's view is that, given the overlap in coverage and networks, there may not be strategic sense in participating in M&A, but it remains open to reviewing all options. Buying another mid-tier carrier would provide further scale, in our view, and additional spectrum would allow continued growth, but valuations would be a key uncertainty.

Exhibit 6. Hypothetical consolidation scenarios

	Buyer	Seller	Merger
Bharti	H	L	M
Reliance	M	M	L
Vodafone	H	L	M
BSNL	L	L	L
IDEA	**M**	**M**	**H**
Tata DoCoMo	M	M	H
Aircel	M	M	H
MTNL	L	L	L
BPL/Loop	L	H	L
MTS	M	M	L
Uninor	H	M	H
HFCL	L	M	L
S-Tel	L	H	L

Note: H – high probability, M- medium probability, L- low probability

Source: Nomura estimates

Exhibit 7. M&A history

Year	Acquisitions	Circle licenses acquired
2008	Acquired Spice Communications	Punjab, Karnataka
2006	Acquired Escorts Telecommunications Limited	UP (E), Rajasthan, HP
2005	Acquired Escotel Mobile Communications Limited	Haryana, UP (W), Kerala
2001	Acquired RPG Cellular Limited	Madhya Pradesh
2000	Merged with Tata Cellular Limited	Andhra Pradesh

Source: Company data

Market and revenue share expectations

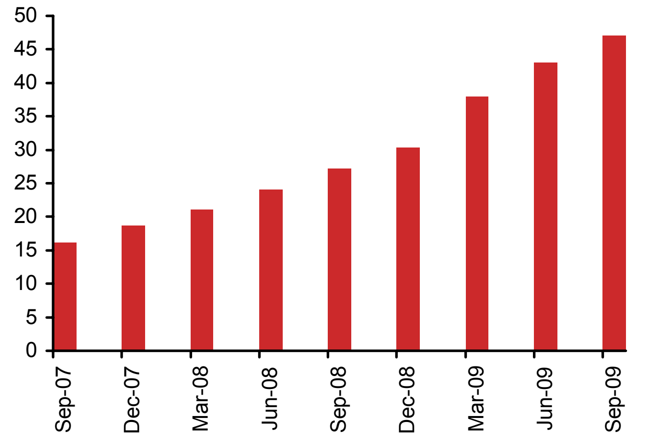
IDEA is among the top-3 in eight circles in revenue terms

IDEA's subscriber market share has averaged around 11% since the beginning of 2009. More important, its revenue share reached 13% by end-December 2009 (12% excluding Spice). These are increases of 130bps and 60bps, respectively, since December 2008, which we consider a strong performance in a very competitive environment.

IDEA is a top three player in six of its 13 older circles (including Spice), in subscriber terms (January 2010). In eight of 13 circles, the company is among the top three in revenue share, as well (as of quarter ended in December 2009).

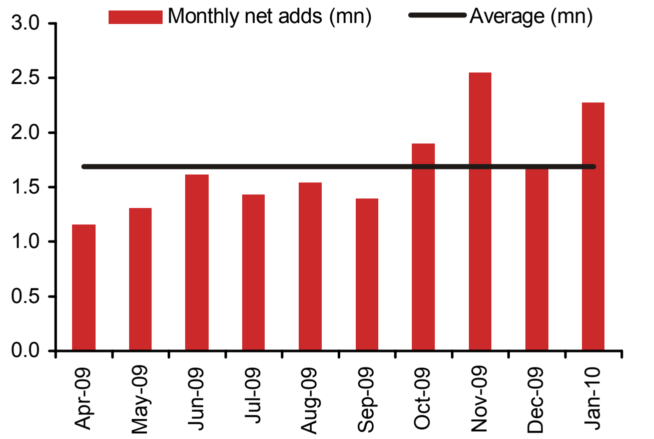
With the launch of new circles, the company's monthly net adds picked up to 1.7-2.5mn in recent months, from 1.4-1.6mn in earlier months. The company does not believe that mobile number portability (MNP) will have a big impact on a net basis, although headline churn rates may spike up. Nevertheless, the company expects that MNP will offer it an opportunity to target high-ARPU subscribers in circles where it was previously not present, particularly metros and A circles.

Exhibit 8. Subscribers versus. market share



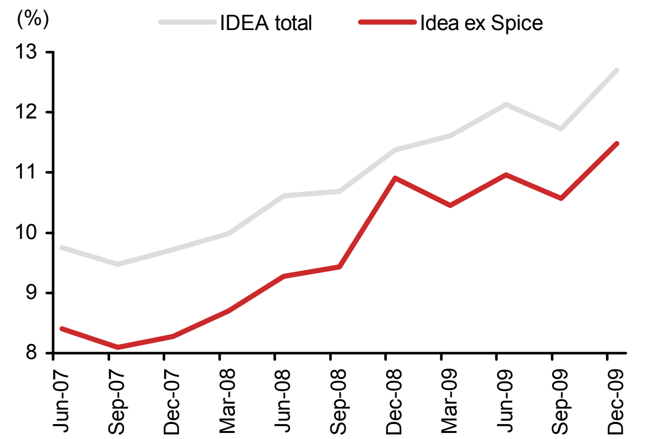
Source: TRAI, Nomura research

Exhibit 9. Monthly net adds



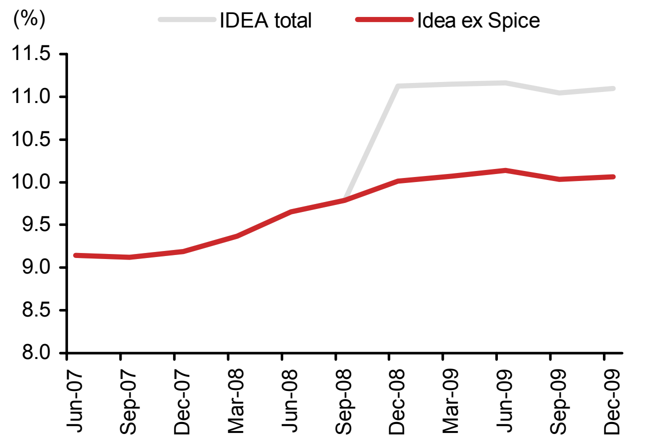
Source: TRAI, Nomura research

Exhibit 10. IDEA and IDEA ex Spice — revenue share



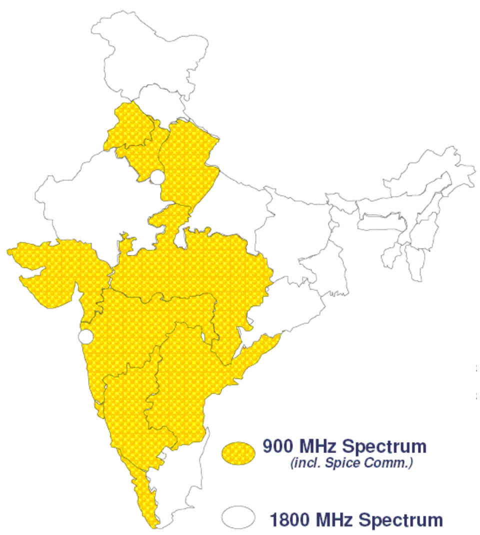
Source: TRAI, Nomura research

Exhibit 11. IDEA and IDEA ex Spice — subscriber share



Source: TRAI, Nomura research

Exhibit 12. IDEA's spectrum mix and positioning in established circles

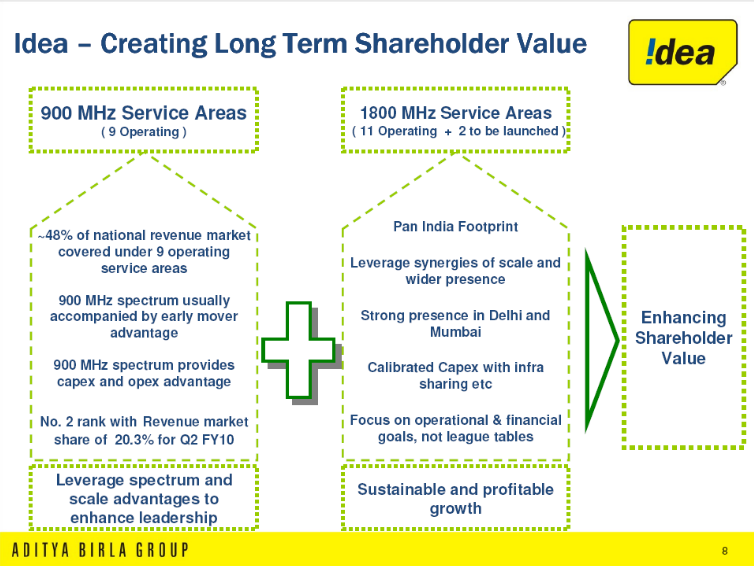


	Subscriber share (%)	Subscriber positioning	Revenue share (%)	Revenue share positioning (%)
900 MHz circles				
Maharashtra	22	1	28	1
Gujarat	18	2	18	3
AP	14	4	16	2
Karnataka	7	6	6	6
Kerala	23	1	28	1
Punjab	16	3	18	2
Haryana	15	4	20	2
UP (W)	19	3	28	1
MP	24	2	29	2
Other established circles				
Delhi	9	5	4	10
UP (E)	9	5	5	9
HP	5	5	4	8
Rajasthan	7	6	5	6

Note: subscriber share as of January 2010. Revenue share as of quarter ended December 2009

Source: Company reports, Nomura research

Exhibit 13. IDEA's operational strategy



Source: Company reports

Current operational trends and expectations

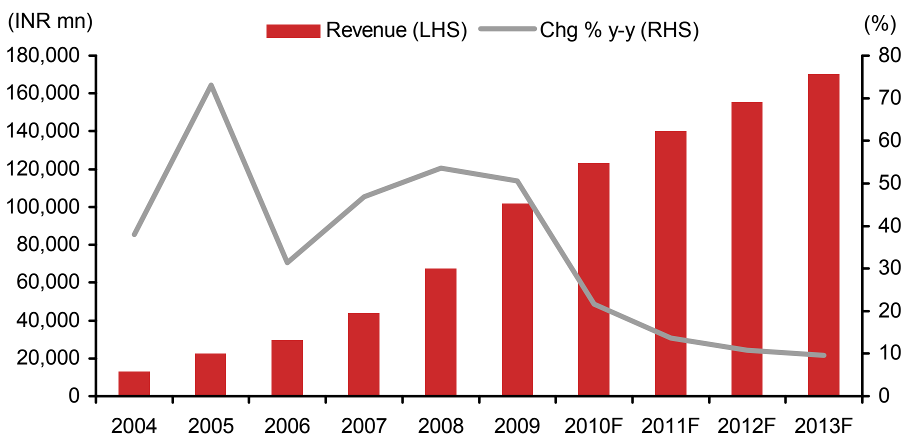
IDEA has grown its revenues by 40-50% pa over the past three years. With the entry of new players and intense pricing pressure, industry wireless growth has seen a sharp slowdown and IDEA's growth rates have also dropped significantly. We expect a revenue CAGR of 15.2% over FY09-12F. IDEA's earnings fell by 14% last year after three years of more than 100% growth due to the rollout of services in new markets. With peak losses in new circles likely to have occurred by 4Q FY10, we expect an earnings recovery in FY11F. We forecast an earnings CAGR of 21% in FY09-12F.

IDEA's ARPU and MoU metrics are 17-20% below those reported by Bharti, but well above RCOM's. Given that Bharti has captured a significant portion of the high-ARPU subscribers, we think this gap will remain. MNP implementation could offer an opportunity to close that disparity. We believe second to Bharti, incumbents such as Vodafone and IDEA will be preferred carriers, and hence IDEA could see some benefit.

Operational metrics- in line with market trends

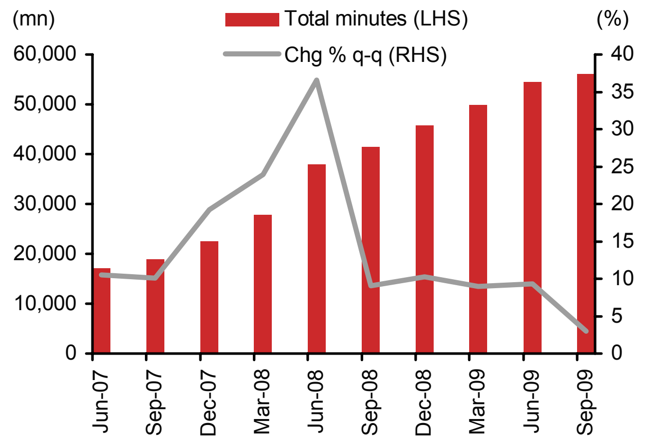
IDEA's ARPU and MoU have declined by 21% and 7% y-y, respectively, through FY10, in line with trends seen at Bharti and Vodafone. Pricing has yet to hit a bottom, in our view, and we forecast ARPU and MoU will decline by another ~20% to INR165 in FY11F. We expect RPMs to trend lower to INR0.46 in FY11F.

Exhibit 14. Revenue outlook



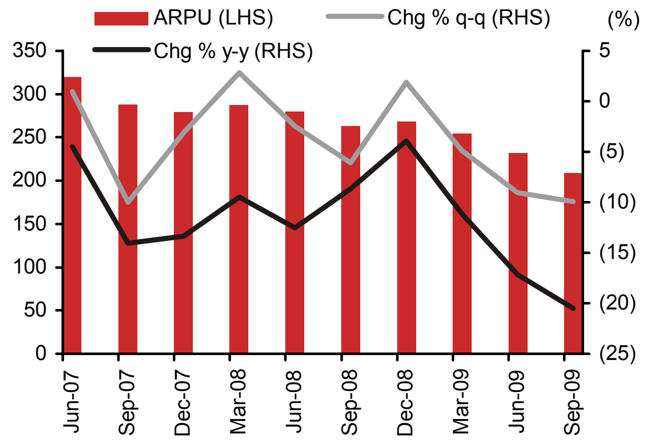
Source: Company reports, Nomura estimates

Exhibit 15. Quarterly trend in total minutes



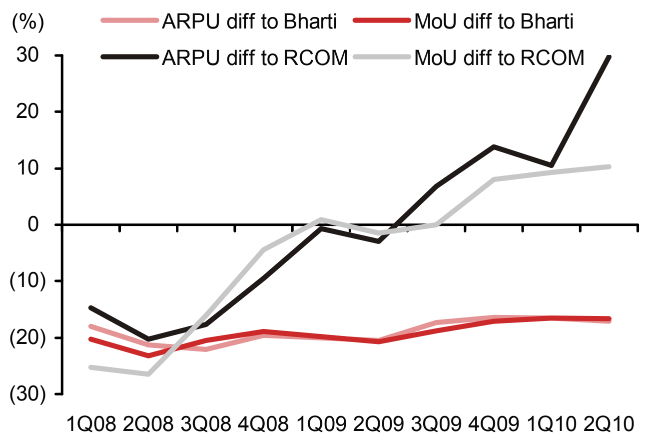
Source: Company reports, Nomura research

Exhibit 16. Quarterly ARPU trend



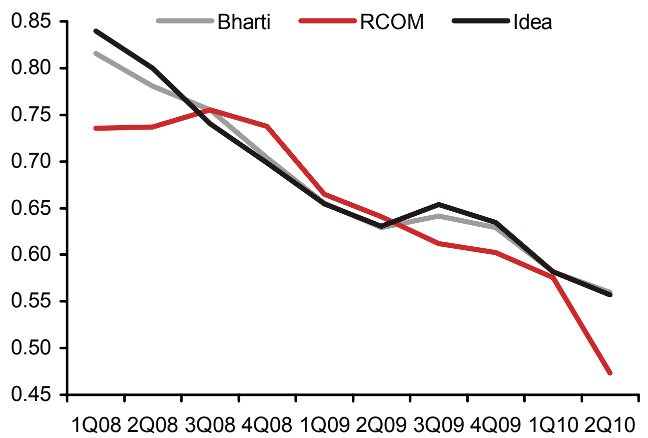
Source: Company reports, Nomura research

Exhibit 17. ARPU, MoU differential versus Bharti and RCOM



Source: Company reports, Nomura research

Exhibit 18. RPM differential versus Bharti and RCOM



Source: Company reports, Nomura research

Exhibit 19. Comparative operating metrics

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
ARPU (INR per sub per month)											
Bharti	390	366	358	357	350	331	324	305	278	252	230
RCOM	375	361	339	317	282	271	251	224	210	161	149
IDEA	**320**	**288**	**279**	**287**	**280**	**263**	**268**	**255**	**232**	**209**	**200**
Vodafone	376	361	349	350	332	305	297	274	247	222	209
q-q change (%)											
Bharti	*(4)*	*(6)*	*(2)*	*0*	*(2)*	*(5)*	*(2)*	*(6)*	*(9)*	*(9)*	*(9)*
RCOM	*(1)*	*(4)*	*(6)*	*(6)*	*(11)*	*(4)*	*(7)*	*(11)*	*(6)*	*(23)*	*(7)*
IDEA	*1*	*(10)*	*(3)*	*3*	*(2)*	*(6)*	*2*	*(5)*	*(9)*	*(10)*	*(4)*
Vodafone		*(4)*	*(3)*	*0*	*(5)*	*(8)*	*(3)*	*(8)*	*(10)*	*(10)*	*(6)*
RPM (INR per min per sub)											
Bharti	0.82	0.78	0.76	0.70	0.66	0.63	0.64	0.63	0.58	0.56	*52*
RCOM	0.74	0.74	0.76	0.74	0.67	0.64	0.61	0.60	0.58	0.47	*45*
IDEA	0.84	0.80	0.74	0.70	0.65	0.63	0.65	0.63	0.58	0.56	*51*
q-q change (%)											
Bharti	*(5)*	*(4)*	*(3)*	*(7)*	*(7)*	*(4)*	*2*	*(2)*	*(8)*	*(4)*	*(8)*
RCOM	*6*	*0*	*2*	*(2)*	*(10)*	*(4)*	*(4)*	*(2)*	*(4)*	*(18)*	*(5)*
IDEA	*3*	*(5)*	*(7)*	*(6)*	*(6)*	*(4)*	*4*	*(3)*	*(8)*	*(4)*	*(8)*
Total minutes (mn)											
Bharti	57,125	64,375	73,840	89,058	105,217	115,834	123,626	130,669	140,713	143,680	153,241
RCOM	45,800	50,700	52,500	56,500	62,000	67,800	72,900	74,800	83,300	84,500	89,000
IDEA	17,100	18,831	22,457	27,824	37,993	41,448	45,714	49,813	54,459	56,074	64,158
Vodafone	21,532	36,011	39,913	46,734	52,349	56,745	61,606	65,276	71,775	76,135	83,172
q-q change (%)											
Bharti	*16*	*13*	*15*	*21*	*18*	*10*	*7*	*6*	*8*	*2*	*7*
RCOM	*8*	*11*	*4*	*8*	*10*	*9*	*8*	*3*	*11*	*1*	*5*
IDEA	*11*	*10*	*19*	*24*	*37*	*9*	*10*	*9*	*9*	*3*	*14*
Vodafone		*67*	*11*	*17*	*12*	*8*	*9*	*6*	*10*	*6*	*9*
MoU (minutes per sub per month)											
Bharti	478	469	474	507	534	526	505	485	478	450	446
RCOM	510	490	449	430	424	423	410	372	365	340	330
IDEA	381	360	377	411	428	417	410	402	399	375	389
Vodafone	251	362	352	371	374	364	355	336	330	319	318
q-q change (%)											
Bharti	*1*	*(2)*	*1*	*7*	*5*	*(1)*	*(4)*	*(4)*	*(1)*	*(6)*	*(1)*
RCOM	*(6)*	*(4)*	*(8)*	*(4)*	*(1)*	*0*	*(3)*	*(9)*	*(2)*	*(7)*	*(3)*
IDEA	*(2)*	*(6)*	*5*	*9*	*4*	*(3)*	*(2)*	*(2)*	*(1)*	*(6)*	*4*
Vodafone		*44*	*(3)*	*5*	*1*	*(3)*	*(2)*	*(6)*	*(2)*	*(3)*	*0*

Source: Company reports, Nomura research

Exhibit 20. Operating metrics forecast

	FY09	FY10F	FY11F	FY12F	FY13F
Subscribers (mn)					
Bharti	94	128	153	172	194
RCOM	73	98	120	138	151
Idea	39	64	78	91	102
Annual net Adds (mn)					
Bharti	32	34	25	19	22
RCOM	27	25	22	18	13
Idea	15	25	14	13	11
ARPU (INR)					
Bharti	328	242	195	180	171
RCOM	239	157	129	119	117
Idea	268	207	165	154	148
RPM (INR)					
Bharti	0.64	0.53	0.44	0.40	0.38
RCOM	0.59	0.47	0.40	0.36	0.35
Idea	0.64	0.52	0.46	0.43	0.42
MoU (minutes)					
Bharti	513	458	445	449	453
RCOM	407	330	320	326	333
Idea	416	395	364	356	349
Wireless revenue growth (%)					
Bharti	39	6	3	7	7
RCOM	14	(8)	9	13	9
Idea	51	22	14	11	10
EBITDA margins (%)					
Bharti	31	31	29	29	28
RCOM	38	36	37	39	39
Idea	28	27	27	28	29
Capex to sales (consolidated) (%)					
Bharti	38	34	26	20	16
RCOM	113	52	29	18	17
Idea	54	33	30	27	19

Source: Nomura estimates, company reports

Margins — weighed down by lower scale

Although both IDEA and Bharti are on a similar tower-sharing opex model, there is a margin differential between the two. In IDEA's established circles, which hold up to a comparison, its margins have been 100-200 bps lower than Bharti's on an average.

Network opex as a percentage of sales is higher for IDEA

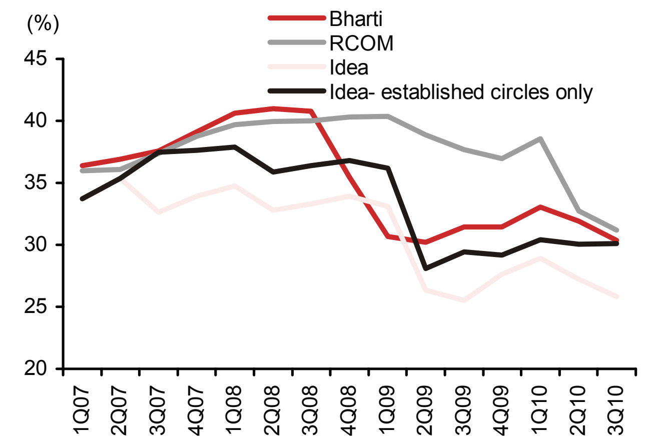
On a consolidated basis, IDEA's network operating expenses are significantly higher than those at Bharti. Network opex account for 25% of sales for IDEA versus 19% at Bharti. This likely reflects the fact that IDEA is still rolling out services in new circles that do not yet generate commensurate revenues.

Even as profitability in these circles improves, network expenses as a percentage of sales may still be relatively higher owing to two factors: 1) a greater number of 1800MHz-only circles in the mix, and; 2) relatively lower scale, with fewer subscribers/minutes per cell site ratio over the medium term.

IDEA's owned NLD network has offered some respite on access and carriage charges, in addition to the benefits from MTC cuts earlier in the year. The company already has shifted ~70% of its NLD traffic onto its own network; beyond this, incremental cost savings are likely to be low, we understand. Access and carriage charges are 14% of sales.

Marketing expenses could remain flat, if not increase, for Indian telcos given the increasing competition. IDEA's SG&A are 16% of sales versus Bharti's 13%. We expect IDEA's SG&A to remain at current levels, given its expansion into new circles and, therefore, higher level of marketing activity and relatively lower scale.

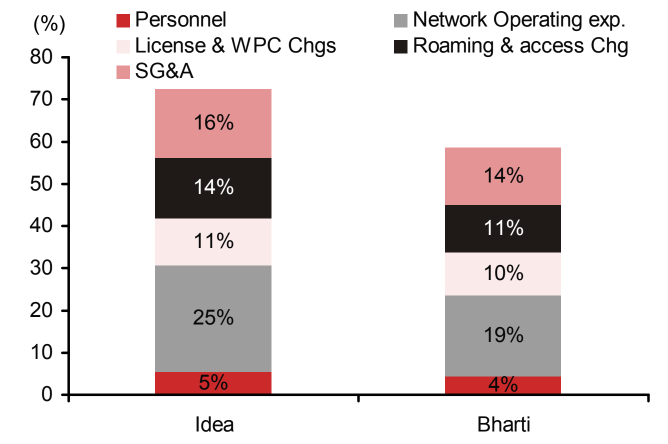
Exhibit 21. Wireless EBITDA margins



Note: Established circles include 11 old IDEA circles, not including Punjab and Karnataka

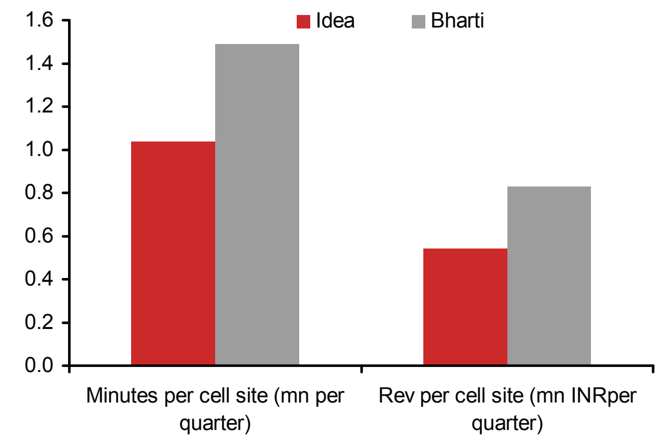
Source: Company reports, Nomura research

Exhibit 22. 9M10 cost structure — IDEA versus Bharti



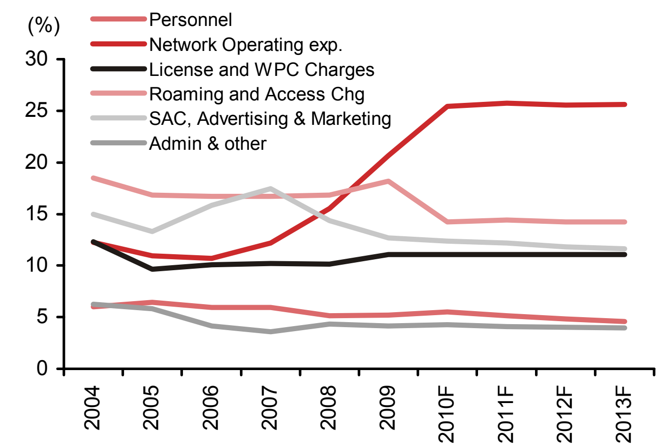
Source: Company reports, Nomura research

Exhibit 23. Comparison of scale — IDEA versus Bharti (9M10)



Source: Company reports, Nomura research

Exhibit 24. Opex as a % of sales



Source: Company reports, Nomura research

Depreciation — In line with industry average

IDEA's D&A in line with Indian telcos

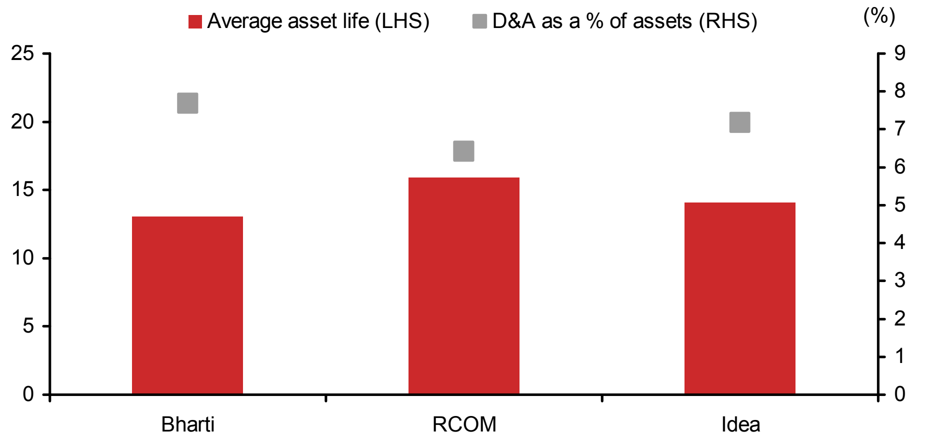
Our depreciation and amortisation (D&A) analysis across the three telcos suggests that IDEA's depreciation policy historically has been in sync with practices at other Indian telcos. Over FY06-09, asset life ranged between 13 and 16 years for the three telcos; D&A as a percentage of gross assets was roughly 7%. IDEA's average asset life of 14 years is well within this range.

Over the past couple of years, IDEA's depreciation expense has risen sharply, in line with capex investments. With capex burdens moderating over the next couple of years, D&A should see a more normalised increase, in our view.

Depreciation as a percentage of sales could remain high over next 2-3 years

For FY10-12F, our average asset life assumption is 13 years. As a percentage of sales, depreciation is likely to remain high over the next two to three years at around 16%. This metric should improve as asset turn benefits from increased scale.

Exhibit 25. Comparison of depreciation trends across Bharti, RCOM and IDEA (FY06-09)



Source: Company reports

Exhibit 26. Comparison of depreciation trends across Bharti, RCOM and IDEA

Implied years	2006	2007	2008	2009
IDEA	**12**	**14**	**16**	**15**
Bharti	14	13	12	13
RCOM	14	14	17	19
D&A as % of Gross PPE				
IDEA	**8**	**7**	**6**	**7**
Bharti	7	8	8	8
RCOM	7	7	6	5
As a % of sales				
IDEA	**18**	**15**	**13**	**14**
Bharti	14	14	14	13
RCOM	15	17	15	17

Source: Company reports

Exhibit 27. D&A trend for Idea

IDEA	2006	2007	2008	2009	2010F	2011F	2012F
Gross assets	66,323	92,133	139,010	205,234	239,425	299,500	335,441
Depreciation	5,495	6,718	8,768	14,039	19,800	22,463	24,487
Implied years	12	14	16	15	12	13	14
as a % of Gross PPE	8	7	6	7	8	8	7
as a % of sales	18	15	13	14	16	16	16

Source: Company reports, Nomura estimates

Balance sheet — reasonably strong, 3G likely to stretch it

IDEA's net debt increased from INR38bn at the end of FY09 to around INR53bn as of the December quarter-end. Losses in new circles, combined with ongoing capex, remain a drain on cash. We expect net debt to EBITDA to rise to 1.75x by FY10F.

Bidding or winning pan-India license is unlikely, in our view

IDEA will take part in the 3G auctions, we believe, but a scenario of it bidding on or winning a pan-India 3G license is unlikely. We think it will more likely focus on its traditional nine 900 MHZ circles, or the circles where it is currently in the top three or five (seven to ten circles). It obviously will bid selectively for other circles too, but we do not expect the same level of pricing tension in B and C circles. If we assume an average auction price of 1.7x the reserve price, that translates to INR24-34bn in 3G payments in FY11F, on our estimates. Given the limitation of three to four licenses in each circle, IDEA may not win licenses in each of these circles, so at this stage, we assume a total 3G payment of INR25bn. For 3G rollout, the company does not expect a significant capex burden. However, we think there is room for upside surprises and currently assume FY11F capex of INR42bn. This is in addition to the FY11F 3G payment of INR25bn.

Funding is unlikely to be an issue. In our recent discussions with the company it stated that it has the following reserves and facilities in place:

- INR20bn in cash on balance sheet;
- INR6bn in loan to Indus, which could potentially be recalled;
- Rs60bn in other bank facilities;
- Rs20bn in facility from export credit agencies, which can be primarily used for importing equipment, and;
- INR30bn in operating cashflows pa currently.

Post 3G license and rollout, we estimate its net debt to EBITDA could rise to 2.5x (or 2.0x including short-term investments), which is high, but manageable. The company does not have a specific gearing target, but it does not think it will breach any covenants even at these levels.

Peak 2G capex is past, in IDEA's view

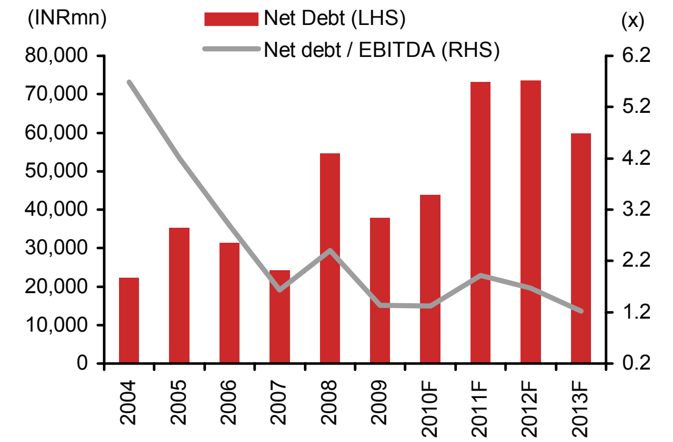
Excluding 3G, the management team reiterates that peak capex is "past", and in one of the recent analyst conference calls, the CEO stated that capex could even fall by 50% in the next year. For FY10F, the company has lowered its capex from INR60bn initially to INR40bn, as it has realigned its rollout priorities and curtailed investment in certain circles. IDEA notes that roughly half of this spend was towards rollout in new service areas.

Exhibit 28. 3G licence scenarios

Service area	Category	Reserve price (INR Cr)	Reserve price (INRbn)	Auction price In original circles	Auction price In #5 position	Auction price In #3 position
Delhi	Metro	320.0	3.2		5.4	
Mumbai	Metro	320.0	3.2			
Kolkata	Metro	120.0	1.2			
Maharashtra	**A**	320.0	3.2	5.4	5.4	5.4
Gujarat	**A**	320.0	3.2	5.4	5.4	5.4
A.P.	**A**	320.0	3.2	5.4	5.4	5.4
Karnataka	**A**	320.0	3.2	5.4		
T.N.	A	320.0	3.2			
Kerala	**B**	120.0	1.2	2.0	2.0	2.0
Punjab	**B**	120.0	1.2	2.0	2.0	2.0
Haryana	**B**	120.0	1.2	2.0	2.0	
UP (E)	B	120.0	1.2		2.0	
UP (W)	**B**	120.0	1.2	2.0	2.0	2.0
Rajasthan	B	120.0	1.2			
M.P.	**B**	120.0	1.2	2.0	2.0	2.0
WB	B	120.0	1.2			
H.P.	C	30.0	0.3			
Bihar	C	30.0	0.3			
Orissa	C	30.0	0.3			
Assam	C	30.0	0.3			
NE	C	30.0	0.3			
J&K	C	30.0	0.3			
Total price		**3,500.0**	**35.0**	**32.0**	**34.0**	**24.5**

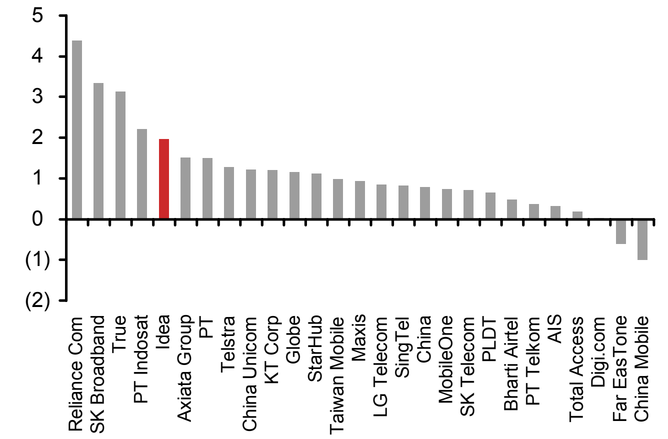
Source: Company reports, Nomura estimates

Exhibit 29. Leverage



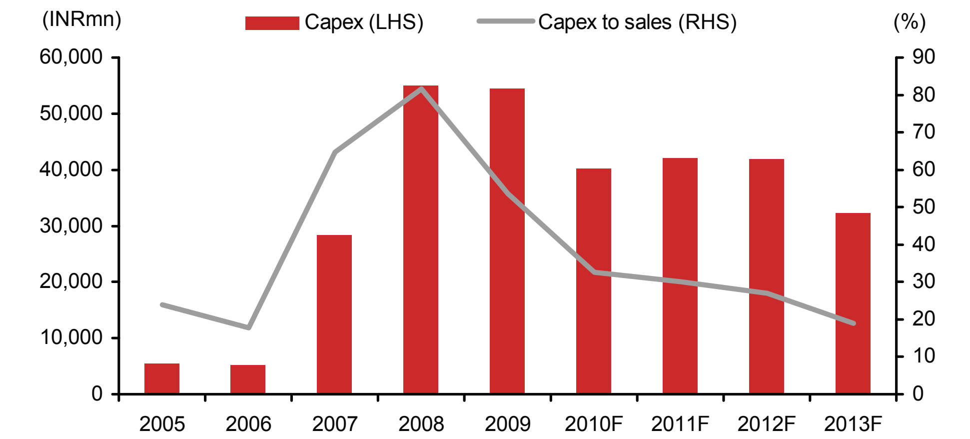
Source: Company reports, Nomura research

Exhibit 30. Regional CY10 Net debt to EBITDA



Source: Company reports, Nomura research

Exhibit 31. Capex



Source: Company reports, Nomura estimates

Valuation

Valuation — looking beyond rollout phase

On one-year forward PE multiples, IDEA is trading at premium of 50-60% to Bharti and RCOM. However, we believe it more valuable to look a bit further out, as both Bharti and RCOM have had nationwide coverage for four to five years now, while IDEA's pan-national coverage is relatively new. Therefore, FY12F metrics may be a more reasonable comparison, in our view, at which, IDEA is trading at 15x P/E and 6x EV/EBITDA, which is not excessive both in regional and domestic context. As highlighted in Exhibit 32, IDEA's growth profile — for sales, EBITDA and EBIT growth — is stronger in the domestic and regional context.

FY12F multiples more suitable, in our view

Exhibit 32. Comparative valuation — Indian telcos

Year end Mar 31	Bharti	RCOM	IDEA Cellular
Current price (Rs)	299	158	60
Rating	NEUTRAL	REDUCE	BUY
Price target	335	154	78
Upside/downside (%)	12	(2)	29
Valuation (x)			
FY11F PER	13.9	12.2	20.6
FY12F PER	13.1	8.9	15.1
FY11F EV/EBITDA	7.4	6.6	6.8
FY12F EV/EBITDA	6.8	5.4	6.0
Growth rates (FY09-12F) (%)			
Revenues	6.4	11.1	15.2
EBITDA	4.3	5.9	15.8
NPAT	0.9	(12.3)	11.2
Normalized NPAT	(2.8)	(1.6)	20.6
EPS	0.7	(1.6)	20.6
Profitability (%)			
EBITDA Margin FY09E	41	41	28
EBITDA Margin FY12E	39	35	28
Change in Margins	*-243bps*	*-542bps*	*40bps*
Shareholder Returns			
F10F Ordinary dividend	2.2	0.9	-
F10F Dividend yield (%)	1	0.6	0
F10F FCF yield (%)	1	na	na
Dividend payout ratio (%)	10	8	0
% FCF paid out	1	0	0
DPS CAGR (F07-F10e)	na	38.6	na
Balance Sheet FY10F			
Gearing (ND/ND+E) (%)	19	44	24
EBITDA interest cover (x)	33.1	6.6	8.3
Net debt/EBITDA (x)	0.4	3.8	1.3
FY10F Capex/sales (%)	34	52	33

Note: Share price as on 13 March. EV includes short-term investments

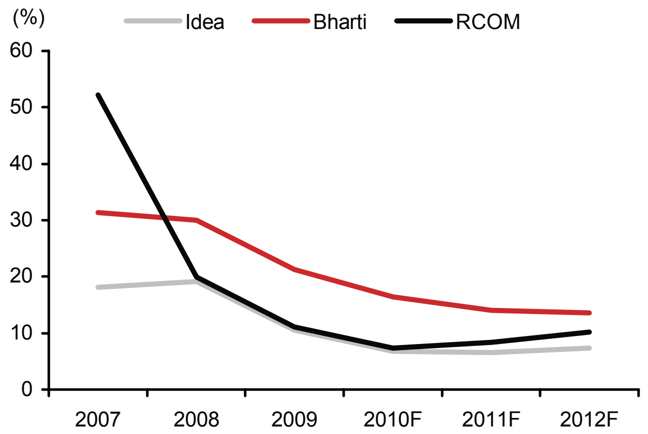
Source: Bloomberg, company reports, Nomura estimates

Our view: FY12F P/E of 15x is not inexpensive, but EV/EBITDA of 6x is reasonable

IDEA's ROIC is the lowest amongst the three telcos; this reflects poor asset turn, which in turn reflects the number of acquisitions the company has made over the past five years, a number of which are yet to yield significant benefits. There is also no talk of a dividend — not surprising as we do not expect FCF break-even until FY13F. IDEA expects EBITDA break-even in new circles to occur over a 24- to 36-month time span, which should improve this metric.

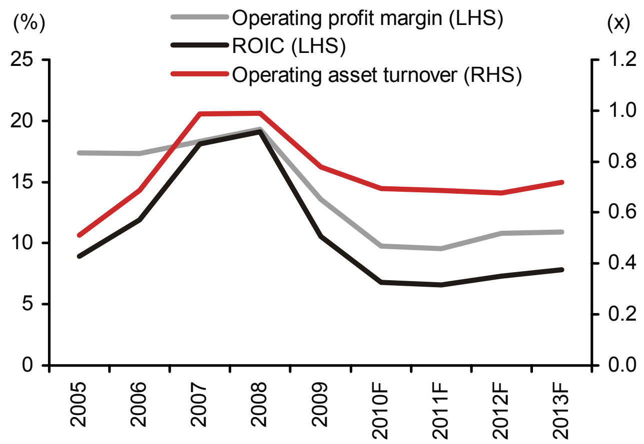
ROIC lowest among three telcos

Exhibit 33. ROIC comparison



Source: Company reports, Nomura research

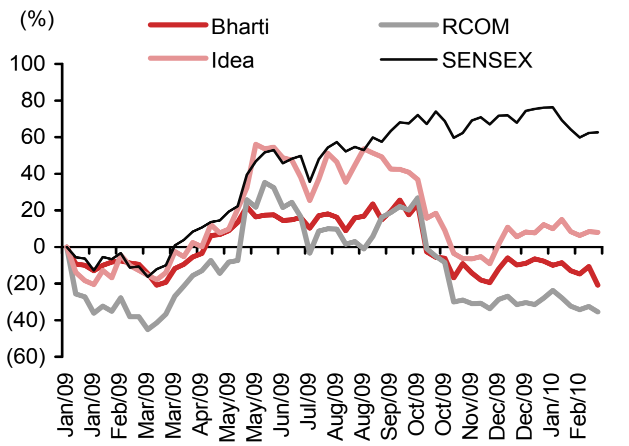
Exhibit 34. IDEA — ROIC



Source: Company reports, Nomura research

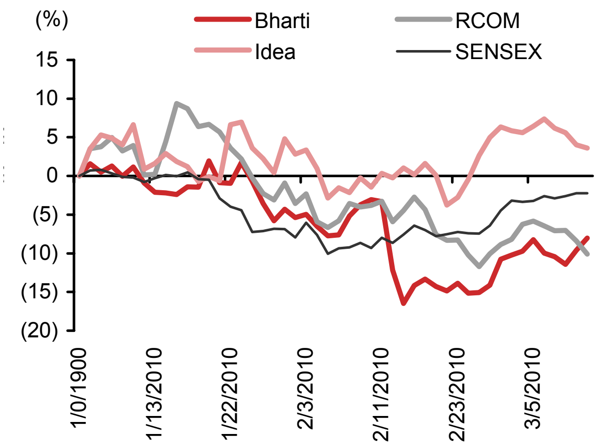
IDEA has been the best performer among the three Indian telcos in the year to date, continuing its calendar 2009 performance. IDEA is up 4% y-t-d, while Bharti and RCOM are down 8-10% (The Sensex is down 2%).

Exhibit 35. Performance since 2009



Source: Company reports, Nomura research

Exhibit 36. YTD performance



Source: Company reports, Nomura research

Earnings and valuation

We use a DCF approach to value the company. Given the investment in new circles and expected break-even over the next two to three years, we think IDEA could be cash positive beyond 2012-13F. Our DCF-derived price target of INR 78 is based on a WACC of 10.9% and terminal growth rate is 4%.

Exhibit 37. Key assumptions — IDEA

	FY09	FY10F	FY11F	FY12F
Subscribers (mn)	39	64	78	91
Annual net adds (mn)	15	25	14	13
ARPU	268	207	165	154
RPM	0.64	0.52	0.46	0.43
MoU	416	395	364	356
Revenue growth (%)	*51*	*22*	*14*	*11*
EBITDA margin (%)	*28*	*27*	*27*	*28*
Capex to sales (%)	*54*	*33*	*30*	*27*

Note: capex to sales is based on accrued capex

Source: Company reports, Nomura estimates

Exhibit 38. Nomura versus consensus

Our BUY rating is out of consensus — currently there are only seven Buys out of 47 ratings

	2010F	2011F	2012F
ESTIMATES			
Revenue	123,344	140,252	155,336
EBITDA	33,178	38,079	44,016
CONSENSUS			
Revenue	125,015	143,897	162,885
EBITDA	32,874	36,843	44,070
% difference			
Revenue	(1)	(3)	(5)
EBITDA	1	3	0

Source: Bloomberg, Nomura estimates

Exhibit 39. DCF

(INRmn)	**2010F**	**2011F**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**
EBITDA	33,178	38,079	44,016	49,014	53,033	59,903	64,700	67,669
Tax paid	(817)	(1,182)	(1,513)	(1,916)	(2,994)	(4,257)	(5,638)	(7,410)
Other items	317	-	-	-	-	-	-	-
Change in working capital	3,432	3,835	2,189	2,414	3,708	2,555	2,707	3,091
Operating CF	**36,111**	**40,732**	**44,692**	**49,511**	**53,746**	**58,201**	**61,769**	**63,350**
Investing CF	(38,011)	(64,972)	(39,844)	(31,708)	(28,957)	(29,781)	(32,131)	(31,979)
Valuation CF	**(1,900)**	**(24,240)**	**4,848**	**17,803**	**24,789**	**28,420**	**29,638**	**31,371**
PV of free cash flow	57,260							
PV of terminal value	226,684							
Other assets	-							
Net debt	(43,569)							
Total operations value	**240,375**							
Total operations value (US$bn)	5,342							
Value per share	**78**							

Source: Bloomberg, Nomura estimates

Risks to our investment view: 1) More aggressive competition could delay breakeven in new circles and also pressure established circle margins 2) Significantly higher 3G bids could pressure cash flow while not yielding incremental returns; on the other hand, the risk of missing out on licenses altogether in key circles could challenge Idea's business case and 3) regulations - this remains a key uncertainty for all Indian telcos.

Valuation methodology and risks for Bharti and RCOM:

Bharti: Our DCF-based price target of INR335 is based on a WACC of 11.3% and terminal growth of 3.5%.

Risks to our price target on the downside include stronger-than-expected competition and unfavourable regulatory developments related to various fees and charges. Upside risks include benign competition and faster-than-anticipated stability in pricing.

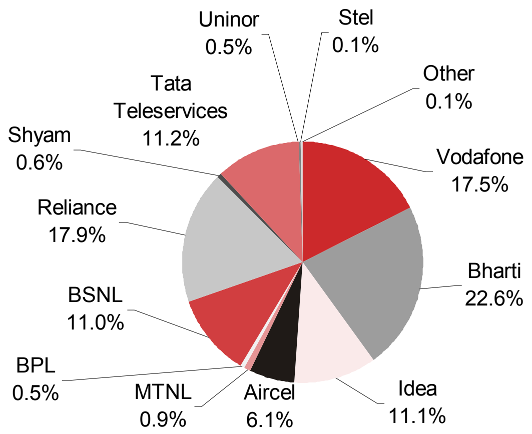
RCOM: Our DCF-based price target of Rs154.0 is based on a WACC of 12.7% and a terminal growth rate of 4%.

Key upside risks to our rating are: 1) lesser-than-anticipated competitive activity, and; 2) faster-than-anticipated stability in pricing.

Appendix 1

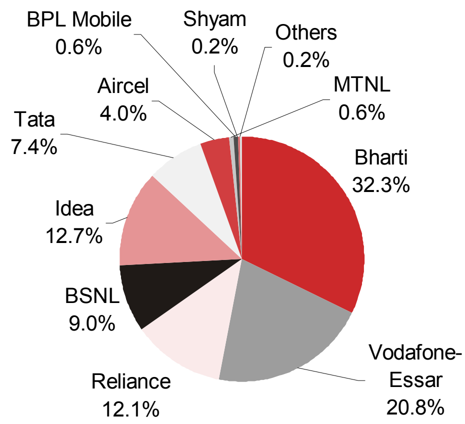
Market stats

Exhibit 40. Subscriber market share (January 2010)



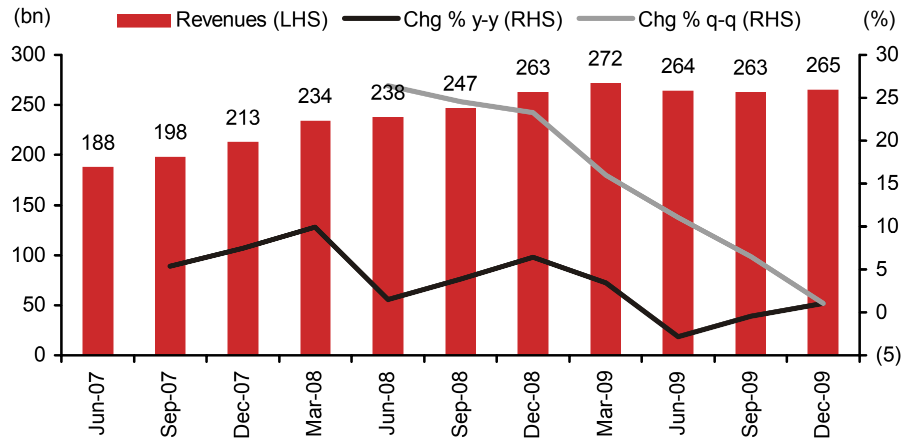
Source: Company reports, TRAI, Nomura research

Exhibit 41. Revenue market share (3Q10)



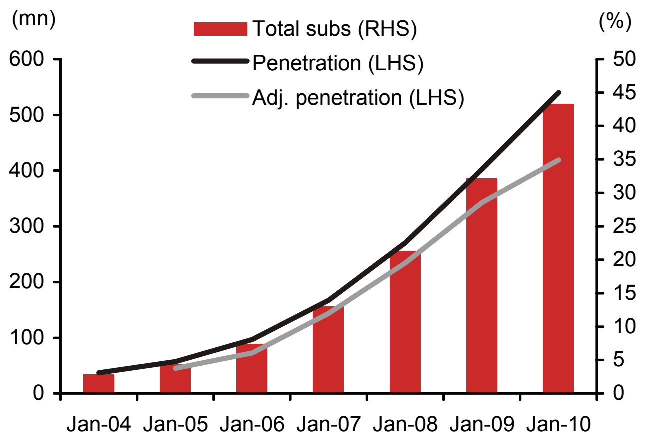
Source: Company reports, TRAI, Nomura research

Exhibit 42. Industry revenue trend - wireless



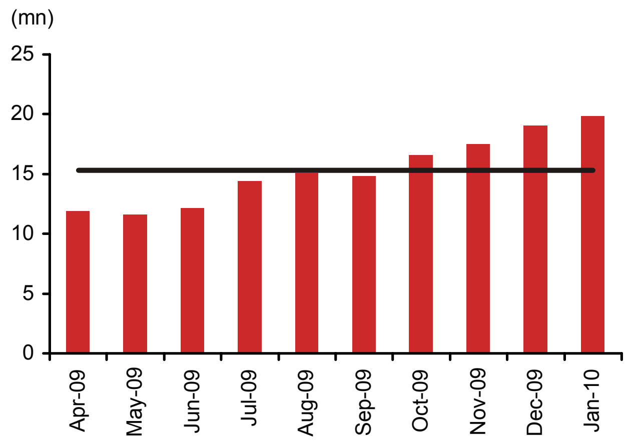
Source: TRAI

Exhibit 43. Subscriber trend



Source: Company reports, TRAI, Nomura research

Exhibit 44. Market net adds trend



Source: Company reports, TRAI, Nomura research

Financial statements

Income statement (Rsmn)					
Year-end 31 Mar	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	67,375	101,484	123,344	140,252	155,336
Cost of goods sold	(28,656)	(50,847)	(62,819)	(72,127)	(79,272)
Gross profit	**38,719**	**50,637**	**60,525**	**68,124**	**76,065**
SG&A	(21,331)	(31,071)	(40,320)	(45,339)	(49,081)
Employee share expense	(3,464)	(5,252)	(6,827)	(7,169)	(7,456)
Operating profit	**13,925**	**14,314**	**13,378**	**15,616**	**19,528**
EBITDA	**22,693**	**28,353**	**33,178**	**38,079**	**44,016**
Depreciation	(8,768)	(14,039)	(19,800)	(22,463)	(24,487)
Amortisation					
EBIT	**13,925**	**14,314**	**13,378**	**15,616**	**19,528**
Net interest expense	(2,776)	(4,943)	(3,974)	(5,063)	(5,123)
Associates & JCEs	-	-	-	-	-
Other income					
Earnings before tax	**11,148**	**9,371**	**9,404**	**10,553**	**14,405**
Income tax	(725)	(362)	(1,167)	(1,477)	(2,017)
Net profit after tax	**10,423**	**9,009**	**8,237**	**9,076**	**12,388**
Minority interests					
Other items	(895)	(1,922)	(180)	-	-
Preferred dividends					
Normalised NPAT	**9,528**	**7,086**	**8,057**	**9,076**	**12,388**
Extraordinary items	895	1,922	180	-	-
Reported NPAT	**10,423**	**9,009**	**8,237**	**9,076**	**12,388**
Dividends					
Transfer to reserves	**10,423**	**9,009**	**8,237**	**9,076**	**12,388**
Valuation and ratio analysis					
FD normalised P/E (x)	16.7	26.4	23.2	20.6	15.1
FD normalised P/E at price target (x)	21.6	34.1	30.0	26.6	19.5
Reported P/E (x)	15.2	20.8	22.7	20.6	15.1
Dividend yield (%)	-	-	-	-	-
Price/cashflow (x)	7.4	11.9	5.9	5.2	4.7
Price/book (x)	4.5	1.4	1.3	1.2	1.1
EV/EBITDA (x)	10.9	8.6	7.6	7.4	6.4
EV/EBIT (x)	17.7	17.1	18.8	18.0	14.4
Gross margin (%)	57.5	49.9	49.1	48.6	49.0
EBITDA margin (%)	33.7	27.9	26.9	27.2	28.3
EBIT margin (%)	20.7	14.1	10.8	11.1	12.6
Net margin (%)	15.5	8.9	6.7	6.5	8.0
Effective tax rate (%)	6.5	3.9	12.4	14.0	14.0
Dividend payout (%)	-	-	-	-	-
Capex to sales (%)	82.7	61.1	31.0	28.5	25.7
Capex to depreciation (x)	6.4	4.4	1.9	1.8	1.6
ROE (%)	36.4	10.7	6.0	6.2	7.9
ROA (pretax %)	14.6	8.0	5.5	5.6	6.3
Growth (%)					
Revenue	53.6	50.6	21.5	13.7	10.8
EBITDA	52.7	24.9	17.0	14.8	15.6
EBIT	71.0	2.8	(6.5)	16.7	25.1
Normalised EPS	67.4	(36.8)	13.7	12.6	36.5
Normalised FDEPS	67.4	(36.8)	13.7	12.6	36.5
Per share					
Reported EPS (Rs)	4.0	2.9	2.7	2.9	4.0
Norm EPS (Rs)	3.6	2.3	2.6	2.9	4.0
Fully diluted norm EPS (Rs)	3.6	2.3	2.6	2.9	4.0
Book value per share (Rs)	13.5	42.8	45.5	48.5	52.5
DPS (Rs)	-	-	-	-	-

Source: Nomura estimates

EPS CAGR ahead of peers'

Cashflow (Rsmn)					
Year-end 31 Mar	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	22,693	28,353	33,178	38,079	44,016
Change in working capital	1,438	1,042	5,443	5,939	4,286
Other operating cashflow	(2,650)	(13,714)	(6,690)	(8,349)	(8,733)
Cashflow from operations	**21,481**	**15,682**	**31,932**	**35,669**	**39,569**
Capital expenditure	(55,707)	(62,053)	(38,216)	(39,972)	(39,844)
Free cashflow	**(34,226)**	**(46,371)**	**(6,284)**	**(4,303)**	**(275)**
Reduction in investments	(5,548)	(14,892)	-	-	-
Net acquisitions	-	(27,482)	-	(25,000)	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	650	469	350	295	504
Adjustments	836	3,723	(145)	(295)	(504)
Cashflow after investing acts	**(38,287)**	**(84,553)**	**(6,079)**	**(29,303)**	**(275)**
Cash dividends	-	-	-	-	-
Equity issue	3,188	72,945	-	-	-
Debt issue	22,649	16,004	(17,000)	35,000	10,000
Convertible debt issue	-	20,742	-	-	-
Others	(774)	752	-	-	-
Cashflow from financial acts	**25,062**	**110,442**	**(17,000)**	**35,000**	**10,000**
Net cashflow	**(13,225)**	**25,889**	**(23,079)**	**5,697**	**9,725**
Beginning cash	18,199	4,975	30,864	7,785	13,482
Ending cash	4,975	30,864	7,785	13,482	23,207
Ending net debt	60,180	58,258	64,338	93,641	93,916

Source: Nomura estimates

FCF positive in FY13F

Balance sheet (Rsmn)					
As at 31 Mar	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	4,975	30,864	7,785	13,482	23,207
Marketable securities	5,560	20,452	20,452	20,452	20,452
Accounts receivable	1,986	3,618	3,618	4,397	5,000
Inventories	276	521	521	521	521
Other current assets	8,263	18,682	19,530	20,665	21,179
Total current assets	**21,060**	**74,137**	**51,906**	**59,517**	**70,359**
LT investments					
Fixed assets	107,163	166,672	187,099	231,712	249,166
Goodwill	61	22,457	22,457	22,457	22,457
Other intangible assets					
Other LT assets	-	-	-	-	-
Total assets	**128,283**	**263,267**	**261,463**	**313,686**	**341,982**
Short-term debt					
Accounts payable	17,599	25,965	33,349	37,790	40,258
Other current liabilities	9,424	14,396	13,304	16,716	19,650
Total current liabilities	**27,022**	**40,361**	**46,653**	**54,505**	**59,908**
Long-term debt	65,154	89,122	72,122	107,122	117,122
Convertible debt					
Other LT liabilities	661	1,130	1,480	1,775	2,280
Total liabilities	**92,837**	**130,613**	**120,255**	**163,403**	**179,310**
Minority interest					
Preferred stock	-	19	19	19	19
Common stock	26,354	31,001	31,001	31,001	31,001
Retained earnings	9,055	101,451	110,005	119,081	131,469
Proposed dividends					
Other equity and reserves	38	182	182	182	182
Total shareholders' equity	**35,446**	**132,653**	**141,208**	**150,283**	**162,672**
Total equity & liabilities	**128,283**	**263,267**	**261,463**	**313,686**	**341,982**
Liquidity (x)					
Current ratio	0.78	1.84	1.11	1.09	1.17
Interest cover	5.0	2.9	3.4	3.1	3.8
Leverage					
Net debt/EBITDA (x)	2.65	2.05	1.94	2.46	2.13
Net debt/equity (%)	169.8	43.9	45.6	62.3	57.7
Activity (days)					
Days receivable	9.5	10.1	10.7	10.4	11.1
Days inventory	2.9	2.9	3.0	2.6	2.4
Days payable	215.3	156.4	172.3	180.0	180.2
Cash cycle	(202.8)	(143.4)	(158.6)	(166.9)	(166.7)

Source: Nomura estimates

Other Team Members:

Neeraja Natarajan (Associate) — All enquiries arising from this note should be directed to Sachin Gupta.

Any Authors named on this report are Research Analysts unless otherwise indicated

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Reliance Communications	RCOM IN	157.45 INR	12 Mar 2010	Reduce	

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MICA (P) 069/07/2009 valid until 3 July 2010 / RCB no: 197201440E

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