Buy

Idea Cellular (ICL)	
Face Value	Rs 10
Market Price	Rs 116
Target Price	Rs 155
BSE Code	532822
BSE Group	A

Industry: Telecom

Market Cap (Rs crs)	30566
Year High/Low (Rs)	136/84

Holding Pattern	(%)
Foreign	36.8
Mutual Funds	1.5
Institutions Domestic	0
Corporate Holding	0.6
Indian Promoters	57.7
Public	3.4

(As on 30 June 2007)

Performance (%)	1M	3M	12M
Stock (ICL)	-10	-7.5	1.8
BSE-100	-5	1.7	8
Sensex	-5	1.9	7

Company Description:

ICL began in 1995 as a join venture between the Tatas, the Aditya Birla Group and AT&T after a merger of Tata Cellular with Birla AT & T Communications. Later on it was acquired by the Aditya Birla Group. To fund expansion plans ICL had tapped the public with an issue to raise Rs 2800 crore (including Green Shoe option) at a price of Rs 75 in February 2007.

Highlights:

ICL has licence to operate telecom services in 13 of the 23 circles in the country, which include one metropolitan circle of Delhi, three category A circles of Andhra Pradesh, Gujarat and Maharashtra (excluding Mumbai), six category B circles of Haryana, Kerala, Madhya Pradesh, Chattisgarh, Rajasthan, Uttar Pradesh (UP) (East) and UP (West) and one category C circle of Himachal Pradesh. On June 30 2007, ICL had over 16.1 million subscribers.

ICL has received unified access services (UAS) licences for metropolitan circle of Mumbai and category C circle in Bihar. In addition, it has nine license applications pending for further circles, which, if obtained, would give it complete access to the entire Indian market.

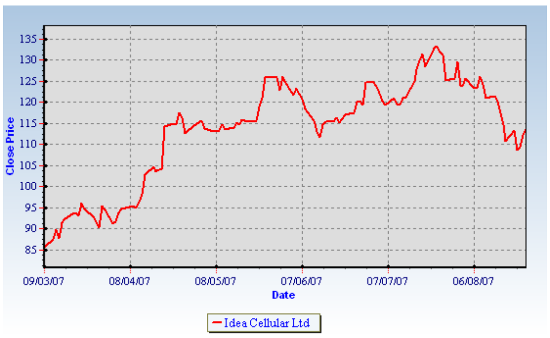
Recently, ICL was awarded a National Long Distance (NLD) licence by the Department of Telecommunications which it will set up the network by March 2008.

ICL has added 21.2 lakh subscribers in Q1FY08 taking the total count to 161.3 lakh. It posted better than expected results for Q1 helped by the increase in average revenue per user (APRU) to Rs 391 from Rs 332. This is higher than the national average of Rs 298, indicating a continued ability to command a premium over other telecom operators.

During Q1FY08, ICL has already spent Rs 1110 crore out of the IPO and Green Shoe proceeds of Rs 2800 crore towards capital expenditure. ICL has hinted upon spending US $ 1.5-2 billion over the next two years in the existing circles to increase its network coverage and depth.

Up to 74% FDI is permitted in the telecom sector, providing global telcos with an opportunity to have a controlling stake. Major GSM players Bharti and Vodafone-Essar have reached their FDI limit but ICL (36.8 %) has room and could represent an attractive opportunity for further FDI by an overseas investor.

One-Year Price Chart:



Key Financial: (Consolidated) (Rs crore)

Year End March	Q1FY08	FY07	FY08E	FY09E
Sales	1477	4366	7500	11000
Other Income	0.4	21	2	10
PBIDT	513	1485	2550	3410
Interest	14	304	300	330
PBDT	499	1181	2250	3080
Depreciation	188	672	770	850
Tax	2	6	20	90
PAT	309	503	1500	2140
Equity	2635	2593	2635	2635
Reserves	1349	764	2264	4404
Book Value (Rs)	15.1	13	18.7	26.7
EPS (Rs)	1.2	1.9	5.7	8.1
OP Margin (%)	34.7	34	34	31
NP Margin (%)	20.9	11.5	20	19.4
P/E (x)			20.5	14.4

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Valuation & Recommendations:

According to industry sources, the Indian mobile market will surpass the 400 million subscriber mark by 2010 and 556 million by 2015. Based on the 13 circles in which ICL is operating, is estimated that it will have a subscriber base of 38-40 million by end-2010, with an estimated market share of 10%.

Out of little less than 9000 owned cell sites, the company shares about 25% of the sites with other operators. The overall infrastructure sharing results in to saving 10-15 % operating costs of the company. Going forward the company will focus more on infrastructure sharing.

ICL is already operating in Gujarat and Maharasthra. Mumbai not only serves as the geographical missing link but as the financial capital of India provides growth opportunities. Similarly, its expansion in Bihar will enhance its presence in the more rural C circles (it already has a presence in C circles such as Madhya Pradesh and Himachal Pradesh). Bihar, with its 5 % penetration level, offers tremendous potential.

The global experience suggests consolidation will be driven by a combination of spectrum constraints, heavy network upgrade costs to 3G, a shift to nationwide pricing and financing constraints. Vodafone's landmark purchase of Hutch India for USD18 bn and a relaxation of regulatory restrictions on M & A suggest consolidation will remain a key theme. The possibility of ICL being taken over by MNC can not be ruled out.

Exponential growth in wireless telecom services, massive investment in the sector, robust volume growth in number of subscribers, expansion in margin, revenue sharing relief, alliance among the regional players, rising trend in ARPUs, the likely introduction of mobile number portability, NLD initiatives are industry positives and offer visibility in further strengthening the revenue and profitability.

The shares traded at Rs 117 at a forward P/Ex of 20.5 on FY08E and 14.4 on FY09E (against industry average P/E of 40) are recommended with a price target of Rs 155 in the medium term.

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