

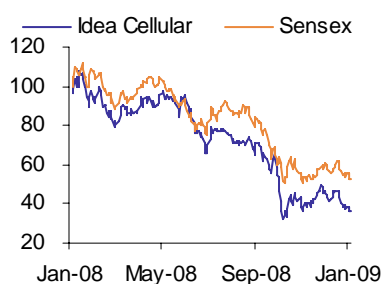
Sector: Telecom	
Sensex:	8,814
CMP (Rs):	42
Target price (Rs):	46
Upside (%):	9.4
52 Week h/l (Rs):	129 / 34
Market cap (Rscr) :	13,036
6m Avg vol ('000Nos):	1,531
No of o/s shares (mn):	3,100
FV (Rs):	10
Bloomberg code:	IDEA IB
Reuters code:	IDEA.BO
BSE code:	532822
NSE code:	IDEA

Prices as on 22 Jan, 2009.

Shareholding pattern	
December '08	(%)
Promoters	49.1
Institutions	15.1
Non promoter corp hold	1.0
Public & others	34.8

Performance rel. to sensx			
(%)	1m	3m	1yr
Idea Cellular	(7.3)	1.6	(16.9)
Bharti	(3.0)	6.1	19.6
Rcom	(10.3)	(15.6)	(24.2)

Share price trend



- ⊕ Consolidated revenue growth of 18.5% qoq in line with estimates; revenues ex-Spice grew 13.8%
- ⊕ Operating margins fell 81bps qoq on higher network operating expenses; standalone OPM falls 30bps
- ⊕ Ex-Spice, Idea PAT surged 71% qoq to Rs2.6bn
- ⊕ Consolidated PAT came in lower at Rs2.2bn (up 52% qoq) on consolidation of Spice and Indus Towers
- ⊕ Pan-India footprint likely to expand subscriber base but margins to contract; Assign a Market Performer rating with a price target of Rs46

Result table

(Rs m)	Q3 FY09	Q3 FY08	% yoy	Q2 FY09	% qoq
Net sales	27,305	17,103	59.6	23,034	18.5
Access and IC charges	(5,083)	(2,930)	73.5	(4,271)	19.0
Network operating exp	(6,055)	(2,915)	107.7	(4,485)	35.0
License fees	(2,983)	(1,736)	71.8	(2,571)	16.1
Personnel costs	(1,457)	(954)	52.7	(1,323)	10.2
S G & A expenses	(4,758)	(2,873)	65.6	(4,320)	10.1
Operating profit	6,969	5,694	22.4	6,065	14.9
OPM (%)	25.5	33.3	(777) bps	26.3	(81) bps
Depreciation	(3,937)	(2,277)	72.9	(3,032)	29.9
Interest	(874)	(782)	11.8	(1,497)	(41.6)
Other income	6	-		3	83.3
PBT	2,164	2,635	(17.9)	1,540	40.5
Tax	31	(268)		(99)	
Effective tax rate (%)		10.2		6.4	
PAT	2,195	2,368	(7.3)	1,441	52.3
PAT margin (%)	8.0	13.8	(581) bps	6.3	178 bps
Ann. EPS (Rs)	2.8	3.6	(21.2)	1.9	52.3

Source: Company, India Infoline Research

Revenue in line with estimates; Idea+Spice add 4mn users

Idea reported 18.5% qoq growth in consolidated revenues, in line with our estimate of Rs27bn. Spice Communications (41% stake) was accounted as a JV and consolidated wef October 16, 2008. The two companies cumulatively added about 4mn subscribers in Q3 FY09.

Idea alone added 3.8mn users in Q3 FY09 (up 20% qoq) buoyed by entry in to Mumbai and Bihar. Excluding Spice Comm, Idea plus its wholly owned subsidiaries witnessed 13.8% qoq jump in sales, also in line with our estimates. Idea ARPU increased 1.9% qoq as RPM climbed 3.2%, after five consecutive quarters of decline.

Operating margin dip 81bps on increased N/W costs

Consolidated OPM dropped 81bps qoq primarily led by a 270bps sequential rise in network operating expenses. The company launched operations in Bihar from October 1, 2008 through 100% subsidiary Aditya Birla Telecom (ABTL). Combined operating losses from Mumbai and Bihar circles more than doubled qoq to Rs765mn. Idea standalone OPM declined marginally by 30bps qoq to 26% vs. our estimate of 25.5%.

Cost analysis

As a % of net sales	Q3 FY09	Q3 FY08	bps yoy	Q2 FY09	bps qoq
Access and IC charges	18.6	17.1	148	18.5	7
Network operating exp.	22.2	17.0	513	19.5	270
License fees	10.9	10.2	77	11.2	(23)
Personnel costs	5.3	5.6	(24)	5.7	(41)
S G & A expenses	17.4	16.8	63	18.8	(133)
Total costs	74.5	66.7	777	73.7	81

Source: Company, India Infoline Research

Interest costs fall on TMI investment; consolidated PAT higher than estimated

On a consolidated basis, the company earned interest income of Rs 1.8bn on unused funds to the tune of Rs26.5bn as of December 2008 from the total proceeds received from Telecom Malaysia (TMI) in August 2008, thereby lowering net interest expenses for the quarter. Forex loss declined to Rs102mn as compared to Rs187mn in Q2 FY09.

Consolidated PAT for the quarter stood at Rs2.2bn, up 52% qoq, higher than expected. Excluding the impact of Spice consolidation and 16% holding in Indus Towers, Idea standalone PAT surged nearly 71% to Rs2.6bn, ahead of our estimates of Rs2.2bn mainly on account of higher than estimated margins.

Pan-India footprint by FY10, but margins likely to contract; Assign MP

Idea is set to roll out operations in Orissa by Q4 FY09 while that in Tamil Nadu (inc. Chennai) and West Bengal circles are likely to commence in FY10. With its expanded presence, we estimate Idea subscriber base to witness 39.8% CAGR (vs. 33% CAGR for Bharti) over FY08-11 to reach 66mn by March 2011. Underpinned by healthy wireless growth, we forecast sales and earnings CAGR of 32.7% and 10.8% respectively over FY08-11. The lower earnings CAGR is on account of a nearly 24% equity dilution arising from acquisition of Spice Comm. and preferential allotment to TMI last year.

A key concern is likely margin decline from FY08 levels as roll out costs increase and newer circles take time for operating breakeven. We project OPM decline of 630bps over FY08-11. Assign Market Performer rating with a target price of Rs46.

Financial summary

Y/e 31 Mar (Rs m)	FY08	FY09E	FY10E	FY11E
Revenues	67,200	99,959	126,419	150,978
yoy growth (%)	53.9	48.7	26.5	19.4
Operating profit	22,518	27,089	34,386	41,519
OPM (%)	33.5	27.1	27.2	27.5
Reported PAT	10,423	9,181	11,770	17,533
yoy growth (%)	107.5	(12)	28.2	49.0
EPS (Rs)	3.9	2.8	3.6	5.4
P/E (x)	10.6	15.0	11.7	7.8
P/BV (x)	2.2	1.4	1.3	1.1
EV/EBITDA (x)	7.6	8.4	6.5	5.1
Debt/Equity (x)	1.3	0.9	1.0	0.7
ROE (%)	21.8	12.6	11.5	15.0
ROCE (%)	13.6	10.5	10.1	11.8

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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