

24<sup>th</sup> April 2009**SELL**

Price	Target Price
<b>Rs57</b>	<b>Rs53</b>

<b>Sensex</b>	<b>11,135</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	22	37	39	(44)
Rel. to Sensex	4	8	22	(16)

Source: Bloomberg

**Stock Details**

Sector	Telecom
Reuters	IDEA.BO
Bloomberg	IDEA@IN
Equity Capital (Rs mn)	31001
Face Value (Rs)	10
52 Week H/L (Rs)	114/42
Market Cap (Rs bn)	179
Daily Avg Vol (No of shares)	6716042
Daily Avg Turnover (US\$ mn)	6.6

**Shareholding Pattern (%)**

(31 <sup>st</sup> Mar.'09)	
Promoters	49.1
FII/NRI	38.9
Institutions	7.8
Private Corp.	1.2
Public	3.0

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**Idea Cellular**Quick  
Update**Good cost management drives profit growth**

Idea Cellular reported Q4FY09 results which were significantly above our and consensus estimates backed by healthy cost management which protected EBIDTA margins. The revenue growth came in line with estimates but the EBIDTA margin improvement resulted in better than expected profit performance.

Although Idea has delivered strong results backed by effective operating cost control measures, we believe that such cost control measures might not be sustainable considering the increasing competition and service launches in new circles (Idea has launched operations in Orissa in April 2009 and plans to launch operations in Tamilnadu by June 2009 and in remaining 6 circles by December 2009).

While the results for the quarter are ahead of our estimates, we continue to retain cautious view on the stock due to pressure on profitability from new circle launches over the next 12 months and likely concerns from 3G auction.

**Standalone results: Cost control helps protect margins**

Idea Cellular Q4FY09 (standalone) profits are ahead of our estimates driven by very good cost management. While the revenue growth came in line at 8.8% sequentially, the EBIDTA growth at 7% QoQ to Rs7.6bn, was ahead of our estimate. The EBIDTA margins declined by just 40bps to 27% despite 380bps increase in network operating costs (which was on account of rentals on towers transferred to Indus) due to effective cost control measures (employee costs reduced by 64bps, access costs & subscriber acquisition costs decreased by 107bps each and admin costs decreased by 70bps). The operating cost management resulted in healthy net profit growth of 7% QoQ to Rs3042mn.

**KPI's healthy: Competitive pressure not seen**

Idea's (standalone) MOUs declined by 3.4% QoQ to 402 minutes due to large low usage subscriber additions. The ARPU declined by 4.5% QoQ to Rs254. The ARPU in existing 11 circles declined by 3.2% to Rs 260 while that in new circles reduced to more realistic level of Rs 297 from v/s Rs 464 in Q3FY09. **We believe that healthy KPIs of Idea allay concerns of competitive pressures from aggressive GSM launch by RCOM.**

**Consolidated results: Margin improvement helps earnings beat**

Consolidated net sales increased by 7.2% QoQ to Rs29.2bn (v/s our estimate of Rs29.7bn), EBIDTA grew by 15% QoQ to Rs7983mn (v/s our estimate of Rs6963mn) and PAT grew by 25% QoQ to Rs2743mn (v/s our estimate of Rs2054mn). While idea management in Q3FY09 earnings call had indicated of 400-450bps decline in margins due to tower rentals to Indus, the margins came in higher due to effective cost management for the quarter. While the standalone EBIDTA margins are driven by effective cost management, the consolidated EBIDTA margins increased by 183bps due to higher margins.

**We note that in consolidated results, the inter-segment revenues have been eliminated, but there has not been elimination for inter-segment EBIDTA, which could have led to better than expected EBIDTA performance.** While standalone EBIDTA % declined by 40bps, consolidated EBIDTA % increased by 183bps QoQ. We would seek clarity on the same in the earnings call later in the day today.

**NLD business grows stronger:** While NLD revenues grew by healthy 27% QoQ to Rs2.5bn, the EBIT margins in NLD business expanded by 530bps QoQ 25.5% which we believe is due to higher amount of traffic routing on captive network.

**Forex loss capitalized:** During the quarter Idea has capitalized forex loss amounting Rs326mn towards restatement of loans utilized for capex.

Key things to watch out in earnings call (1) Clarity on elimination of inter-segment EBIDTA (2) Increase in margins of Spice and reasons for reduction in network costs (3) management comments on sustainability of margins (4) Update on merger of Spice.

## Quarterly results – Standalone

	Q208	Q308	Q408	Q109	Q209	Q308	Q408	% QoQ
Revenues								
Mobile	15,622.1	17,080.9	19,724.0	21,734.6	22,992.0	26,180.0	28,304.7	8.1%
NLD (inter segment)	691.8 (691.8)	968.8 (968.8)	1,137.1 (1,137.1)	1,291.5 (1,291.5)	1,439.4 (1,439.4)	1,929.4 (2,064.7)	2,450.4 (2,430.5)	27.0%
<b>Net sales</b>	<b>15,622.1</b>	<b>17,080.9</b>	<b>19,724.0</b>	<b>21,734.6</b>	<b>22,992.0</b>	<b>26,044.7</b>	<b>28,324.6</b>	8.8%
Cost of trading goods	0.0	0.1	0.0	2.2	22.5	52.1	112.8	
Personnel exp	878.0	954.4	918.9	1,022.0	1,322.7	1,270.2	1,201.5	-5.4%
Network optng exp	2,379.9	2,915.1	3,262.8	3,756.3	4,484.8	5,474.7	7,037.0	28.5%
License & WPC charges	1,551.1	1,736.3	1,965.1	2,446.4	2,570.5	2,861.3	3,080.7	7.7%
Roaming & access chg	2,550.2	2,930.1	3,445.1	3,956.8	4,270.6	4,903.1	5,030.2	2.6%
Subs acq & advt exp	2,513.6	2,185.4	2,613.3	2,464.7	3,278.7	3,308.9	3,295.8	-0.4%
Other exp	642.9	687.7	912.8	929.2	1,018.5	1,040.2	932.5	-10.4%
<b>Total operating exp</b>	<b>10,515.7</b>	<b>11,409.1</b>	<b>13,118.0</b>	<b>14,577.6</b>	<b>16,968.3</b>	<b>18,910.5</b>	<b>20,690.5</b>	9.4%
EBIDTA	5,106.4	5,671.8	6,606.0	7,157.0	6,023.7	7,134.2	7,634.1	7.0%
EBIDTA %	32.7	33.2	33.5	32.9	26.2	27.4	27.0	
Depreciation	2,007.0	2,277.1	2,597.2	2,749.0	3,031.9	3,449.5	3,761.0	9.0%
EBIT	3,099.4	3,394.7	4,008.8	4,408.0	2,991.8	3,684.7	3,873.1	5.1%
EBIT %	19.8	19.9	20.3	20.3	13.0	14.1	13.7	
Interest & fin chg	640.5	781.7	1,205.5	1,526.4	1,496.7	687.4	807.3	17.4%
PBT (core)	2,458.9	2,613.0	2,803.3	2,881.6	1,495.1	2,997.3	3,065.8	2.3%
Other income	21.4	22.2	128.6	46.1	44.5	19.8	0.0	
PBT	2,480.3	2,635.2	2,931.9	2,927.7	1,539.6	3,017.1	3,065.8	1.6%
Tax provision	277.0	267.5	165.0	296.8	98.9	177.0	23.0	-87.0%
PAT	2,203.3	2,367.7	2,766.9	2,630.9	1,440.7	2,840.1	3,042.8	7.1%
PAT %	14.1	13.9	14.0	12.1	6.3	10.9	10.7	

Cost analysis								Chg bps
Personnel exp	5.6	5.6	4.7	4.7	5.8	4.9	4.2	(64)
Network optng exp	15.2	17.1	16.5	17.3	19.5	21.0	24.8	382
License & WPC charges	9.9	10.2	10.0	11.3	11.2	11.0	10.9	(11)
Roaming & access chg	16.3	17.2	17.5	18.2	18.6	18.8	17.8	(107)
Subs acq & advt exp	16.1	12.8	13.2	11.3	14.3	12.7	11.6	(107)
Other exp	4.1	4.0	4.6	4.3	4.4	4.0	3.3	(70)

KPIs	Q208	Q308	Q408	Q109	Q209	Q308	Q408	
Subscribers ('000)	18,719	21,110	24,076	27,288	30,486	34,336	38,889	
QoQ %	15.8	12.8	14.0	13.3	11.7	12.6	13.7	
ARPU (Rs)	288	279	287	278	261	266	254	
(% QoQ)	-10.0	-3.1	2.9	-3.1	-6.1	1.9	-4.5	
MOU (mins)	360	377	411	428	417	410	402	
(% QoQ)	-5.5	4.7	9.0	4.1	-2.6	-1.7	-3.4	
RPM (Rs)	0.80	0.74	0.70	0.65	0.63	0.65	0.63	
(% QoQ)	-4.8	-7.5	-5.6	-7.0	-3.6	3.7	-1.2	
Total traffic (mn)	18,831	22,457	27,824	33,087	36,315	40,254	44,224	
(% QoQ)	10.1	19.3	23.9	18.9	9.8	10.8	9.9	

Existing circles								
Subscribers	18,719	21,110	24,076	27,288	30,385	33,742	37,275	10.9%
Revenues	15,643	17,103	19,853	21,781	22,985	25,726	27,641	7.4%
EBIDTA	5,128	5,700	6,735	7,203	6,405	7,570	8,069	6.6%
EBIDTA %	32.8	33.3	33.9	33.1	27.9	29.4	29.2	

New circles								
Subscribers	0	0	0	0	100	594	1,615	171.7%
Revenues	0	0	0	0	52	483	985	103.9%
EBIDTA	0	0	0	0	(337)	(765)	(654)	-14.5%
EBIDTA %					-648.1	-158.4	-66.4	

## Quarterly results – Consolidated

	Q308	Q408	Q109	Q209	Q309	Q409	QoQ
Revenues							
Mobile	17080.9	19,724.0	21,734.6	22,992.0	27,364.3	29,716.3	8.6%
NLD	968.8	1,137.1	1,291.5	1,439.4	1,929.4	2,516.3	30.4%
Others (inter segment)	(968.8)	(1,137.1)	(1,291.5)	(1,439.4)	(2,236.0)	(4,997.6)	
<b>Net sales</b>	<b>17,080.9</b>	<b>19,724.0</b>	<b>21,734.6</b>	<b>22,992.0</b>	<b>27,285.6</b>	<b>29,239.8</b>	<b>7.2%</b>
Other income	22.2	128.6	46.1	44.5	24.9	125.1	402.4%
Total revenues	17,103.1	19,852.6	21,780.7	23,036.5	27,310.5	29,364.9	7.5%
Cost of trading goods	0.1	0.0	2.2	22.5	52.2	71.0	36.0%
Personnel exp	954.4	918.9	1,022.0	1,322.7	1,457.3	1,449.9	-0.5%
Network optng exp	2915.1	3,262.8	3,756.3	4,484.8	6,054.9	6,691.0	10.5%
License & WPC charges	1736.3	1,965.1	2,446.4	2,570.5	2,983.3	3,239.0	8.6%
Roaming & access chg	2930.1	3,445.1	3,956.8	4,270.6	5,082.7	5,162.5	1.6%
Subs acq & advt exp	2185.4	2,613.3	2,464.7	3,278.7	3,567.5	3,537.5	-0.8%
Other exp	687.7	912.8	929.2	1,018.5	1,138.2	1,106.3	-2.8%
<b>Total operating exp</b>	<b>11,409.1</b>	<b>13,118.0</b>	<b>14,577.6</b>	<b>16,968.3</b>	<b>20,336.1</b>	<b>21,257.2</b>	<b>4.5%</b>
EBIDTA	5,671.8	6,606.0	7,157.0	6,023.7	6,949.5	7,982.6	14.9%
EBIDTA %	33.2	33.5	32.9	26.2	25.5	27.3	7.2%
Depreciation	2277.1	2,597.2	2,749.0	3,031.9	3,937.3	4,320.9	9.7%
EBIT	3,394.7	4,008.8	4,408.0	2,991.8	3,012.2	3,661.7	21.6%
EBIT %	19.9	20.3	20.3	13.0	11.0	12.5	13.4%
Interest & fin chg	781.7	1,205.5	1,526.4	1,496.7	873.6	1,046.5	19.8%
PBT (core)	2,613.0	2,803.3	2,881.6	1,495.1	2,138.6	2,615.2	22.3%
Other income	22.2	128.6	46.1	44.5	24.9	125.1	402.4%
PBT	2,635.2	2,931.9	2,927.7	1,539.6	2,163.5	2,740.3	26.7%
Tax provision	267.5	165.0	296.8	98.9	(31.0)	(2.3)	-92.6%
PAT	2,367.7	2,766.9	2,630.9	1,440.7	2,194.5	2,742.6	<b>25.0%</b>
PAT %	13.9	14.0	12.1	6.3	8.0	9.4	

Cost analysis	Chg bps						
Personnel exp	5.6	4.7	4.7	5.8	5.3	5.0	(38)
Network optng exp	17.1	16.5	17.3	19.5	22.2	22.9	69
License & WPC charges	10.2	10.0	11.3	11.2	10.9	11.1	14
Roaming & access chg	17.2	17.5	18.2	18.6	18.6	17.7	(97)
Subs acq & advt exp	12.8	13.2	11.3	14.3	13.1	12.1	(98)
Other exp	4.0	4.6	4.3	4.4	4.2	3.8	(39)

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