

INDIA

Idea Cellular

10 March 2008

IDEA IN **Outperform**

Stock price as of 07 Mar 08	Rs	99.40
12-month target	Rs	140.00
Upside/downside	%	+40.9
Valuation	Rs	140.00
- Sum of Parts		

GICS sector	telecommunication services	
Market cap	Rs m	257,730
30-day avg turnover	US\$m	15.0
Market cap	US\$m	6,411
Foreign ownership	%	36.2
Number shares on issue	m	2,593

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	43.7	65.5	85.7	104.5
EBITDA	bn	14.6	22.3	30.8	39.1
EBITDA growth	%	37.1	52.4	38.2	26.8
EBIT	bn	7.9	13.8	18.9	24.8
EBIT Growth	%	52.9	73.9	37.6	30.6
Adjusted profit	bn	5.0	10.2	11.5	15.6
Gross cashflow	bn	10.6	17.4	21.7	28.3
CFPS	Rs	4.03	6.61	8.23	10.75
CFPS growth	%	38.5	64.2	24.4	30.7
EPS adj	Rs	1.91	3.89	4.36	5.91
EPS adj growth	%	103.8	103.5	12.3	35.4
PE adj	x	52.1	25.6	22.8	16.8
Total DPS	Rs	0.00	0.00	0.00	0.00
ROA	%	10.3	11.2	11.4	12.3
ROE	%	22.5	25.4	21.8	23.5
EV/EBITDA	x	21.1	13.8	10.0	7.9
Net debt/equity	%	124.8	121.7	127.3	115.4
Price/book	x	7.8	5.6	4.5	3.5

IDEA IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, March 2008 (all figures in INR unless noted)

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Cutting estimates; retain Outperform

Event

- We take a comprehensive look at our estimates for Idea following delays in spectrum allocation in nine proposed circles. We also note a delay in the launch of services in Mumbai and Bihar circles to 2QFY09 from 1QFY09 earlier.

Impact

- Our revised Target Price (TP) on Idea is Rs140, down from Rs190 earlier, an upside of 40% from current levels.** Our TP is based on Sum-of-Parts valuation of the base business (Rs118) and value of the 16% stake in Indus Towers (valued at Rs22). At our TP, Idea, standalone ex-towers, would trade at a PER of 20x FY10E and EV/EBITDA of 9.8x FY10E EBITDA.
- Reducing revenue, EBITDA and EPS estimates.** As a result of delays mentioned below, we have reduced our subscriber forecasts for FY08-10E. Our revised FY09E revenue and EBITDA estimates for the company are down 14% and 11% respectively. Similarly for FY10E, we have cut our revenue and EBITDA forecasts by 19% and 10%, respectively.
- One quarter delay in entry into Mumbai and Bihar circles.** Management confirmed on the last earnings conference call that it will launch commercial services in these two circles in the 2Q FY09E quarter. This is a quarter's delay from our earlier assumption of launch in 1Q FY09.
- Spectrum allocation delays entry in nine proposed circles.** We expect the current uncertainty around spectrum allocation to be resolved in the next three to twelve months. We now forecast Idea to start commercial services in nine proposed circles in FY11E as opposed to our earlier assumption of FY10E.
- Three acquired circles to achieve EBITDA break-even in 1QFY09.** On the 3Q earnings call, management guided towards EBITDA break even in the three acquired circles in 1QFY09. This marks a one quarter delay from the earlier management guidance of breaking even at the EBITDA level by 4Q FY08.

Earnings revision

- Our revised EPS for FY08E, FY09E and FY10E are now Rs3.9, Rs4.4 and Rs5.9 respectively, down from Rs5.2, Rs6.7 and Rs7.5, respectively.

Price catalyst

- 12-month price target: Rs140.00 based on a Sum of Parts methodology.
- Catalyst: Launch of service in Mumbai and Bihar circles in 2Q FY09 and spectrum allocation in nine proposed circles.

Action and recommendation

- We believe that the Idea stock will deliver positive returns from hereon** after falling by 14%, 25% and 18% in the last one, three and six months, respectively. However, we do not see Idea as an M&A target/play, in line with management's view, and do not attribute any M&A premium to Idea.
- Prefer RCOM and Bharti over Idea:** We prefer exposure to Indian telecom services through Reliance Communications (RCOM IN, Outperform, CMP: Rs543, Target Price: Rs865) and Bharti Airtel (BHARTI IN, Outperform, CMP: Rs751, Target Price: Rs1,400). RCOM and Bharti are among our Top Picks in the Asia-Pac telecoms coverage universe and are our Top Picks in India strategy.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 Idea Cellular – New estimates, Old Estimates and change in estimates

Particulars	New Estimates			Old Estimates			Change (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Amount in Rs m, unless otherwise stated									
India Wireless Subscribers incl. fixed wireless (m)	264.8	362.9	450.0	261.9	362.6	450.0	1.1%	0.1%	0.0%
Idea Cellular – Key operating metrics									
Consolidated									
Idea's Wireless Subscribers (m)	23.6	34.1	42.6	24.3	35.1	45.6	-2.8%	-2.7%	-6.5%
Idea's market share (%)	8.9%	9.4%	9.5%	9.3%	9.7%	10.1%	-3.9%	-2.8%	-6.5%
Implied monthly subscriber net additions (m)	0.80	0.88	0.71	0.86	0.90	0.87	-7.0%	-2.5%	-19.3%
Wireless ARPU (Rs per month)	290	247	227	297	276	262	-2.2%	-10.3%	-13.5%
8 original circles									
Idea's Wireless Subscribers (m)	21.7	30.5	36.7	22.0	30.5	36.8	-1.6%	-0.2%	-0.2%
Idea's market share (%)	18.0%	18.2%	18.1%	18.2%	18.3%	18.1%	-1.2%	-0.2%	-0.2%
Implied monthly subscriber net additions (m)	0.69	0.73	0.52	0.72	0.71	0.52	-4.0%	3.3%	0.0%
Wireless ARPU (Rs per month)	294	252	231	310	287	272	-5.1%	-12.0%	-15.0%
3 acquired circles									
Idea's Wireless Subscribers (m)	1.9	3.2	4.6	2.3	3.8	5.2	-14.4%	-17.1%	-12.5%
Idea's market share (%)	6.0%	6.5%	7.3%	6.7%	7.9%	8.3%	-10.6%	-17.1%	-12.5%
Implied monthly subscriber net additions (m)	0.11	0.10	0.12	0.13	0.13	0.12	-20.2%	-20.9%	0.0%
Wireless ARPU (Rs per month)	232	200	187	234	232	233	-1.1%	-13.8%	-19.8%
2 licensed circles									
Idea's Wireless Subscribers (m)	-	0.5	1.3	-	0.7	1.5	na	-31.5%	-14.9%
Idea's market share (%)	0.0%	1.4%	2.9%	0.0%	2.0%	3.4%	na	-31.5%	-14.9%
Implied monthly subscriber net additions (m)	0.00	0.04	0.07	0.00	0.06	0.07	na	-31.5%	0.0%
Wireless ARPU (Rs per month)	0	186	235	0	239	269	na	-22.2%	-12.9%
9 proposed circles									
Idea's Wireless Subscribers (m)	-	-	0.0	-	-	2.0	na	na	-99.5%
Idea's market share (%)	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	na	na	-99.5%
Implied monthly subscriber net additions (m)	0.00	0.00	0.00	0.00	0.00	0.17	na	na	-99.5%
Wireless ARPU (Rs per month)	0	0	51	0	0	220	na	na	-76.8%
Idea Cellular – Financials									
Consolidated									
Idea's Total Revenues	65,504	85,665	104,453	69,963	100,016	128,782	-6.4%	-14.3%	-18.9%
Total EBITDA	22,312	30,834	39,104	24,718	34,715	43,339	-9.7%	-11.2%	-9.8%
EBITDA margin (%)	34.1%	36.0%	37.4%	35.3%	34.7%	33.7%	-3.6%	3.7%	11.2%
Total Capex	50,981	47,750	45,537	47,627	66,582	46,405	7.0%	-28.3%	-1.9%
Diluted EPS (Rs)	3.89	4.36	5.91	5.20	6.75	7.52	-25.3%	-35.4%	-21.4%
8 original circles									
Total Revenues	61,897	78,967	93,298	65,859	90,491	109,969	-6.0%	-12.7%	-15.2%
Total EBITDA	22,744	30,351	37,437	25,148	34,305	43,166	-9.6%	-11.5%	-13.3%
EBITDA margin (%)	36.7%	38.4%	40.1%	38.2%	37.9%	39.3%	-3.8%	1.4%	2.2%
Total Capex	28,500	30,844	26,800	29,468	30,209	26,825	-3.3%	2.1%	-0.1%
3 acquired circles									
Total Revenues	3,606	6,165	8,703	4,104	8,524	12,680	-12.1%	-27.7%	-31.4%
Total EBITDA	(632)	529	1,866	(478)	1,603	3,834	32.2%	-67.0%	-51.3%
EBITDA margin (%)	-17.5%	8.6%	21.4%	-11.6%	18.8%	30.2%	50.4%	-54.4%	-29.1%
Total Capex	3,978	4,007	4,840	4,881	4,999	5,040	-18.5%	-20.4%	-21.1%
2 licensed circles									
Total Revenues	-	534	2,446	-	1,001	3,519	na	-46.7%	-30.5%
Total EBITDA	-	(1,055)	(1,197)	-	(1,299)	(371)	na	-18.8%	222.5%
EBITDA margin (%)	0.0%	-197.7%	-48.9%	0.0%	-129.7%	-10.5%	na	52.4%	364.0%
Total Capex	0	11,900	2,897	9,000	3,774	2,820	na	215.3%	2.7%
9 proposed circles									
Total Revenues	-	-	6	-	-	2,614	na	na	-99.8%
Total EBITDA	-	-	(302)	-	-	(3,448)	na	na	-91.2%
EBITDA margin (%)	0.0%	0.0%	0.0%	0.0%	0.0%	-131.9%	na	na	-100.0%
Total Capex	0	0	10,000	-	20,000	11,119	na	na	-10.1%
Weighted Average Cost of Capital for DCF (%)	11.5			11.4					

Source: Macquarie Research, March 2008

Analysis

Reducing estimates on back of lowered subscriber forecasts and lowered ARPU estimates

- **Sharp reduction in revenue estimates due to lower subscriber base and ARPU.** We are cutting our FY08-10E revenue estimates by 6.4%, 14.3% and 18.9%, respectively (Please see Figure 2). We now forecast launch of Mumbai and Bihar circles in 2Q FY09E and in the nine proposed circles in FY11E, a delay of one quarter and one year, respectively, from our earlier assumptions. Delayed launches drive down subscriber forecast for Idea vs our earlier assumptions. A lower subscriber base, coupled with lower ARPU, results in our reduced revenue estimates for the next three years.
- **Delayed entry in nine new circles to slowdown subscriber addition pace.** Our India wireless industry model forecasts industry net adds to slow to 68m in 2011E and 87m in 2010E from 98m in 2009E. This translates in an industry monthly net adds run rate of 5.3m in 2011E, 6.7m in 2010E and 7.5m in 2009E. So, a delay of one year in the launch of nine new circles will weigh heavily on Idea's subscriber growth. Though we have lowered our subscriber numbers for Idea, we believe these estimates are conservative and could surprise positively. A reduced subscriber forecast is one of the primary reasons for our lowered revenue and profitability forecasts. Our revised EPS for FY08E, FY09E and FY10E are now Rs3.9, Rs4.4 and Rs5.9, respectively, down from our earlier estimates of Rs5.2, Rs6.7 and Rs7.5 respectively.
- **ARPU decline to be sharper than earlier expected.** We expect Idea's ARPU to decline by 14.8% in FY09E to Rs247 after declining by 13.2% in FY08E. This is in-line with broader industry trends. We forecast an 11.9% fall in Bharti's ARPU in FY09E and an 11.4% reduction in RCOM's ARPU in FY09E.

Subscriber acquisition: The earlier, the better; the more, the merrier

- **Industry growth to slow in 2011E.** Our forecast of 450m wireless subscribers by March 2010 implies 38.8% wireless penetration. We estimate the subscriber adds run rate to moderate from the current high levels, beyond the penetration levels of ~40%. We estimate total industry net adds to slow to 5.66m in FY10E from 7.26m a month in FY09E.
- **Slower industry growth has negative impact on Idea.** Slower industry net adds will hurt Idea as its new circle launches in nine circles gets delayed by a year. However, we have maintained our incremental market share of net adds for Idea at 7–8% in FY11E for most of the new circles in our industry subscriber model.
- **We expect Idea to maintain its 18% market share in eight original circles.** By maintaining its current market share of 18% in the eight original circles (where Idea has been operational for many years), we expect Idea to add 15.1m subscribers in FY09E and FY10E. This implies a total subscriber base of 36.7m in these circles by FY10E.
- **We expect slow but steady growth in Idea's subscriber market share in three acquired circles.** We note that Idea's market share of total subscriber base is expected to double to 6% in FY08 from 3.3% in FY07. We expect Idea to have 4.6m subscribers in these three circles by FY10, implying a 7.3% market share of total subscriber base. In arriving at our subscriber forecast for the three acquired circles, we have assumed a 10–12% market share of net adds in FY09 and FY10.
- **Mumbai and Bihar circles to have 1.3m Idea subscribers by March 2010.** We believe Idea will be able to capture 5% of net adds market share in these two circles in FY09. We expect market share of net adds to improve to 10% for Mumbai and 9% for Bihar in FY10.
- **We expect Idea to enter the remaining nine circles in FY11E.** We estimate Idea to capture 1% market share within a year of launch achieving a subscriber base of 1.6m in the nine new/proposed circles, where it has just been awarded UASL licenses. This is much lower than our earlier expectation of 2m subscriber additions in the nine circles in FY10E – our previous estimate of first year of operations in these nine circles.

Fig 2 Idea Cellular – segment snapshot of Revenues, EBITDA, Margin and Capex

Year ends March	FY07	FY08E	FY09E	FY10E	FY11E
Segment-wise Revenue (Rs m)					
Mobile revenues	42,886	65,504	85,665	104,453	124,710
Long Distance Service revenues	0	3,443	4,844	6,249	7,938
<i>Eliminations</i>	0	-3,443	-4,844	-6,249	-7,938
Total Revenues	42,886	65,504	85,665	104,453	124,710
YoY Revenue Growth (%)					
Mobile revenues	45%	53%	31%	22%	19%
Long Distance Service revenues			41%	29%	27%
Total Service Revenues	45%	53%	31%	22%	19%
Share of Total Revenues (%)					
Mobile revenues	100%	100%	100%	100%	100%
Long Distance Service revenues	0%	5%	6%	6%	6%
<i>Eliminations</i>	0%	-5%	-6%	-6%	-6%
Total Service Revenues	100%	100%	100%	100%	100%
Segment-wise EBITDA (Rs m)					
Mobility	14,906	22,112	29,825	37,803	45,418
Long Distance Services	0	751	1,009	1,301	1,653
Total EBITDA	14,906	22,863	30,834	39,104	47,071
YoY EBITDA Growth (%)					
Mobility	41%	48%	35%	27%	20%
Long Distance Services			34%	29%	27%
Total EBITDA	41%	53%	35%	27%	20%
Share of EBITDA (%)					
Mobility	100%	97%	97%	97%	96%
Long Distance Services	0%	3%	3%	3%	4%
Total	100%	100%	100%	100%	100%
Segment-wise Capex (Rs m)					
Mobility	25,995	32,479	46,750	44,537	51,117
Long Distance Services	0	950	800	800	635
Total Capex	25,995	33,429	47,550	45,337	51,752
YoY Capex Growth (%)					
Mobility	391%	25%	44%	-5%	15%
Long Distance Services			-16%	0%	-21%
Total Capex	391%	29%	42%	-5%	14%
Key Operating Metrics					
Wireless ARPU					
Minutes of Use	334	290	247	227	223
ARPM	353	385	374	369	370
Wireless EBITDA per minute	0.95	0.75	0.66	0.61	0.60

Source: Company data, Macquarie Research, March 2008

Profitability in eight original circles is crucial to Idea's overall margins

- **EBITDA margin for these eight circles is at 36.3%** with 3Q results witnessing a 50bp margin expansion. We expect this margin improvement to continue, leading to a 40.7% margin by 4Q FY09E.
- We note that the profitability in these established circles forms the cornerstone of consolidated business outlook. These eight circles make up for 94%/92%/89% of total wireless revenues and 103%/102%/99% of total wireless EBITDA for FY08/FY09/FY10, respectively.

Fig 3 Key assumptions for Idea Cellular's wireless subscriber forecasts and wireless market shares

Year end March	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
8 original circles (40.9% of all-India population)											
Idea subscriber base (m)	5.07	7.37	13.36	21.67	30.47	36.74	41.47	45.22	48.67	51.98	55.18
Total wireless subscriber base (m)	26.57	44.67	76.20	120.39	166.94	203.22	230.46	251.77	271.33	290.07	308.23
Idea market share (%)	19.1	16.5	17.5	18.0	18.2	18.1	18.0	18.0	17.9	17.9	17.9
Population in these circles (m)	443.5	449.5	455.6	461.7	467.9	474.3	480.4	486.4	492.3	497.9	503.7
Wireless penetration in these circles (%)	5.99	9.94	16.73	26.07	35.68	42.85	47.97	51.76	55.12	58.25	61.20
3 acquired circles (16.8% of all-India population)											
Idea subscriber base (m)	0.00	0.00	0.65	1.94	3.19	4.59	5.76	6.72	7.55	8.35	9.12
Total wireless subscriber base (m)	4.46	9.73	19.72	32.24	48.78	63.05	75.01	84.75	93.11	101.14	108.93
Idea market share (%)	0.0	0.0	3.3	6.0	6.5	7.3	7.7	7.9	8.1	8.3	8.4
Population in the circles (m)	182.0	184.4	186.9	189.4	192.0	194.6	197.1	199.6	202.0	204.3	206.6
Wireless penetration in these circles (%)	2.45	5.27	10.55	17.02	25.40	32.40	38.05	42.46	46.10	49.51	52.72
2 licensed circles (11.9% of all-India population)											
Idea subscriber base (m)	0.00	0.00	0.00	0.00	0.48	1.26	1.94	2.45	2.92	3.35	3.77
Total wireless subscriber base (m)	6.67	11.22	16.16	25.55	34.57	43.42	50.91	56.62	61.79	66.60	71.26
Idea market share (%)	0.0	0.0	0.0	0.0	1.4	2.9	3.8	4.3	4.7	5.0	5.3
Population in the circles (m)	129.3	131.0	132.8	134.6	136.4	138.3	140.1	141.8	143.5	145.2	146.8
Wireless penetration in these circles (%)	5.16	8.56	12.17	18.98	25.34	31.40	36.35	39.93	43.06	45.88	48.53
9 proposed circles (30.3% of all-India population)											
Idea subscriber base (m)	0.00	0.00	0.00	0.00	0.00	0.01	1.62	3.09	4.38	5.63	6.85
Total wireless subscriber base (m)	17.45	30.54	53.01	86.66	112.60	140.32	161.54	178.78	194.00	208.70	223.00
Idea market share (%)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.7	2.3	2.7	3.1
Population in the circles (m)	328.6	333.1	337.6	342.1	346.7	351.4	356.0	360.4	364.8	369.0	373.2
Wireless penetration in these circles (%)	5.31	9.17	15.70	25.33	32.47	39.93	45.38	49.60	53.19	56.56	59.75
All 22 circles (100% of all-India population)											
Idea subscriber base (m)	5.07	7.37	14.01	23.61	34.13	42.59	50.79	57.48	63.52	69.31	74.92
All India wireless subscriber base (m)	55.15	96.16	165.09	264.83	362.88	450.00	517.92	571.92	620.24	666.51	711.42
Idea market share of All India wireless (%)	9.2	7.7	8.5	8.9	9.4	9.5	9.8	10.1	10.2	10.4	10.5
All India population (m)	1,083.4	1,098.0	1,112.8	1,127.9	1,143.1	1,158.5	1,173.6	1,188.3	1,202.5	1,216.3	1,230.3
All India wireless penetration (%)	5.09	8.76	14.84	23.48	31.75	38.84	44.13	48.13	51.58	54.80	57.82

Source: Macquarie Research, March 2008

Expect the three acquired circles to turn EBITDA positive by 1Q FY09E

- Company management in the 3QFY08 Earnings Call in January 2008 delayed the guidance for EBITDA break even to 1QFY09E from 4QFY08E. Rapid margin improvement from hereon in the three acquired circles is the key to higher profitability for Idea.

Start up losses in proposed circles hurt profitability in FY11E

- **We expect Idea to have a pan-India presence by FY11E.** Idea has recently signed the licences with the government to start services in the nine new circles (namely, Kolkata, Karnataka, Tamil Nadu, Punjab, West Bengal, Orissa, Assam, North-East and Jammu & Kashmir). We expect the company to receive spectrum from the government in these circles over the course of the next 3–12 months.
- **Start-up losses in the nine new circles estimated at Rs3bn.** We expect these new circles to turn EBITDA positive in FY13E and see sharp improvements in profitability from thereon, reaching a 28.6% EBITDA margin in FY15E.

Capital intensity to remain high for Idea

- **Capex of US\$3.6bn in next three years.** We forecast Idea to incur US\$3.6bn capex over a three year period from FY09-11E. We note that this excludes potential capex savings from the sharing of towers and note that Rs700 crore license fees for the nine new circles have been paid in 4QFY08. We forecast wireless capex of US\$6.5b for Bharti US\$5.3b for RCOM for FY09–11E.
- **Mumbai and Bihar launch capex estimated at about US\$250m.** We expect Idea to spend close to US\$250m for its launch of service in Mumbai and Bihar circles by 2Q FY09E.
- **Capex outlay for the proposed nine new circles estimated at US\$780m.** We believe Idea will spend US\$780m cumulatively in FY10E-11E for launch the nine new circles.
- **Strong balance sheet to support additional leverage.** To support its ambitious roll out plan, we expect Idea to raise an additional debt of US\$775m in the next three years. We note that this will raise the net debt/equity ratio of the company to 1.06x in FY09E, but that will decline to 0.63x in FY12E post the new circle launches.

Consensus estimates look aggressive

- We recognise that our revised revenue, EBITDA and EPS estimates are significantly below consensus. Our FY08 estimates remain fairly in line with consensus and are less than 1% different from Street estimates. For FY09 and FY10, the variance is quite significant for all the line items (see Figure 4). We note three reasons for the difference:
 - ⇒ (1) Consensus has yet to factor in the potential impact that the delay in the new circles roll-out will have on the monthly subscriber addition run-rate.
 - ⇒ (2) With increasing prepaid customers in mix, we expect ARPU to be under pressure.
 - ⇒ (3) Consensus is not taking into account higher interest cost for Idea.

Fig 4 Idea Cellular – Macquarie vs Consensus estimates

	FY08	FY09	FY10
Revenue			
Macquarie	65,504	85,665	104,453
Consensus	66,629	94,132	120,440
Difference	-1.7%	-9.0%	-13.3%
EBITDA			
Macquarie	22,312	30,834	39,104
Consensus	22,408	31,577	40,770
Difference	-0.4%	-2.4%	-4.1%
PBT			
Macquarie	11,145	13,047	17,644
Consensus	11,089	14,502	19,737
Difference	0.5%	-10.0%	-10.6%
PAT			
Macquarie	10,240	11,500	15,569
Consensus	10,360	13,408	17,407
Difference	-1.2%	-14.2%	-10.6%
EPS			
Macquarie	3.89	4.36	5.91
Consensus	4.01	5.13	6.64
Difference	-3.2%	-14.9%	-11.1%

Source: Bloomberg, Macquarie Research, March 2008

Valuation: DCF-based fair value of Rs118 for the base business ex-towers

- **Our two stage DCF model values Idea's base business at Rs116.** We believe a DCF model best captures the value of Idea's fast growing business. We have bumped up our Beta assumption to 1.06 from 1.02 earlier, and assume higher pre-tax cost of debt of 10% vs 9% earlier. As a result, our current DCF uses 11.5% as the discount rate (WACC), up from 11.4% earlier.
- **12x EV/EBITDA multiple at our target price of Rs118.** Based on EV/EBITDA, our target price for the base business (Rs118) works out to be 12x EBITDA for FY09E, while on a PER basis, it implies 27x FY09E EPS.
- **Expect Idea to be free cashflow positive in FY12E.** We now expect Idea to generate positive free cashflows in FY12E, a two year delay from our earlier forecast. Delay in the roll-out of services in new circles result in a higher capex outlay, delaying positive FCF generation until FY12E.

Estimate Idea's share of Indus Towers at Rs22 per share

We arrive at an equity valuation of Rs614bn (US\$15.1bn) for Indus Towers based on a DCF analysis. Our two-stage DCF assumes a discount rate (WACC) of 10% and terminal growth rate of 3%. For arriving at the value of Idea's 16% stake in Indus Towers, we apply a holding company discount of 40%. As a result, we estimate a Rs22 per share value from Indus Towers for Idea Cellular. We believe that once Indus starts reporting details of financials and key operating metrics, the holding discount should progressively come down.

Fig 5 Idea Cellular: DCF valuation model for the base business, fiscal year-end March

Year-end Mar (Rs m)	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA	30,834	39,104	47,071	56,103	64,224	72,560	81,475	89,702	97,750	105,591	113,404	121,231
Growth (% YoY)	38.2	26.8	20.4	19.2	14.5	13.0	12.3	10.1	9.0	8.0	7.4	6.9
Tax expense	(1,547)	(2,075)	(2,854)	(4,305)	(6,271)	(8,796)	(11,741)	(15,212)	(19,094)	(23,020)	(25,221)	(27,418)
Change in working capital	4,715	2,989	3,710	2,506	2,072	2,151	1,704	1,896	1,798	2,124	2,048	1,975
Cash flow from operations	34,002	40,018	47,927	54,304	60,024	65,915	71,438	76,386	80,454	84,695	90,231	95,788
Capital expenditure	(47,750)	(45,537)	(51,952)	(37,506)	(33,510)	(32,943)	(33,108)	(33,329)	(34,135)	(35,132)	(35,998)	(37,046)
Free cash flow	(13,748)	(5,519)	(4,025)	16,798	26,515	32,972	38,330	43,057	46,318	49,563	54,233	58,741
Growth (% YoY)	nmf	nmf	(27.1)	(517.3)	57.8	24.4	16.2	12.3	7.6	7.0	9.4	8.3
Discount rate (%)	11.5%											
1. Present value of cash flow till 2020	131,635											
Total PV of free cash flow till 2020 {a}	131,635											
2. Terminal value calculation	214,469											
Growth from 2020 to perpetuity (%)	3.5%											
FCF in FY2020	58,741											
Exit FCF multiple (X)	12.9											
Terminal value	758,480											
Implied exit EV/EBITDA (X)	6.3											
PV of terminal value {b}	214,469											
Total company value {a} + {b}	346,105											
Net debt/(cash)	34,452											
Value to equity holders	311,653											
Value to equity holders (Rs/share)	118											

Source: Macquarie Research, March 2008

Sensitivity of 12-month DCF to WACC and Terminal Growth

Terminal Growth	WACC				
	9.5%	10.5%	11.5%	12.5%	13.5%
2.5%	159	130	109	91	77
3.0%	168	137	113	95	80
3.5%	179	144	118	98	83
4.0%	192	153	124	103	86
4.5%	207	163	131	107	89

Fig 6 Macquarie – Global Emerging Market Wireless Telecom Valuation Table; Idea more expensive than Bharti and RCOM on PER multiples

Company Name	Bloomberg Ticker	Rec	Price Icy	EV/EBITDA				EV/EBITDA by EBITDA CAGR		PER			PEG	Div Yield (%)	FCF Yield (%)	EBITDA CAGR (FY08-10E, %)
				FY07A	FY08E	FY09E	FY10E	FY2008-10E	FY08E	FY09E	FY10E					
Bharti Airtel	BHARTI IN	OP	751.3	19.8	12.9	9.5	7.7	0.4	21.2	15.9	12.6	0.6	0.0	0.0	52.4	
Bharti Airtel - Ex Tower Co	BHARTI IN	OP	501.3	13.4	8.8	6.5	5.2	0.3	14.1	10.6	8.4	0.4	0.0	0.0	52.4	
Reliance Communications	RCOM IN	OP	543.4	22.3	15.7	11.6	9.1	0.4	21.4	15.3	11.6	0.5	0.0	-0.1	63.6	
RCOM – Standalone (Ex Tower Co)	RCOM IN	OP	296.1	na	na	7.8	5.9	0.2	na	12.1	7.9	0.2	0.0	-0.2	31.6	
Idea Cellular	IDEA IN	OP	99.4	20.8	13.6	9.9	7.8	0.5	25.6	22.8	16.8	0.6	0.0	-0.1	38.8	
Idea Cellular - Ex Tower Co	IDEA IN	OP	77.4	15.4	10.1	7.3	5.7	0.4	19.9	17.7	13.1	0.4	0.0	-0.7	38.8	
China Mobile	941 HK	OP	103.9	12.9	10.7	9.0	7.8	0.8	24.9	19.0	16.8	0.9	3.0	4.0	16.9	
China Unicom	762 HK	OP	14.4	6.2	5.7	5.3	4.7	0.8	26.4	20.7	18.3	2.0	1.5	4.5	7.5	
SK Telecom	017670 KS	OP	188,000.0	4.1	4.2	3.9	3.6	1.7	11.3	9.7	8.2	-0.7	5.1	10.6	2.4	
KT Freetel	032390 KS	UP	25,300.0	3.3	3.3	2.9	2.7	-1.5	19.9	14.5	12.5	-0.5	2.8	9.2	-2.1	
LG Telecom	032640 KQ	OP	7,810.0	3.7	4.1	3.5	2.8	5.1	7.9	7.4	6.5	0.5	3.8	3.4	0.7	
Far EasTone	4904 TT	OP	42.6	5.5	5.6	5.5	5.7	-1.1	14.0	13.5	13.4	-1.4	6.2	10.7	-4.8	
Taiwan Mobile	3045 TT	OP	57.7	8.1	7.8	6.4	6.0	1.4	29.6	10.7	10.3	-0.5	1.7	9.6	5.6	
MobileOne	M1 SP	N	2.1	6.5	6.6	6.5	6.4	-2.9	12.8	12.8	12.7	-5.3	6.6	9.2	-2.3	
AIS	ADVANC TB	N	101.0	7.5	6.8	6.2	5.7	0.9	15.6	14.1	12.9	1.6	6.7	8.7	8.3	
TAC	DTAC TB	OP	46.3	3.3	7.1	5.8	5.0	0.2	16.3	11.7	10.2	-0.2	4.3	6.2	15.0	
Digi.Com	DIGI MK	OP	22.8	9.8	8.0	7.5	6.6	0.7	15.0	14.1	12.7	0.4	5.1	6.1	13.2	
Indosat	ISAT IJ	OP	6,600.0	6.3	5.8	5.1	4.7	0.3	16.5	14.2	12.5	0.5	2.1	-11.4	18.1	
Globe	GLO PM	OP	1,450.0	6.0	5.3	4.9	4.6	0.9	14.7	12.8	11.5	19.1	4.6	6.9	6.5	
Orascom Telecom Holding	ORTE EY	NR	78.9		8.3	7.0	6.2		8.9	13.4	8.1					
Mtn Group Ltd	MTN SJ	NR	11,900.0		7.0	5.8	5.0		19.3	14.7	11.6					
Vivo Participacoes Sa	VIVO3 BZ	NR	13.0		6.0	5.2	4.7		0.3	17.4	12.5					
America Movil Sab De C-Ser L	AMXL MM	NR	32.3		8.2	7.4	7.0		15.4	12.6	11.4					
Etihad Etisalat Co	EEC AB	NR	65.0		11.8	10.2	10.3		16.6	11.2	10.0					
Saudi Telecom Co	STC AB	NR	71.5		9.9	9.8	8.0		11.5	11.1	10.5					
Qatar Telecom (Q-Tel) Q.S.C	QTEL QD	NR	257.1		7.7	7.0	6.5		12.2	10.3	8.9					
Wireless Average				9.7	8.0	6.8	6.0		16.5	13.9	11.6					
Average (ex-China Mobile)				9.5	7.9	6.7	5.9		16.1	13.7	11.4					

Source: Macquarie Research, March 2008

Key takeaways on the tower business from our call with the CFO

We highlight following key takeaways on the activity in the tower space based on our recent call with the CFO of the company AJS Jhala.

- **Stake in Indus Towers to be worked out on point-based system.** The stake of the three operators Bharti, Idea and Vodafone in Indus Towers is being worked out on a point-based system. The points allocated to each of the three players will be based on the quality of tower assets held by them. Idea management mentioned that given superior quality of its tower assets, it would still manage to have 16% share in Indus Towers with reduced tower asset contribution.
- **Towers assets in Maharashtra can remain within Idea.** There is a possibility that Idea might retain its towers in one of the original eight circles, with Maharashtra being the most likely circle to remain within Idea. This will not impact the 16% stake that Idea is likely to have in Indus due to the new point-based system that will determine the proportional share of the three partners. Maharashtra is Idea's biggest circle in terms of subscriber base and if it were to remain within Idea, it will be a **slight negative for Indus Towers.**
- **Idea will transfer 85% of its tower gross block to Indus Towers.** Current book value of tower assets on Idea's balance sheet is Rs250b, and of this, ~Rs200b will be transferred to Indus Towers. Management confirmed that tower assets in three circles of MP, Bihar and HP are outside the ambit of Indus Towers. Idea's towers in these three circles will remain with them.
- Idea has transferred its entire tower assets to a 100%-owned subsidiary called Idea Cellular Infrastructure Ltd. The tower assets to be transferred to Indus Towers are placed in a separate company called Idea Infrastructure Ltd. Once the assets are transferred to Indus Towers, Idea Infrastructure Ltd. will cease to exist.

Fig 7 Idea Cellular - Income statement, fiscal year-end March

Particulars (Rs m except EPS)	FY06	FY07	FY08E	FY09E	FY10E
Revenues					
Service Revenue	29,489	43,473	65,504	85,665	104,453
Sales of Trading Goods	166	191	-	-	-
Total Revenues	29,655	43,664	65,504	85,665	104,453
Operating Expenses					
Cost of Trading Goods	(76)	(52)	0	-	-
(% of revenues from trading goods)	45.8%	27.1%			
Personnel Expenditure	(1,781)	(2,598)	(3,590)	(5,068)	(6,101)
(% of total revenues)	6.0%	5.9%	5.5%	5.9%	5.8%
Network Operating Expenditure	(3,158)	(5,279)	(9,547)	(10,279)	(12,180)
(% of total revenues)	10.7%	12.1%	14.6%	12.0%	11.7%
License and WPC Charges	(3,020)	(4,487)	(6,719)	(9,716)	(12,012)
(% of total revenues)	10.2%	10.3%	10.3%	11.3%	11.5%
Roaming & Access Charges	(4,963)	(7,287)	(10,653)	(12,715)	(14,482)
(% of total revenues)	16.7%	16.7%	16.3%	14.8%	13.9%
Subscriber Acquisition & Servicing Expenditure	(3,272)	(5,379)	(6,956)	(9,852)	(12,012)
(% of total revenues)	11.0%	12.3%	10.6%	11.5%	11.5%
Advertisement and Business Promotion Expenditure	(1,253)	(2,059)	(2,928)	(4,217)	(5,118)
(% of total revenues)	4.2%	4.7%	4.5%	4.9%	4.9%
Administration & other Expenses	(1,457)	(1,887)	(2,799)	(2,984)	(3,444)
(% of total revenues)	4.9%	4.3%	4.3%	3.5%	3.3%
Total Operating Expense	(18,981)	(29,028)	(43,192)	(54,832)	(65,349)
(% of total revenues)	64.0%	66.5%	65.9%	64.0%	62.6%
EBITDA	10,674	14,637	22,312	30,834	39,104
EBITDA Margin	36.0%	33.5%	34.1%	36.0%	37.4%
Other Income	217	413	51	14	14
Depreciation	(4,451)	(5,579)	(7,184)	(10,180)	(12,762)
Amortisation of Intangible Assets	(1,044)	(1,139)	(1,362)	(1,707)	(1,591)
Amortisation of Miscellaneous Expenditure	-	-	-	-	-
EBIT	5,396	8,331	13,817	18,961	24,765
EBIT Margin	18.2%	19.1%	21.1%	22.1%	23.7%
Interest Income	27	53	1,799	1,022	1,753
Interest and Financing Charges	(3,225)	(3,291)	(4,472)	(6,936)	(8,874)
Profit Before Taxes (PBT)	2,198	5,092	11,145	13,047	17,644
Income tax (expense) / benefit	(80)	(60)	(905)	(1,547)	(2,075)
Exceptionals	(87)	(83)	-	-	-
Profit After Taxes (PAT)	2,030	4,950	10,240	11,500	15,569
Adjusted Net Profit (pre exceptionals)	2,118	5,033	10,240	11,500	15,569
Diluted EPS	0.94	1.91	3.89	4.36	5.91
YoY Growth (%)					
Service Revenues	31.3	47.4	50.7	30.8	21.9
Total Revenues	31.5	47.2	50.0	30.8	21.9
Personnel Expenditure	22.2	45.8	38.2	41.2	20.4
Network Operating Expenditure	27.0	67.1	80.8	7.7	18.5
License and WPC Charges	38.1	48.6	49.7	44.6	23.6
Roaming & Access Charges	29.8	46.8	46.2	19.4	13.9
Subscriber Acquisition & Servicing Expenditure	66.9	64.4	29.3	41.6	21.9
Advertisement and Business Promotion Expenditure	19.6	64.4	42.2	44.0	21.4
Administration & other Expenses	12.0	29.5	48.3	6.6	15.4
Operating Expenses	32.3	52.9	48.8	26.9	19.2
EBITDA	30.0	37.1	52.4	38.2	26.8
Net Profit After Taxes	176.7	137.6	103.5	12.3	35.4
Diluted EPS	176.7	103.8	103.5	12.3	35.4

Source: Company data, Macquarie Research, March 2008

Fig 8 Idea Cellular - balance sheet, fiscal year-end March

Particulars (Rs m)	FY06	FY07	FY08E	FY09E	FY10E
ASSETS					
Cash and cash equivalents	1,493	1,400	11,813	9,887	9,106
Sundry Debtors	1,308	1,675	2,308	3,019	3,511
Inventories	114	179	297	389	452
Loans and Advances	2,394	3,836	4,776	5,832	6,562
Other Current Asset	678	957	1,585	2,074	2,411
Total Current Assets	5,987	8,048	20,778	21,201	22,041
Gross Block	47,934	70,627	109,570	157,120	202,457
Less: Depreciation	(20,831)	(26,372)	(33,591)	(43,772)	(56,534)
Property and Equipment, net	27,103	44,255	75,978	113,349	145,923
Acquired intangible assets, net	9,934	11,776	17,687	16,180	14,789
Capital Work in progress	1,731	5,034	9,834	9,834	9,834
Other fixed assets	11,666	16,810	27,521	26,014	24,623
Goodwill	11,605	11,816	11,326	11,326	11,326
Investments	-	16,983	12,586	12,586	12,586
Deferred taxes (net)	-	-	520	520	520
Total Assets	56,360	97,912	148,709	184,995	217,019
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Sundry Creditors	8,610	15,869	24,266	31,330	35,940
Bank overdraft	465	795	1,277	1,649	1,892
Advances from Customers	1,743	2,572	4,358	5,702	6,630
Deposits from Customers	699	879	1,456	1,905	2,215
Other Liabilities	452	1,193	1,916	2,473	2,837
Interest accrued but not due	7	-	-	-	-
Total Current Liability	11,977	21,308	33,274	43,060	49,514
Provisions	295	534	534	534	534
Total Current Liabilities	12,272	21,843	33,808	43,594	50,049
Secured Loans	15,709	37,000	37,000	37,000	37,000
Unsecured Loans	17,147	5,505	30,816	45,816	55,816
Total Borrowings	32,856	42,505	67,816	82,816	92,816
Stockholders' equity					
Equity Share Capital	22,595	25,929	26,354	26,354	26,354
Preference Share Capital	4,830	-	-	-	-
Share Capital	27,425	25,929	26,354	26,354	26,354
Advance against Share capital	-	-	-	-	-
Reserves and Surplus	998	19,813	23,134	23,134	23,134
Profit and Loss Account	(17,191)	(12,178)	(2,402)	9,098	24,667
Total stockholders' equity	11,232	33,564	47,085	58,585	74,154
Total liabilities and stockholders' equity	56,360	97,912	148,709	184,995	217,019
Key Ratios					
RoE (%)	21%	22%	25%	22%	23%
RoCE (%)	10%	11%	11%	11%	12%
Net debt	31,829	24,917	44,694	61,992	73,015
Net Debt / Equity	2.83	0.74	0.95	1.06	0.98
Gross Debt/Equity	2.93	1.27	1.44	1.41	1.25
Net Debt / EBITDA	3.0	1.7	2.0	2.0	1.9
Working Capital ex cash/Revenues (%)	-25%	-34%	-37%	-37%	-35%
Net working capital days <Days of Gross Sales>	-92.1	-122.6	-135.5	-135.3	-127.8

Source: Macquarie Research, March 2008

Fig 9 Idea Cellular - cashflow statement, fiscal year-end March

Particulars	FY06	FY07E	FY08E	FY09E	FY10E
Cash Flow from Operating Activities					
Net Profit/(Loss) after Tax	2,030	4,950	10,240	11,500	15,569
Adjustments For					
Depreciation, Amortisation of assets	5,520	6,718	8,545	11,887	14,354
Interest charge and Forex	3,225	3,291	4,472	6,936	8,874
Profit on sale of current investment	-10	0	0	0	0
Provision for Bad & Doubtful Debts/Advances	307	0	0	0	0
Provision for Gratuity, Leave Encashment & ARO	83	240	0	0	0
Provision for Fringe Benefit Tax	47	79	73	112	134
Provision for Tax (Net of Current Tax, Deferred Tax & MAT Credit)	34	-19	832	1,435	1,941
Dividend income	0	0	0	0	0
Interest received	-27	-53	-1,799	-1,022	-1,753
(Profit)/ Loss on sale of fixed assets/ assets discarded	0	0	0	0	0
Operating profit before working capital changes	11,208	15,206	22,363	30,848	39,118
Changes in Current Assets and Current Liabilities					
(Increase)/Decrease in Sundry Debtors	-27	-367	-633	-712	-491
(Increase)/Decrease in Inventories	61	-65	-118	-92	-63
(Increase)/Decrease in Other Current Assets	-164	-279	-628	-489	-337
(Increase)/Decrease in Loans and Advances	-403	-1,442	-939	-1,056	-729
Increase /(Decrease) in Current Liabilities	2,196	7,259	8,397	7,064	4,610
Cash generated from operations	12,871	20,312	28,442	35,563	42,107
Tax paid (FBT & TDS)	-94	-60	-1,425	-1,547	-2,075
Net cash from operating activities	12,777	20,252	27,017	34,016	40,032
Cash Flow from Investing Activities					
Purchase of Fixed assets (including CWIP)	-5,293	-29,018	-50,981	-47,750	-45,537
Investments in Subsidiaries	0	0	0	0	0
Proceeds from sale of Fixed assets	34	0	28	0	0
Sale/ (purchase) of Other Investments (Net)	0	-16,983	4,397	0	0
Interest and Dividend Received	37	53	1,799	1,022	1,753
Net cash used in investing activities	-5,221	-45,948	-44,758	-46,728	-43,784
Cash Flow from Financing Activities					
Proceeds/ Advance received from issue of Share Capital	0	25,000	3,188	0	0
Redemption of preference shares	0	-7,563	0	0	0
Proceeds from Long term borrowings	1,001	37,000	0	0	0
Repayment of Long Term Borrowings	-9,722	-15,709	0	0	0
Proceeds from Short Term Loan	19,847	0	26,111	15,000	10,000
Repayment of Short Term Loan	-15,210	-11,642	-800	0	0
Proceeds from borrowings- Net	0	2,080	3,568	2,722	1,845
Short Term Loan from / to subsidiary & other Body Corporates	-377	0	0	0	0
Dividends including dividend tax	0	0	0	0	0
Interest Paid	-3,375	-3,299	-4,472	-6,936	-8,874
Others	0	52	558	0	0
Net cash from financing activities	-7,835	25,919	28,153	10,786	2,971
Net increase / (decrease) in cash and cash equivalent	-279	223	10,412	-1,925	-781
Cash and cash equivalent at the beginning	1,772	1,493	1,400	11,813	9,887
Add :					
Cash and cash equivalents taken over on acquisition	0	0	0	0	0
Cash and cash equivalent at the end	1,493	1,715	11,813	9,887	9,106

Source: Macquarie Research, March 2008

Idea Cellular (IDEA IN, Outperform, Target price: Rs140.00)

Quarterly Results					Profit & Loss						
	3Q/08A	4Q/08E	1Q/09E	2Q/09E		2007A	2008E	2009E	2010E		
Revenue	m	17,081	18,028	19,332	20,613	Revenue	m	43,664	65,504	85,665	104,453
Gross Profit	m	9,500	11,062	11,857	12,709	Gross Profit	m	26,559	38,585	52,955	65,780
Cost of Goods Sold	m	7,581	6,966	7,475	7,904	Cost of Goods Sold	m	17,105	26,919	32,710	38,674
EBITDA	m	5,672	6,406	6,985	7,390	EBITDA	m	14,637	22,312	30,834	39,104
Depreciation	m	1,947	1,996	2,233	2,479	Depreciation	m	5,579	7,184	10,180	12,762
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	330	378	426	430	Other Amortisation	m	1,139	1,362	1,707	1,591
EBIT	m	3,395	4,031	4,326	4,481	EBIT	m	7,918	13,767	18,947	24,752
Net Interest Income	m	-782	-1,107	-1,338	-1,460	Net Interest Income	m	-3,239	-2,673	-5,914	-7,121
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	22	4	4	4	Other Pre-Tax Income	m	413	51	14	14
Pre-Tax Profit	m	2,635	2,928	2,992	3,024	Pre-Tax Profit	m	5,092	11,145	13,047	17,645
Tax Expense	m	-268	-345	-354	-360	Tax Expense	m	-60	-905	-1,547	-2,075
Net Profit	m	2,368	2,583	2,637	2,664	Net Profit	m	5,033	10,240	11,500	15,570
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	2,368	2,583	2,637	2,664	Reported Earnings	m	4,950	10,240	11,500	15,570
Adjusted Earnings	m	2,368	2,583	2,637	2,664	Adjusted Earnings	m	5,033	10,240	11,500	15,570
EPS (rep)		0.90	0.98	1.00	1.01	EPS (rep)		1.88	3.89	4.36	5.91
EPS (adj)		0.90	0.98	1.00	1.01	EPS (adj)		1.91	3.89	4.36	5.91
EPS Growth yoy (adj)	%	88.2	105.3	-14.5	20.9	EPS Growth (adj)	%	103.8	103.5	12.3	35.4
						PE (rep)	x	52.9	25.6	22.8	16.8
						PE (adj)	x	52.1	25.6	22.8	16.8
EBITDA Margin	%	33.2	35.5	36.1	35.8	Total DPS		0.00	0.00	0.00	0.00
EBIT Margin	%	19.9	22.4	22.4	21.7	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	23.1	25.2	22.9	23.2	Weighted Average Shares	m	2,635	2,635	2,635	2,635
Revenue Growth	%	56.5	65.2	30.9	31.9	Period End Shares	m	2,635	2,635	2,635	2,635
EBIT Growth	%	71.5	103.6	33.5	44.5						
Profit and Loss Ratios					Cashflow Analysis						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Revenue Growth	%	47.2	50.0	30.8	21.9	EBITDA	m	14,637	22,312	30,834	39,104
EBITDA Growth	%	37.1	52.4	38.2	26.8	Tax Paid	m	-60	-1,425	-1,547	-2,075
EBIT Growth	%	52.9	73.9	37.6	30.6	Chgs in Working Cap	m	5,106	6,079	4,715	2,989
Gross Profit Margin	%	60.8	58.9	61.8	63.0	Net Interest Paid	m	-3,291	-4,472	-6,936	-8,874
EBITDA Margin	%	33.5	34.1	36.0	37.4	Other	m	3,861	4,522	6,950	8,888
EBIT Margin	%	18.1	21.0	22.1	23.7	Operating Cashflow	m	20,252	27,017	34,016	40,032
Net Profit Margin	%	11.5	15.6	13.4	14.9	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-29,018	-50,981	-47,750	-45,537
EV/EBITDA	x	21.1	13.8	10.0	7.9	Asset Sales	m	0	28	0	0
EV/EBIT	x	39.0	22.4	16.3	12.5	Other	m	-16,930	6,196	1,022	1,753
Balance Sheet Ratios					Investing Cashflow	m	-45,948	-44,758	-46,728	-43,784	
ROE	%	22.5	25.4	21.8	23.5	Dividend (Ordinary)	m	0	0	0	0
ROA	%	10.3	11.2	11.4	12.3	Equity Raised	m	17,437	3,188	0	0
ROIC	%	18.2	16.8	16.0	16.4	Debt Movements	m	11,729	28,879	17,722	11,845
Net Debt/Equity	%	124.8	121.7	127.3	115.4	Other	m	-3,246	-3,913	-6,936	-8,874
Interest Cover	x	2.4	5.2	3.2	3.5	Financing Cashflow	m	25,919	28,153	10,786	2,971
Price/Book	x	7.8	5.6	4.5	3.5	Net Chg in Cash/Debt	m	223	10,412	-1,925	-781
Book Value per Share		12.7	17.9	22.2	28.1						
					Balance Sheet						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Cash	m	1,400	11,813	9,887	9,106	Cash	m	1,400	11,813	9,887	9,106
Receivables	m	1,675	2,308	3,019	3,511	Receivables	m	1,675	2,308	3,019	3,511
Inventories	m	179	297	389	452	Inventories	m	179	297	389	452
Investments	m	16,983	12,586	12,586	12,586	Investments	m	16,983	12,586	12,586	12,586
Fixed Assets	m	61,065	103,499	139,363	170,546	Fixed Assets	m	61,065	103,499	139,363	170,546
Intangibles	m	11,816	11,326	11,326	11,326	Intangibles	m	11,816	11,326	11,326	11,326
Other Assets	m	4,793	6,881	8,426	9,493	Other Assets	m	4,793	6,881	8,426	9,493
Total Assets	m	97,912	148,709	184,995	217,019	Total Assets	m	97,912	148,709	184,995	217,019
Payables	m	15,869	24,266	31,330	35,940	Payables	m	15,869	24,266	31,330	35,940
Short Term Debt	m	795	1,277	1,649	1,892	Short Term Debt	m	795	1,277	1,649	1,892
Long Term Debt	m	42,505	67,816	82,816	92,816	Long Term Debt	m	42,505	67,816	82,816	92,816
Provisions	m	534	534	534	534	Provisions	m	534	534	534	534
Other Liabilities	m	4,644	7,730	10,081	11,683	Other Liabilities	m	4,644	7,730	10,081	11,683
Total Liabilities	m	64,348	101,624	126,410	142,865	Total Liabilities	m	64,348	101,624	126,410	142,865
Shareholders' Funds	m	33,564	47,085	58,585	74,154	Shareholders' Funds	m	33,564	47,085	58,585	74,154
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	33,564	47,085	58,585	74,154	Total S/H Equity	m	33,564	47,085	58,585	74,154
Total Liab & S/H Funds	m	97,912	148,709	184,995	217,019	Total Liab & S/H Funds	m	97,912	148,709	184,995	217,019

All figures in INR unless noted.

Source: Macquarie Research, March 2008

Important disclosures:

<p>Recommendation definitions</p> <p>Macquarie - Australia/New Zealand Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts) Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts) Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)</p> <p>Macquarie - Asia Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historic price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ stocks only</p>	<p>Financial definitions</p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																								
<p>Recommendation proportions – For quarter ending 31 December 2007</p> <table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>46.39%</td> <td>67.98%</td> <td>73.08%</td> <td>47.06%</td> <td>70.00%</td> </tr> <tr> <td>Neutral</td> <td>41.24%</td> <td>16.78%</td> <td>21.15%</td> <td>41.18%</td> <td>26.92%</td> </tr> <tr> <td>Underperform</td> <td>12.37%</td> <td>15.24%</td> <td>5.77%</td> <td>11.76%</td> <td>3.08%</td> </tr> </tbody> </table>				AU/NZ	Asia	RSA	USA	CA	Outperform	46.39%	67.98%	73.08%	47.06%	70.00%	Neutral	41.24%	16.78%	21.15%	41.18%	26.92%	Underperform	12.37%	15.24%	5.77%	11.76%	3.08%
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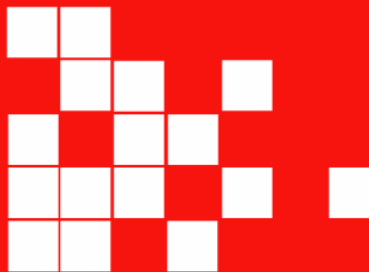
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Sales

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