

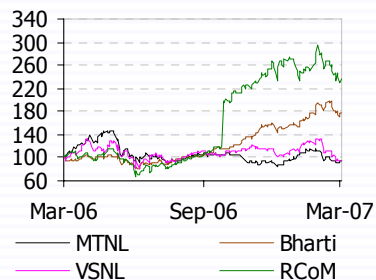
Stock Data

No. of shares # : 2,636mn
 Market cap : Rs.198bn
 Bloomberg code : IDEA IN
 Reuters code : IDEA.BO

Post IPO assuming green shoe option

Shareholding (%) Pre-IPO

Promoters : 65.8
 FIIs/ OCBs : 33.7
 Others : 0.5

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	PAT (Rs mn)	EPS (Rs.)	ChangeYoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	22,464	8,210	765	0.3	-	-	19.0	10.1	-
2006	29,489	10,674	2,117	0.9	177	-	39.3	12.0	-
2007E	43,502	14,636	4,081	1.5	65	48.4	19.9	11.7	15.4
2008E	66,785	22,268	7,501	2.8	84	26.4	19.5	13.9	10.8

Source: Company, ENAM estimates *Upper end of the issue price

Idea Cellular Limited

Rs.75*

Target Price: Rs.107
 Potential Upside: 43%

Relative to Sector: **Outperformer**

“!dea” clicks

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Investment Summary

➤ Strategic Play on High Growth & Low Circle Penetration

- Poised to replicate its past impressive performance in 11 low penetrated circles
- These 11 circles have high potential with lower wireless penetration of 13.0 v/s national average of 15.5 %.
- Idea demonstrated 13.9% increase of monthly net additions in Jan 2007, with higher share `1 in key established circles
- Incumbency licenses in 7 of the 11 circles ensures better net realizations

➤ An "IDEAL" Placement

- Presence in key category A and category B circles that are exhibiting higher growth m-o-m
- Higher market share (20-23%) in critical circles – Maharashtra, UP West, Kerala, Madhya Pradesh, Haryana
- Scope for financial leverage as new circles and NLD operations gain scale

➤ At an inflexion point.....new trings trings ahead

- Entry into new circles and NLD operations to leapfrog Idea into a higher growth orbit
- Expect subscriber base of ~ 22.7mn in FY08 (v/s 13.1mn in Jan 2007) with ~51% CAGR in Revenues (FY06-FY08E) and 44% CAGR in EBITDA (FY06-FY08E)
- Financial restructuring and repayment of preference shares to improve equity valuation

➤ Risk Factors

- Spectrum availability is largely a sectoral issue
- Leveraged Balance Sheet : Net debt at 4.4x for Dec 2006 is comparatively higher than peers
- Accumulated losses due to high entry license fees

➤ Peer Comparison

- EBITDA margins in existing established circles compare favorably v/s industry leaders despite lower ARPU (↓ by ~20% v/s Bharti)

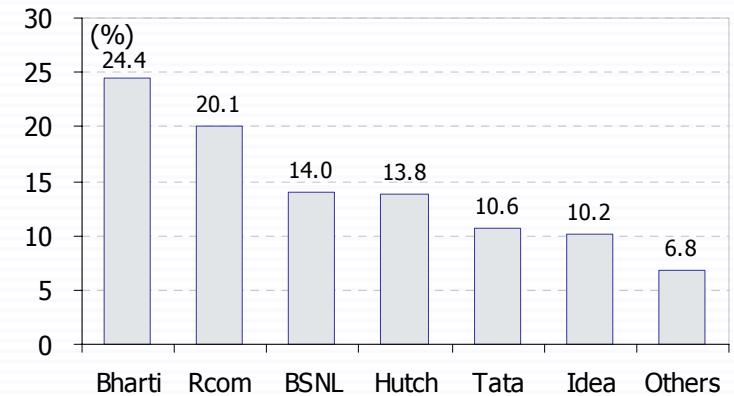
➤ We initiate coverage with a Sector Out performer rating

"Idea" clicks

Company Background

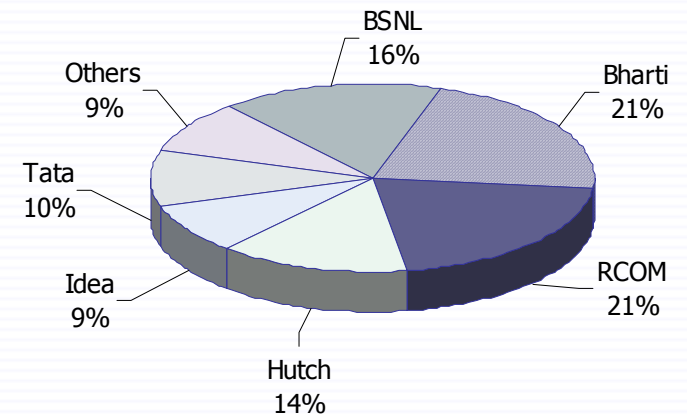
- ➔ **Idea represents the 6th largest wireless operator**
 - Jan 2007 subscriber base of 13.1mn, with presence in 11 circles
 - 8.5% market share at the national level
 - ~88% prepaid subscriber base
 - Market share of net additions – April-Dec 2006 at 16.7% in existing circles and ~10.1% on all India basis
 - 58% population coverage with 8,600 cell sites
 - Nation-wide coverage plans in pipeline
 - FY06 and 9mFY07 topline at Rs 29.7bn and Rs 30.6bn respectively
 - FY06 and 9mFY07 EBITDA at Rs 10.7bn and Rs 10.3bn respectively

Share of Net Additions



Last 6 months ending Jan-07

Nation-wide Market Share

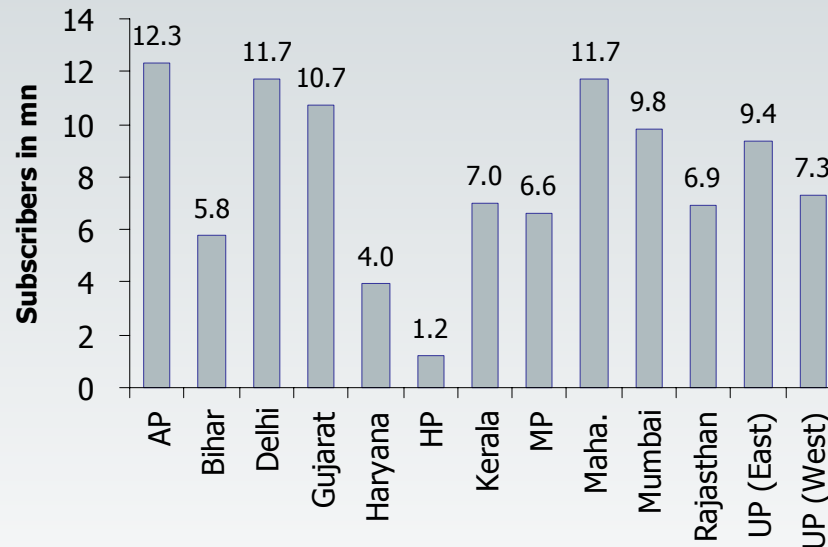


Source: TRAI, Companies, COAI, AUSPI

A leverage on incumbency

➤ Incumbency advantage in 7 of the 11 established circles

- Reduced capex / opex on account of spectrum allocation in the 900 MHz frequency band
- Lower variable license fees of 2% (from April 2004)



13.6	0.0	11.8	15.6	20.2	1.1	20.5	21.5	23.1	0.0	3.0	2.8	20.8
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Idea's Market Share (%)

Source: TRAI, Company, ENAM Research, Jan 2007 subscriber base, COAI, AUSPI

IDEA....leads in marquee circles

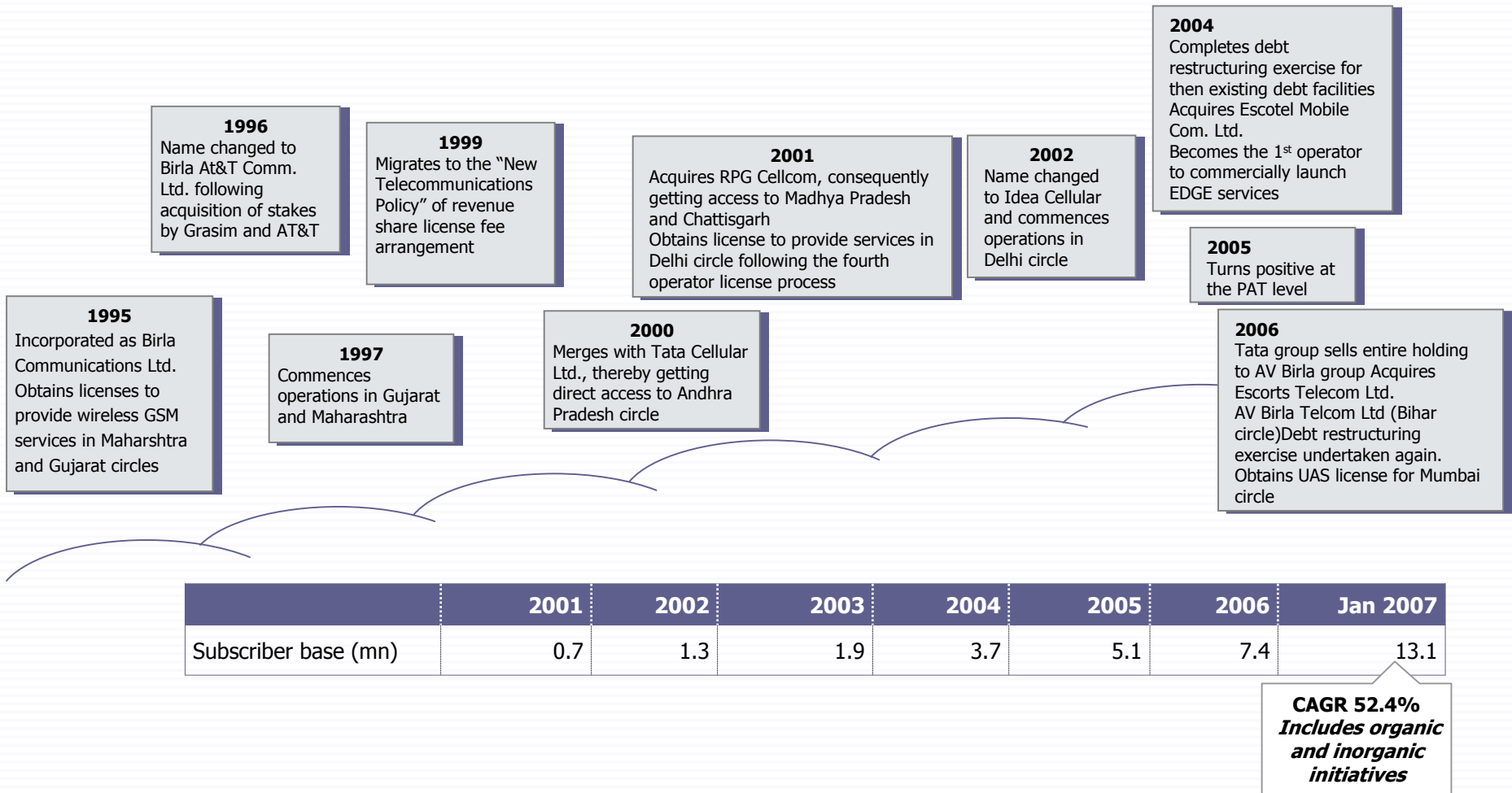
Optimally Placed

	Population (mn)	Wireless Mkt (mn)	Wireless Penetration (%)	IDEA Net Adds Jan -07 (mn)	Market-wide Net Adds Net Adds (mn)	IDEA Share of Net Adds Jan-07 (%)	(IDEA Subs) MoM % chg Jan-07	IDEA Subs (mn)	IDEA (Mkt Shr) (%)
AP	79.8	12.3	15.4	0.08	0.53	15.8	5.3	1.7	13.6
Bihar	121.0	5.8	4.8	0.00	0.31	-	-	-	-
Delhi	16.1	11.7	72.7	0.06	0.34	16.5	4.2	1.4	11.8
Gujarat	55.4	10.7	19.3	0.05	0.49	9.2	2.8	1.7	15.6
Haryana	23.3	4.0	17.1	0.06	0.29	18.9	7.4	0.8	20.2
HP	6.5	1.2	18.3	0.00	0.07	2.9	18.1	-	1.1
Kerala	33.1	7.0	21.1	0.04	0.20	20.3	2.9	1.4	20.5
MP	88.2	6.6	7.5	0.09	0.39	22.5	6.7	1.4	21.5
Maharashtra	108.3	11.7	10.8	0.13	0.55	23.9	5.1	2.7	23.1
Mumbai	16.4	9.8	60.0	0.00	0.22	-	-	-	-
Rajasthan	62.5	6.9	11.1	0.04	0.44	9.9	27.1	0.2	3.0
UP (East)	124.3	9.4	7.5	0.05	0.42	12.5	25.4	0.3	2.8
UP (West)	66.9	7.3	10.9	0.03	0.28	10.3	2.0	1.5	20.8
	801.7	104.3	13.0	0.63	4.54	13.9	5.1	13.1	

Source: TRAI, COAI, CMIE, AUSPI, ENAM Research

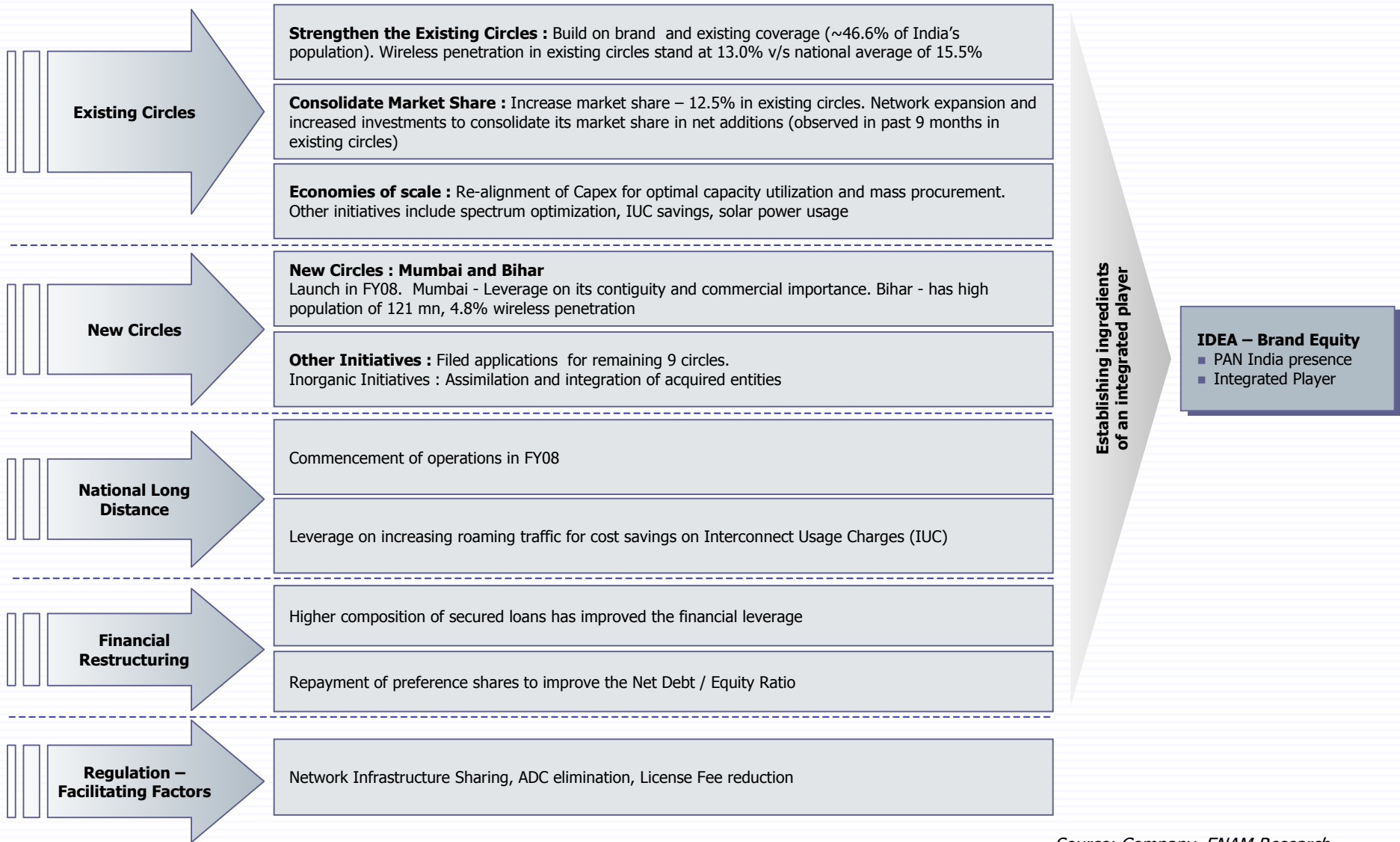
Idea leads in key circles of Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Kerala and HP

The journey till date



Source: Company, ENAM Research, COAI, AUSPI

At an inflexion point



Source: Company, ENAM Research

Circle Evaluation

	Dependence on Circle (by subs.%)	Gross Rev. (Rs mn)	Rev. Dependence (%)	AGR as a %age of Gross Rev.	License Fee (Rs mn)	Spectrum Charges (Rs mn)	Cell Sites	Freq. Spectrum		Salient Remarks
								Bandwidth in the 900 MHz	Bandwidth in the 1800 MHz	
AP	12.8	1,437	13.8	80.4	92.4	53.3	1,078	6.20	1.80	High ARPU circle
Bihar	0.0	-	0.0	5.5	4.5	0.00	-	-	-	License Awarded
Delhi	10.6	1,480	14.2	79.8	118.1	52.5	1,011	-	8.00	2 nd in revenue % despite Bharti's incumbency
Gujarat	13.1	1,157	11.1	82.8	76.6	35.4	1,028	6.20	-	
Haryana	6.0	535	5.1	71.9	23.0	13.8	438	6.20	-	
HP	0.1	-	0.0	1.1	17.2	0.00	552	-	6.20	
Kerala	11.2	1,134	10.9	78.1	53.1	43.1	61	6.20	-	Contiguity amidst circles ensures higher NLD traffic
MP	10.7	1,091	10.5	85.5	55.9	32.6	747	6.20	1.80	
Maharashtra	20.7	2,366	22.7	84.7	160.3	108.0	725	6.20	3.60	Rev. Concentration highest
Mumbai	0.0	-	0.0	9.6	58.6	0.00	-	-	-	Operations to be commenced
Rajasthan	1.3	-	0.0	6.5	10.4	0.05	730	-	6.20	
UP (East)	1.7	1	0.0	50.0	7.2	0.08	899	-	1.80	
UP (West)	11.9	1,239	11.9	80.6	59.9	49.0	1,331	7.80	2.00	
	100.0	10,439	100.0				8,600			

Source : TRAI, COAI, AUSPI, Company, ENAM Research

...the ideal placement

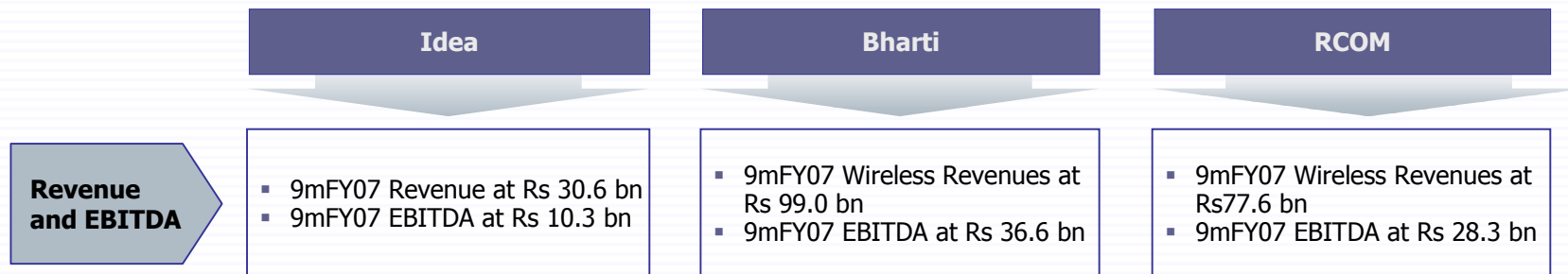
Subscriber Base

	Bharti	RCOM	Hutch	Idea
Mn Base -Jan 2007	33.73	27.51	21.65	13.07
Market Share (%)	22.02	20.49	14.13	8.53
Change in market share (%) in last 6 months	3.71	(0.58)	(0.67)	7.25
Last 6 months Market share (%) in Net Additions	24.36	20.13	13.85	10.25
% of Pre-Paid Subscribers (Dec 2006) (%)	87.10	82.90	84.09	88.00

Parametric Evaluation

	Bharti	RCOM	Hutch	Idea
ARPU (Rs.) *	427	328	420	338
MoU	467	454	406	353
ARPM (Rs.)	0.91	0.72	1.03	0.96
Churn Rate	24.36	20.13	13.85	10.25
Post Paid	3.50%	NA	4.30%	4.30%
Prepaid	4.80%	NA	5.20%	4.60%
Blended	NA	1.80%	5.10%	4.30%

Note: *Hutch for quarter ended Sept 2006. Rest with rest to Dec 2006. Idea for 9mFY07



Source : TRAI, COAI, AUSPI, Company, ENAM Research

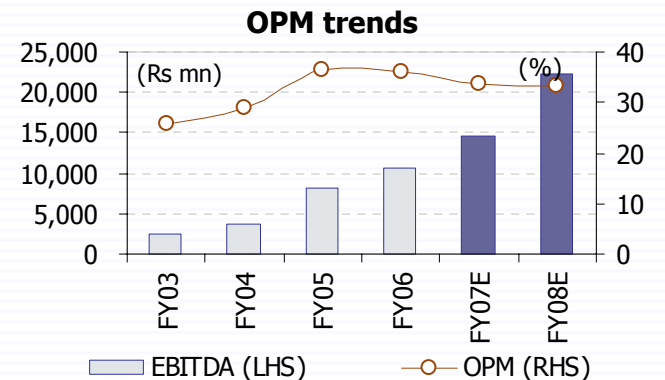
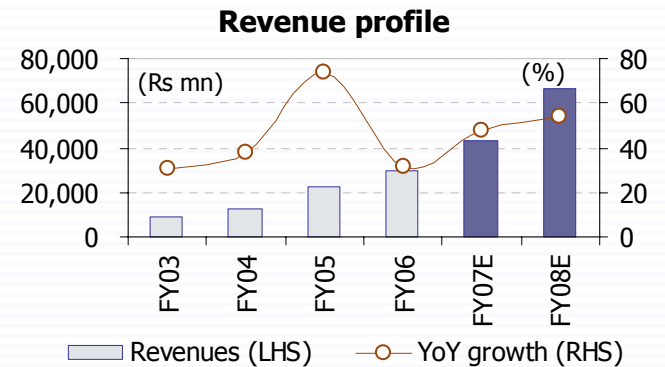
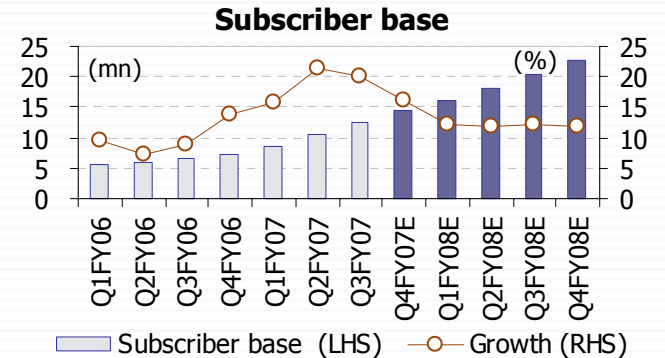
Financial Evaluation

➤ Gaining scale

- Idea's market share in existing circles stands healthy at 12.5%
- We expect subscriber base of 20.7mn in existing circles and ~2.0mn in new circles by March FY08
- FY06-FY08E topline growth of ~51% on ~ 75% CAGR growth in subscriber base
- Economies of scale and financial restructuring would result in Higher CAGR in PAT at 92% to Rs 7.5bn in FY08E
- RoCE to improve from 12.0% in FY06 to 13.9% in FY08E

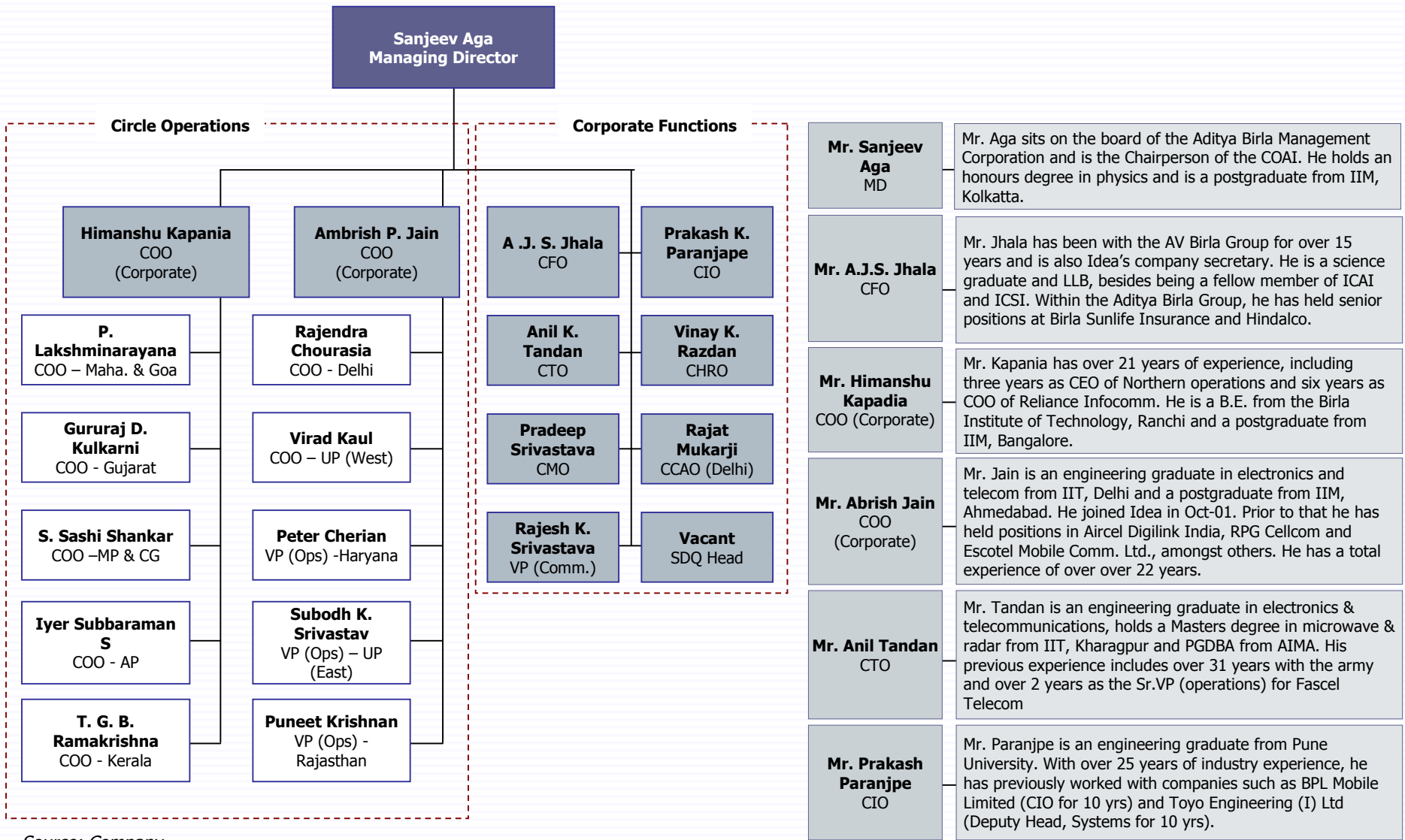
➤ Financial Leverage

- Repayment of Preference Shares
- EBITDA margin improvement in new circles. EBITDA in new circles was negative at Rs 528mn in 9mFY07 (~ 5% impact on consolidated EBITDA of Rs 10,330mn)



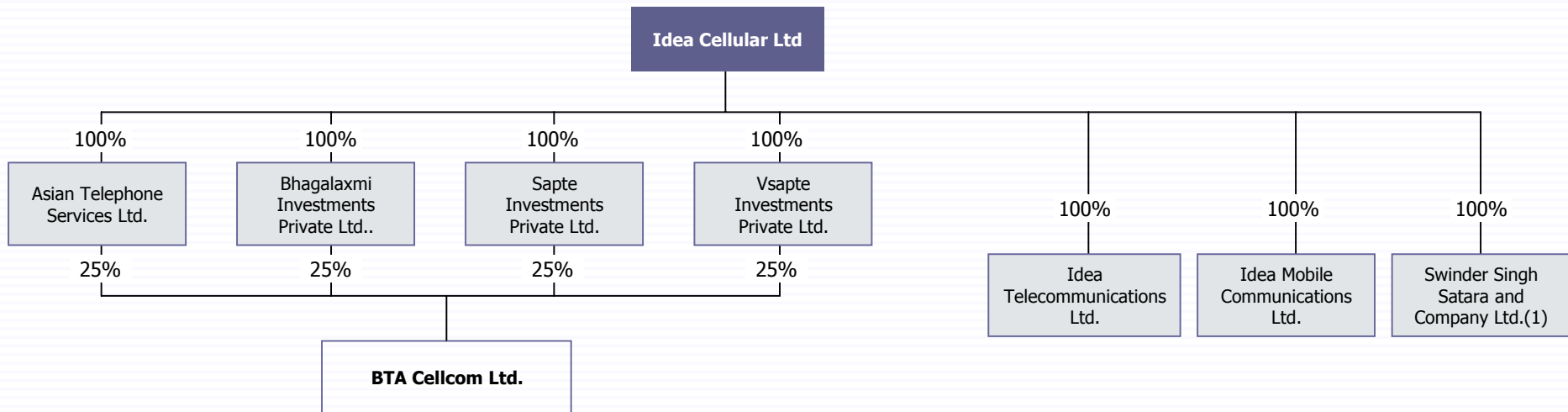
Source: Company, ENAM Research, COAI, AUSPI

Management Evaluation



Source: Company

Subsidiaries ...a good source of margin expansion



	Operations in	FY06 (Rs mn)		9mFY07 (Rs mn)		9mFY07 (%)	
		Revenue	PAT	Sales & Other Inc.	PAT	Sales & Other Inc.	PAT
BTA Cellcom	Madhya Pradesh	2,729	695	3,245	806	10.56	26.0
Idea Mobile Comm.	Kerala, Haryana, UP (West)	7,134	165	7,877	1,533	25.64	49.5
Idea Telecomm. Ltd	Rajasthan, Himachal Pradesh, UP (E)			158	(699)	0.51	(22.6)

Source: Company, ENAM Research

(1) SSS & Co. is the entity through which the company holds its real estate in the Delhi Circle.

PAT contribution from Andhra Pradesh, Delhi, Gujarat and Maharashtra is significant

Risk Factors

➤ Leveraged Balance Sheet

- **FY06** (including preference shares in debt) : Net Debt / Equity (x) at $\sim 5.7x$ is comparatively higher than peers
- **Dec 2006** : Net Debt / Equity (x) at ~ 4.4 v/s 0.34 for Bharti and 0.1 for RCOM

➤ Negative Network

- Idea has accumulated losses of Rs 14.3bn (Dec 2006). This is largely on account of huge license fees of Rs 20.7bn (especially for initial seven circles)

➤ Spectrum Availability

- Spectrum availability is key to sector growth. Unavailability of same would impact future growth. Additional spectrum expected to be allocated by DoT.

Valuation Comparison

	Bharti	RCom	Idea
Price (Rs.)	758	434	75
Shares outstanding (mn)	1,896	2,045	2,636
Market cap (Rs bn)	1,436	888	198
Net Debt (Rs bn)	41	15	38
Enterprise value (Rs bn)	1,477	902	236
Subs Base Mn (Jan 2007)	33.7	31.4	13.1
Ratios FY08			
EBIDTA margin % (consolidated)	40.9	40.5	33.4
RoCE (%)	32.2	19.2	13.9
Revenues / Depreciation & Amortisation (x)	7.3	6.4	6.7
Evaluation - Wireless Business			
EV % share	70%	70%	100%
Wireless EV (Rs bn)	1,034	632	236
EBIDTA margin % FY08E	38.5%	36.0%	33.4%
EBITDA (in Rsmn) - FY08E	79,701	54,244	22,268
Valuation - Wireless Business (FY08)			
EV / sub (USD) (Exchange Rate - Rs44.2)	694	455	408
EV/ EBIDTA (x)	13.0	11.6	10.6
Target EV/EBITDA (x)	18.0		14.4

Source: Company, ENAM Research. Note : Net debt excludes preference shares, to be repaid from IPO proceeds as per Offer document. Cash from IPO proceeds excluded for above consideration. However fully diluted shares of 2635 mn considered for target price.

We have valued IDEA at 20% discount to Target EV/EBITDA (x) of Bharti's wireless business

Implications : Aditya Birla Group Companies

Contribution of Idea

	Aditya Birla Nuvo Ltd.	Grasim Industries Ltd.	Hindalco Industries Ltd.	Birla TMT Holdings Pvt. Ltd.
FY06 Revenues (Rs. mn)	48,136	99,603	110,808	200
FY06 PAT (Rs. mn)	2,040	9,771	16,556	(84)
Current Market cap (Rs. mn)	107,420	204,905	159,805	-
Pre-issue shareholding in IDEA (%)	36.3	7.4	9.9	12.3
Post-issue shareholding in IDEA (%)	31.8	6.5	8.7	10.8
IDEA's contribution to Current Market cap (%)	58.5	6.3	10.7	-
Per Share Value of Shareholding in IDEA (post-issue)	673	140	15	-

Source: Bloomberg, Company filings, ENAM Research

Note: IDEA's contribution is calculated assuming share issue at Rs. 75 and the exercising of the greenshoe option.

Company Financials

Income statement

Y/E March (Rs mn)	2005	2006	2007E	2008E
Net sales	22,464	29,489	43,502	66,785
Other operating income	93	166	184	80
Total income	22,557	29,655	43,686	66,865
Cost of goods sold	10,039	12,999	19,514	28,691
Advt/Sales/Distrn	4,309	5,982	9,535	15,907
Operating Profit	8,210	10,674	14,636	22,268
Other income	171	243	96	40
PBIDT	8,381	10,917	14,732	22,308
Dep.& Amort.	4,427	5,495	7,012	9,999
Interest	3,189	3,225	3,569	4,576
Pre-tax profit	765	2,198	4,152	7,732
Tax provision	-	80	71	232
Adjusted PAT	765	2,117	4,081	7,501
E/o income / (Expense)	(83)	(87)	-	-
Reported PAT	683	2,030	4,081	7,501

Key ratios

Y/E March (%)	2005	2006	2007E	2008E
Sales growth	73.3	31.3	47.5	53.5
OPM	36.5	36.2	33.6	33.3
Oper. profit growth	118.6	30.0	37.1	52.1
COGS / Net sales	44.5	43.8	44.7	42.9
Overheads/Net sales	19.1	20.2	21.8	23.8
Depreciation / G. block	7.5	8.3	7.4	8.0
Effective interest rate	9.1	8.1	7.8	9.1
Net wkg.cap / Net sales	(0.1)	(0.2)	(0.2)	(0.2)
Net sales / Gr block (x)	0.5	0.5	0.5	0.6
Incremental RoCE	52.1	(78.7)	12.3	20.0
RoCE	10.1	12.0	11.7	13.9
Debt / equity (x)	9.6	5.9	1.5	1.1
Effective tax rate	-	3.7	1.7	3.0
RoE	19.0	39.3	19.9	19.5
EPS (Rs.)	0.3	0.9	1.5	2.8

Source: Company, ENAM Research

Note : Equity shares outstanding considered at 2635 mn (assuming full exercise of green-shoe option)

Company Financials

Balance sheet

Y/E March (Rs mn)	2005	2006	2007E	2008E
Total assets	46,511	44,694	88,030	89,350
Gross block	58,863	66,318	94,581	124,407
Net fixed assets	35,021	37,038	57,288	84,295
CWIP	954	1,731	5,178	7,250
Investments	-	-	-	-
Wkg. cap. (excl cash)	(3,211)	(7,778)	(11,650)	(17,464)
Cash / Bank balance*	1,772	1,493	25,609	3,664
Others/Def tax assets	11,975	12,211	11,605	11,605
Capital employed	46,511	44,694	88,030	89,350
Equity capital	22,595	22,595	26,354	26,354
Reserves	(18,223)	(16,193)	8,346	15,847
Borrowings	41,769	37,686	53,330	47,150
Others	370	606	-	-

Cash flow

Y/E March (Rs mn)	2005	2006	2007E	2008E
Sources	11,279	3,568	50,446	11,391
Cash profit	5,192	7,651	11,086	17,572
(-) Dividends	-	-	-	-
Retained earnings	5,192	7,651	11,086	17,572
Issue of equity	-	-	23,716	-
Borrowings	13,223	(4,083)	15,644	(6,181)
Others	(7,136)	-	-	-
Applications	11,279	3,568	50,446	11,391
Capital expenditure	11,536	8,289	30,709	39,078
Investments	(450)	-	-	-
Net current assets	(699)	(4,529)	(3,879)	(5,741)
Change in cash	892	(192)	23,616	(21,945)

Source: Company, ENAM Research

Note: * Cash & Bank includes liquid investments

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Disclosure of interest statement (As of March 8, 2007)	Idea Cellular	Bharti	RCOM	ABNL	Grasim	Hindalco
1. Analyst ownership of the stock	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	Yes	No	Yes	Yes
3. Directors ownership of the stock	Yes	Yes	Yes	Yes	Yes	Yes
4. Investment Banking mandate	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	Yes	No

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