

Idea Cellular Limited

A solid quarter but pressures ahead - maintain Underweight

In a seasonally strong quarter, Idea's results showcased volume growth and smaller pricing declines driving a robust 8% Q/Q revenue growth. While the quarter saw solid operating metrics, management highlighted potential MOU pressure and didn't deny the possibility of post-paid pricing declines. We remain concerned about profitability in FY12, and we don't believe Idea is best positioned to absorb 3G related expenses. We maintain our Underweight rating and our Dec-11 price target of Rs60, which implies 17% downside.

- **Idea delivered a strong 3Q FY11**, which was well received by the market. 3Q revenue of Rs39.6B increased 8% Q/Q while net profit (helped by lower net interest expenses) was up 35% Q/Q. The EBITDA margin was stable at 24.0%. Minutes grew 10% Q/Q and the ARPM decline moderated to ~1% from 3-6% earlier.
- **Staggered 3G launch to help 4Q FY11 bottom line:** We expect continued margin pressure in 4Q on account of network opex and SG&A. Nevertheless, due to Idea's expected launch of 3G services in the "next few months" and that, too, in a staggered manner, amortization of capitalized interest and the license fee will have a small impact in 4Q FY11. For FY11, our EPS estimate is now increased by 11% to Rs2.5.
- **Little room for a FY12 miss:** We expect pricing pressure in FY12 driven by the post-paid segment on account of Mobile Number Portability – something the company did not dismiss. We also expect some MOU dilution, as Idea continues to add low-usage subs. We are forecasting a 16%/17% growth in revenue/EBITDA but a 30% decline in net profit. On our estimates, depreciation & amortization together with net interest expenses account for 85% of FY12 EBITDA, leaving Idea little room to absorb any operational disappointments.
- **We maintain our Dec-11 SOTP-based PT of Rs60:** Idea trades at 40.4x FY12E P/E and 7.9x EV/EBITDA, a 171% and 11% premium, respectively, to Bharti, which see as unjustified. Risks to our PT include monetization of tower assets, potential M&A activity, and lower pricing pressure.

Underweight

IDEA.BO, IDEA IN

Price: Rs71.65

Price Target: Rs60.00

India

Wireless Services

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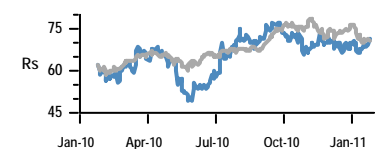
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Price Performance



| | YTD | 1m | 3m | 12m |
|-----|------|------|------|-------|
| Abs | 1.2% | 2.1% | 0.1% | 15.1% |
| Rel | 8.5% | 7.3% | 7.0% | 1.5% |

Idea Cellular Limited (Reuters: IDEA.BO, Bloomberg: IDEA IN)

| Rs in mn, year-end Mar | FY09A | FY10A | FY11E | FY12E | | |
|-------------------------|---------|---------|---------|---------|--------------------------------|---------------|
| Revenue | 101,493 | 124,471 | 154,209 | 178,650 | 52-wk range (Rs) | 80.00 - 48.50 |
| EBITDA | 28,353 | 33,651 | 37,194 | 43,429 | Mkt cap (Rs mn) | 236,557 |
| EBITDA margin | 27.9% | 27.0% | 24.1% | 24.3% | Mkt cap (\$ mn) | 5,179 |
| Net Profit | 9,009 | 9,539 | 8,328 | 5,853 | Shares O/S (mn) | 3,302 |
| Adjusted EPS (Rs) | 3.1 | 3.1 | 2.5 | 1.8 | Free float (%) | 39.3% |
| Adjusted EPS growth (%) | (22.7%) | 0.1% | (17.5%) | (29.7%) | 3-mth avg trading volume | 4,281,221 |
| EV/EBITDA (x) | 9.7 | 8.9 | 9.3 | 7.9 | 3m Average daily value (\$ mn) | 6.52 |
| Adjusted P/E | 23.45 | 23.42 | 28.41 | 40.42 | NIFTY | 5,687 |
| FCF to mkt cap (%) | 9.6% | (3.2%) | 3.7% | 3.6% | Exchange Rate | 45.68 |
| ROE | 10.7% | 7.7% | 7.1% | 4.7% | Price (Rs) | 71.65 |
| Net deb/EBITDA | 1.3 | 1.9 | 2.9 | 2.5 | Date Of Price | 25 Jan 11 |

Source: Company data, Bloomberg, J.P. Morgan estimates.

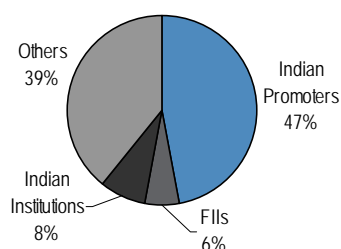
See page 12 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

Idea Cellular is a pure play wireless GSM operator in India. The company has a strong management team and is backed by the Aditya Birla group, which has a 49% stake in the operator. After the recently completed acquisition of 100% of Spice, Idea Cellular has operations in all 22 service areas of India. Idea (including Spice) has 11% subscriber market share and 13% revenue share. In addition to a pan-India presence, Idea has a 16% stake in Indus Towers.

Shareholding (Sep-10)



Source: Company Reports

J.P. Morgan vs. consensus

| Sales | | |
|--------|--------------|-----------|
| Rs MM | J. P. Morgan | Consensus |
| FY11E | 154,209 | 152,057 |
| FY12E | 178,650 | 179,749 |
| EBITDA | | |
| Rs MM | J. P. Morgan | Consensus |
| FY11E | 37,194 | 36,896 |
| FY12E | 43,429 | 46,405 |
| EPS | | |
| Rs | J. P. Morgan | Consensus |
| FY11E | 2.5 | 2.1 |
| FY12E | 1.8 | 2.0 |

Source: Bloomberg, J.P. Morgan.

Table 1: Valuation comparison

| Company name | Ticker | Rating | Current Price | Target price | Upside / downside | P/E (x) | | EV/EBITDA (x) | | Valuation Method |
|-------------------------|-----------|--------|---------------|--------------|-------------------|---------|-------|---------------|-------|------------------|
| | | | | | | FY11E | FY12E | FY11E | FY12E | |
| Bharti Airtel | BHARTI IN | N | 338 | 380 | 13% | 18.1 | 14.9 | 9.1 | 7.1 | SOTP |
| Reliance Communications | RCOM IN | N | 133 | 160 | 20% | 12.7 | 13.6 | 7.9 | 6.7 | SOTP |
| Idea Cellular | IDEA IN | UW | 72 | 60 | -16% | 28.4 | 40.4 | 9.3 | 7.9 | SOTP |
| Tulip Telecom | TTSL IN | OW | 173 | 230 | 33% | 8.6 | 6.7 | 5.8 | 4.6 | SOTP |
| Tata Communications | TCOM IN | UW | 256 | 245 | -4% | 4.6 | 4.6 | 10.9 | 9.5 | SOTP |

Source: Bloomberg, J.P. Morgan estimates. Priced as of 25 Jan, 2011

| P&L sensitivity metrics | FY11 EBITDA impact (%) | FY11 EPS impact (%) |
|-------------------------|------------------------|---------------------|
| Mobile revenue (INR mn) | 155,382 | |
| Impact of each 5% | 4.4% | 18.2% |
| Indus revenue (INR mn) | 11,255 | |
| Impact of each 5% | 0.6% | 2.7% |
| EBITDA margin (%) | 24.1% | |
| Impact of each 1% | 4.1% | 17.3% |
| Capex (INR mn) | 29,038 | |
| Impact of each 5% | NA | 0.9% |

Source: Company Reports and J.P. Morgan Estimates

Price target and valuation analysis

Our December 2011 SOTP-based price target is Rs60. This includes a DCF-based value of Rs43 for Idea's core business and Rs16 for Idea's 16% stake in Indus.

| | |
|----------------------|------|
| Risk free rate: | 7.5% |
| Market risk premium: | 7.5% |
| Beta: | 1.1 |
| Debt/capital | 30% |
| Cost of debt: | 5.0% |
| Terminal "g": | 3.0% |

Source: J.P. Morgan Estimates

Risks to our ratings and price target are: 1) faster-than-expected growth in profitability in new circles; 2) monetization of tower assets; 3) potential M&A activity; and 4) operators refraining from price aggression in post-paid segment.

Key takeaways from results and conf call

Volumes strong in 3Q but watch dilution in MOUs

Total minutes carried on Idea's network increased 10.2% Q/Q (vs. a 3% Q/Q increase in Q2, 15% in Q3FY10). This was driven by a 42% Q/Q increase in the monthly net adds rate because MOUs increased only 1.8%. Management flagged a seasonally strong Q3 which drove volume growth. We believe the modest MOU increase indicates some usage dilution from the new net adds. Management indicated that it may be difficult to "hold" MOU per sub as the company is acquiring a large number of subs.

Standalone revenue (excl. Indus) was Rs39.9B in 3Q (+8.2% Q/Q), 3.4% above our estimate of Rs38.6B. Consolidated revenue of Rs39.6B (+8% Q/Q), is 3.1%/2.7% above JPME/consensus.

Post-paid pricing pressure not dismissed

In 3Q, ARPM fell by 0.5paise to Rs41.8 paisa, in line with our estimate. This is a 1.1% Q/Q decline, an improvement from the 3.4% decline in 2Q and the 5.7% in 1Q. ARPU was Rs168 (+1% Q/Q). Management highlighted that pricing trends appear to have improved, but also that "activity" continued at the segment level and churn levels can be expected to stay high. A negative metric in 3Q was blended churn, which increased to 10.0% from 8.0% in 2Q FY11, driven by a 2.1pp increase in pre-paid churn. This is significantly higher than Bharti's churn of 6% (2Q) and RCOM's 3.5% (2Q). We are concerned about the increase in churn at Idea and believe this can drive a further increase in SG&A expenses in 4Q FY11 (to Mar-2011).

Importantly, when asked about post-paid pricing pressures from MNP, management did not rule out pricing pressure. Management juxtaposed this with comments that it did not expect a large impact on overall pricing as a result.

Expect continue margin pressure

Despite 8%+ Q/Q revenue growth, margins remained flat at 24%. This can be attributed to a 32% Q/Q increase in SG&A expenses. Standalone EBITDA margin was 20.6%, 30bp above JPMe. This is a near stable Q/Q (0.1pp decline) after the 0.9pp in Q2. We note that margins in Idea's established circles declined 30bp to 26.7% and in new circles improved 7.3pp to -34.9%.

We expect margin pressure to remain in 4Q and for FY12 and forecast EBITDA margins of 24.2% and 24.3% respectively for each.

SG&A expenses which increased 32% Q/Q were driven by [1] higher gross adds, and [2] higher advertising expenses. We expect both these drivers to continue in 4Q and forecast another 5.5% Q/Q increase in this cost.

Network opex in 3Q was lower by 1.5% Q/Q but this was due to a reversal of provision of Rs150MM, adjusting for which network opex would have been flat Q/Q. Management also highlighted some savings on leased-line costs which are sustainable. We believe slower-than-expected capex has helped keep network opex

in check, but with some capex spill over expected in FY12 we expect network opex to increase too.

Capex spillover into FY12

FY11 capex guidance was reduced by Rs10B to Rs30B, driven by the spillover into FY12 and some savings, both of which were “significant” contributors to the guidance cut. This is the third reduction this year, which started at Rs40-44B, and was revised down to Rs40B in the 2Q results in October 2010.

We expect a spillover of capex from FY11 to FY12. We reduce our FY11 capex estimate by Rs6B to Rs29B, but increase our FY12 capex by Rs7.6B to Rs36.6B. While there is no guidance for FY12 capex yet (expect this at 4Q results) management broadly expects this to be in line with cash profits. Our FY12 cash profits estimate is Rs35.4B.

Idea’s 3Q capex was Rs9.5B, 24% of sales (JPME: Rs10.8B, 28%) vs. Rs8B in 1H FY11. As a percentage of sales, management expects this to stay high in the near term due to 3G spend being mismatched with revenue. The bulk of 3G capex is in the backbone (fibre).

Below-the-line items help bottom line - some 4Q benefit seen too

Net profit was Rs2.43B (+35% Q/Q). Idea reported EPS for 3Q FY11 of Rs0.74, 23% above JPME and consensus estimate of Rs0.60. The bottom line was helped by stronger revenue, but also lower-than-expected interest expenses, in our view. We note the revenue beat vs. consensus was ~Rs1B, but at EBITDA it was only Rs130MM. Net interest costs were lower Q/Q as the previous quarter had a ~Rs100MM one-off charge. Interest expenses relating to 3G auction fees of Rs1.24B were capitalized during the quarter.

3G services are expected to be launched in the 11 service areas in the next few months. Related amortization of license and capitalized interest will be on a circle-by-circle basis so we don’t expect a big 4Q impact. We expect a full impact in FY12 and a slightly larger one (due to two fewer quarters of amortizing period). Our FY12 EPS estimate remains unchanged at Rs1.8 despite a 1.7% increase in revenue (+Rs2.9B) and 1.6% increase in EBITDA (+Rs667MM).

Table 2: Financial metrics

Rs in millions, year-end March

| | 3Q FY11 Actual | 3Q FY11E JPMe | 3Q FY11E Cons | Actual vs. JPMe | Actual vs. cons. | 2Q FY11 | % Q/Q | 3Q FY10 | % Y/Y |
|--------------------------|-------------------|------------------|------------------|--------------------|---------------------|----------|----------|----------|----------|
| Revenue | 39,556 | 38,348 | 38,517 | 3.2% | 2.70% | 36,592 | 8.1% | 31,495 | 25.6% |
| Interconnection cost | (6,356) | (6,269) | | 1.4% | | (5,825) | 9.1% | (4,533) | 40.2% |
| License fee and spectrum | (4,529) | (4,363) | | 3.8% | | (4,178) | 8.4% | (3,452) | 31.2% |
| Network operating costs | (9,936) | (10,681) | | -7.0% | | (10,091) | -1.5% | (7,937) | 25.2% |
| Employee Costs | (2,072) | (2,120) | | -2.3% | | (2,155) | -3.9% | (1,605) | 29.1% |
| SG&A | (5,440) | (4,242) | | 28.2% | | (4,112) | 32.3% | (4,316) | 26.0% |
| Other | (1,741) | (1,534) | | 13.5% | | (1,443) | 20.7% | (1,332) | 30.7% |
| Total operating expense | (30,074) | (29,209) | | 3.0% | | (27,804) | 8.2% | (23,174) | 29.8% |
| EBITDA | 9,483 | 9,139 | 9,347 | 3.8% | 1.4% | 8,788 | 7.9% | 8,320 | 14.0% |
| margin (%) | 24.0% | 23.8% | 24.3% | 0.14pp | -0.30pp | 24.0% | -0.04pp | 26.4% | -2.45pp |
| EBIT | 3,557 | 3,323 | 3,495 | 7.1% | 2% | 2,968 | 19.8% | 3,190 | 11.5% |
| margin (%) | 9.0% | 8.7% | 9.1% | 0.33pp | -0.08pp | 8.1% | 0.88pp | 10.1% | -1.14pp |
| Profit before tax | 2,616 | 2,152 | 2,335 | 22% | 12% | 1,940 | 35% | 2,252 | 16% |
| Net income | 2,431 | 1,980 | 1,974 | 23% | 23% | 1,797 | 35% | 1,859 | 31% |
| EPS (INR) | 0.74 | 0.60 | 0.60 | 23% | 23% | 0.54 | 35% | 0.60 | 23% |
| Capex | 9,471 | 10,812 | | | | 4,824 | 96.3% | 9,716 | -2.5% |
| Capex/sales (%) | 24% | 28% | | | | 13% | 10.76pp | 31% | -6.91pp |

Source: Company reports, J.P. Morgan estimates, Bloomberg. We note that Y/Y comparisons aren't very relevant due to integration of Spice from March 2010

Table 3: Operational metrics

| Year-end March | 3Q FY11 Actual | 3Q FY11E JPMe | Actual vs. JPMe | 2Q FY11 | % Q/Q | 3Q FY10 | % Y/Y |
|---------------------------------|-------------------|------------------|--------------------|---------|----------|---------|----------|
| Subscribers ('000s) | 81,779 | 80,664 | 1.4% | 74,214 | 10.2% | 52,264 | 56.5% |
| Net adds ('000s) | 7,565 | 6,450 | 17.3% | 5,327 | 42.0% | 5,506 | 37.4% |
| Net adds per month ('000s) | 2,522 | 2,150 | 17.3% | 1,776 | 42.0% | 1,835 | 37.4% |
| Pre-paid share in base (%) | 96.3% | 96.3% | 0.00pp | 96.1% | 0.20pp | 95.8% | 0.50pp |
| Churn (%) | 10.0% | 8.2% | 1.80pp | 8.0% | 2.00pp | 9.1% | 0.90pp |
| Minutes (mn) | 93,503 | 92,222 | 1.4% | 84,828 | 10.2% | 57,841 | 61.7% |
| ARPM (INR) | 0.42 | 0.42 | 0.2% | 0.42 | -1.2% | 0.51 | -18.5% |
| MOU (minutes per month) | 401 | 396 | 1.3% | 394 | 1.8% | 389 | 3.1% |
| ARPU (INR) | 168 | 166 | 1.5% | 167 | 0.6% | 200 | -16.0% |
| Blended ARPM (INR) | 0.42 | 0.42 | -0.2% | 0.42 | -1.2% | 0.51 | -18.5% |
| VAS as a % of revenue | 13.0% | 13.5% | -0.51pp | 12.9% | 0.10pp | 11.2% | 1.80pp |
| Revenue break-up (INR m) | | | | | | | |
| Standalone | 39,901 | 38,572 | 3.4% | 36,891 | 8.2% | 30,610 | 30.4% |
| Indus | 2,772 | 2,998 | -7.5% | 2,777 | -0.2% | 2,216 | 25.1% |
| Eliminations | (3,117) | (3,223) | -3.3% | (3,075) | 1.4% | (2,822) | 10.5% |
| Total | 39,556 | 38,348 | 3.2% | 36,592 | 8.1% | 31,495 | 25.6% |
| EBITDA break-up (INR m) | | | | | | | |
| Standalone | 8,213 | 7,814 | 5.1% | 7,618 | 7.8% | 7,203 | 14.0% |
| Indus | 1,269 | 1,325 | -4.2% | 1,170 | 8.5% | 771 | 64.6% |
| Total reported | 9,482 | 9,139 | 3.8% | 8,788 | 7.9% | 8,141 | 16.5% |
| Adjusted EBITDA | 9,482 | 9,139 | 3.8% | 8,788 | 7.9% | 8,320 | 14.0% |
| EBITDA Margin (%) | | | | | | | |
| Standalone | 20.6% | 20.3% | 0.33pp | 21% | -0.07pp | 24% | -2.95pp |
| Indus | 46% | 44% | 1.58pp | 42% | 3.65pp | 35% | 10.99pp |
| Total reported | 24% | 24% | 0.14pp | 24% | -0.05pp | 26% | -1.88pp |
| Adjusted EBITDA | 24% | 24% | 0.14pp | 24% | -0.05pp | 26% | -2.45pp |

Source: Company reports, J.P. Morgan estimates

Forecast changes

Table 4: Idea Cellular: New vs. old estimates

Rs in millions, year-end March

| | FY11E | FY12E |
|--------------------------|---------|---------|
| Revenue | | |
| New | 154,209 | 178,650 |
| Old | 152,044 | 175,694 |
| % Change | 1.4% | 1.7% |
| Y/Y growth (%) | 23.9% | 15.8% |
| EBITDA | | |
| New | 37,192 | 43,429 |
| Old | 36,036 | 42,761 |
| % Change | 3.2% | 1.6% |
| Y/Y growth (%) | 9.2% | 16.8% |
| EBITDA Margin (%) | | |
| New | 24.1% | 24.3% |
| Old | 23.7% | 24.3% |
| % Change | 0.4% | 0.0% |
| Reported Profit | | |
| New | 8,328 | 5,853 |
| Old | 7,531 | 6,020 |
| % Change | 10.6% | -2.8% |
| Y/Y growth (%) | -12.7% | -29.7% |
| EPS (INR) | | |
| New | 2.5 | 1.8 |
| Old | 2.3 | 1.8 |
| % Change | 10.6% | -2.8% |
| Y/Y growth (%) | -17.5% | -29.7% |
| Capex | | |
| New | 29,038 | 36,565 |
| Old | 35,049 | 28,920 |
| % Change | -17.2% | 26.4% |
| Y/Y growth (%) | -12.0% | 25.9% |
| Capex/sales | | |
| New | 19% | 20% |
| Old | 23% | 16% |
| % point change | -4.2% | 4.0% |

Source: J.P. Morgan estimates

J.P. Morgan forecasts vs. consensus

Table 5: J.P. Morgan vs. consensus

| | FY11E | FY12E |
|----------------------------------|---------|---------|
| <u>Sales (Rs MM)</u> | | |
| JPMe | 154,209 | 178,650 |
| Cons | 152,057 | 179,749 |
| <i>Diff</i> | 2,152 | (1,099) |
| <i>% diff</i> | 1.4% | -1% |
| <u>EBITDA (Rs MM)</u> | | |
| JPMe | 37,194 | 43,429 |
| Cons | 36,896 | 46,405 |
| <i>Diff</i> | 298 | (2,976) |
| <i>% diff</i> | 1% | -6% |
| <u>EBITDA margin</u> | | |
| JPMe | 24.1% | 24.3% |
| Cons | 24.3% | 25.8% |
| <i>% diff</i> | -0.1% | -1.5% |
| <u>Net Income (Rs MM)</u> | | |
| JPMe | 8,328 | 5,853 |
| Cons | 6,900 | 6,607 |
| <i>Diff</i> | 1,428 | (754) |
| <i>% diff</i> | 21% | -11% |
| <u>Net margin</u> | | |
| JPMe | 5.4% | 3.3% |
| Cons | 4.5% | 3.7% |
| <i>% diff</i> | 1% | 0% |
| <u>EPS (Rs)</u> | | |
| JPMe | 2.5 | 1.8 |
| Cons | 2.1 | 2.0 |
| <i>Diff</i> | 0.4 | (0.2) |
| <i>% diff</i> | 20% | -11% |

Source: Bloomberg, J.P. Morgan.

Valuation and rating analysis

Our Dec 11 price target of Rs60 is based on our SOTP valuation. We use a WACC of 12% and a terminal growth rate of 3%. We have reduced our capex estimates slightly based on management's guidance for Rs30B in FY11 vs. Rs40B indicated earlier.

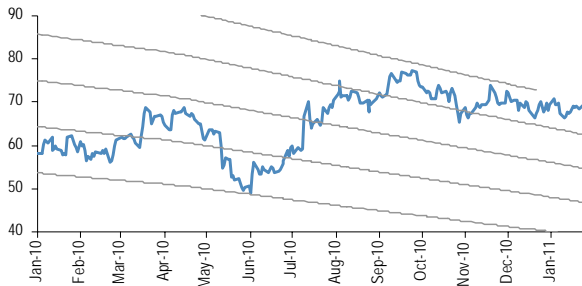
Table 6: Sum-of-the-parts valuation

| Rs | |
|------------------------------|-----------|
| Core business DCF | 43 |
| Indus stake | 16 |
| Value per share (INR) | 60 |
| Upside (Downside) | -17% |

Source: J.P. Morgan estimates.

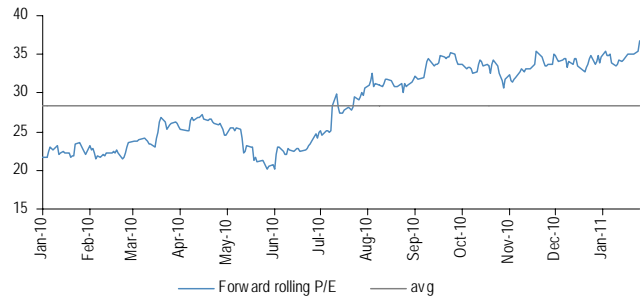
Risks to our ratings and price target are: (1) operators staying away from price competition post 3G/MNP; (2) faster-than-expected growth in profitability in new circles; and (3) monetization of tower assets, and consolidation, M&A in the sector.

Figure 1: Idea: One-year forward P/E band chart



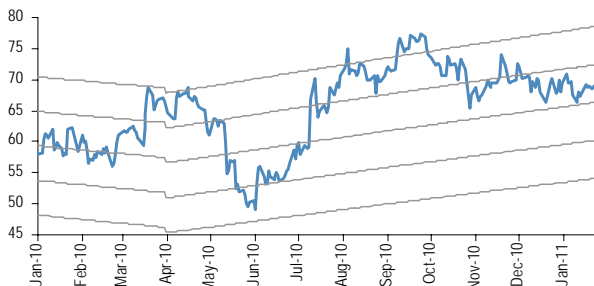
Source: Company reports, J.P. Morgan estimates, Bloomberg

Figure 2: Idea: One-year rolling P/E chart



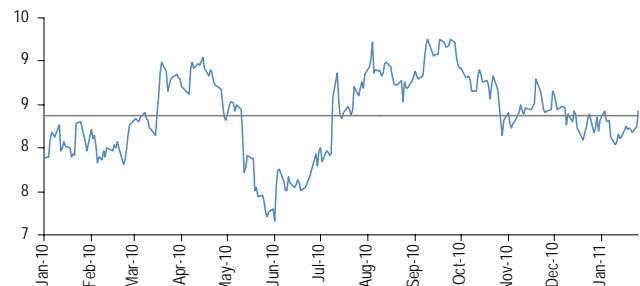
Source: Company reports, J.P. Morgan estimates, Bloomberg

Figure 3: Idea: One-year forward EV/EBITDA band chart



Source: Company reports, J.P. Morgan estimates, Bloomberg

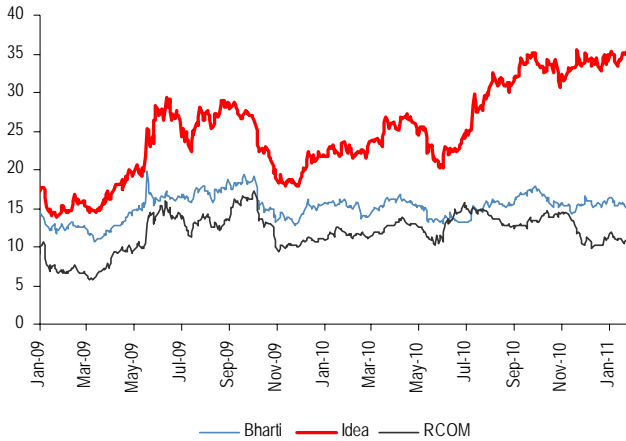
Figure 4: Idea: One-year rolling EV/EBITDA chart



Source: Company reports, J.P. Morgan estimates, Bloomberg

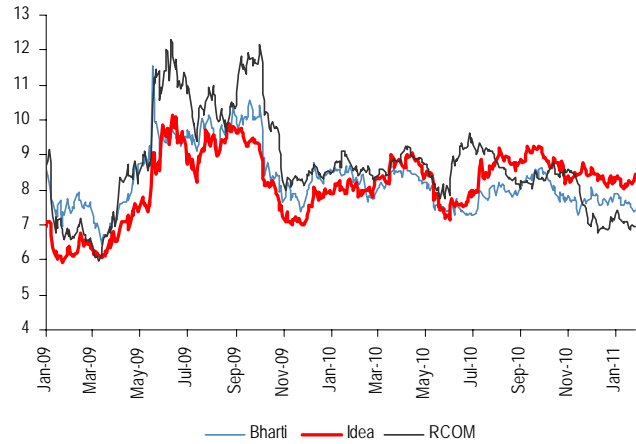
On our estimates, Idea trades at 40.4x FY12 P/E and 7.9x EV/EBITDA, a 171% and 8% premium, respectively, to Bharti, which we believe is unjustified. The premium to Bharti has widened over the past weeks. Idea's ROE for FY10E was 7%, vs. 28% for Bharti and 12% for RCOM; we forecast a flat ROE for Idea to 5% in FY11 and expect it to remain single digits for the next two years.

Figure 5: Idea's P/E vs. Bharti's and RCOM's



Source: Bloomberg, J.P. Morgan

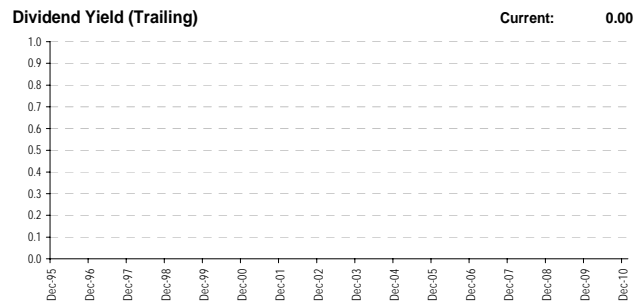
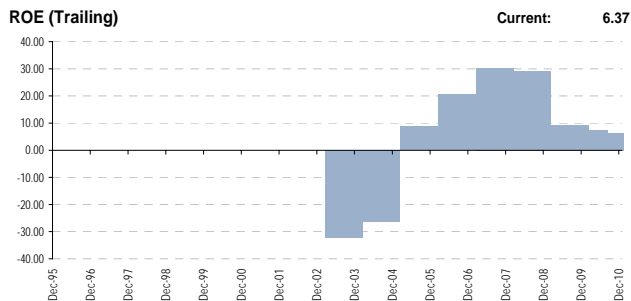
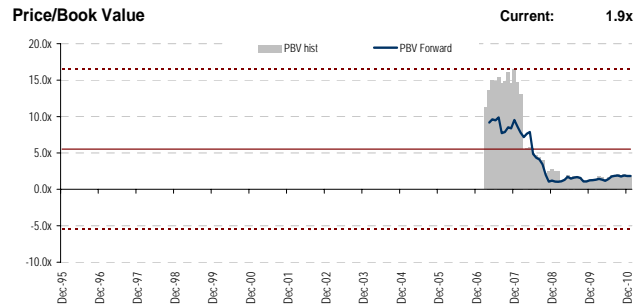
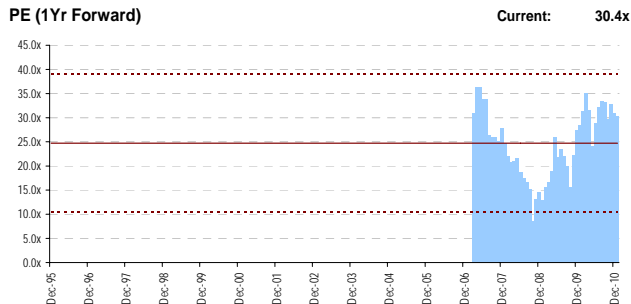
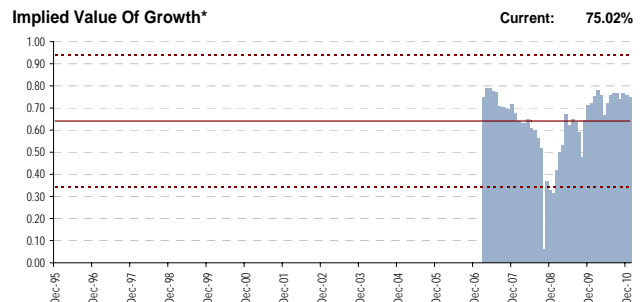
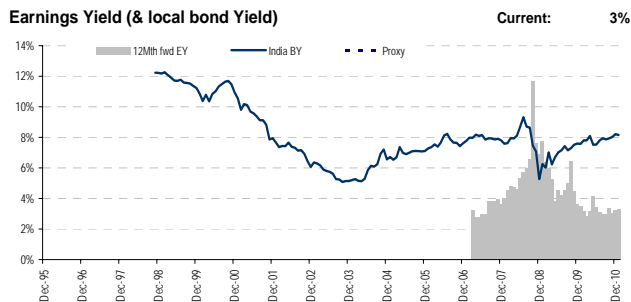
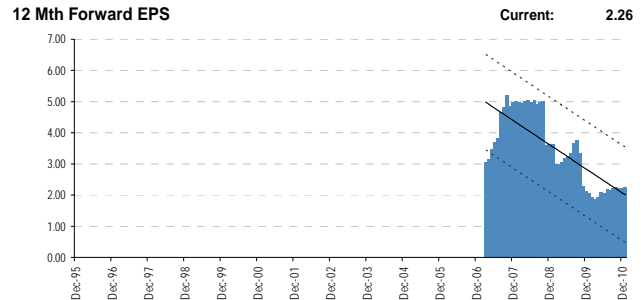
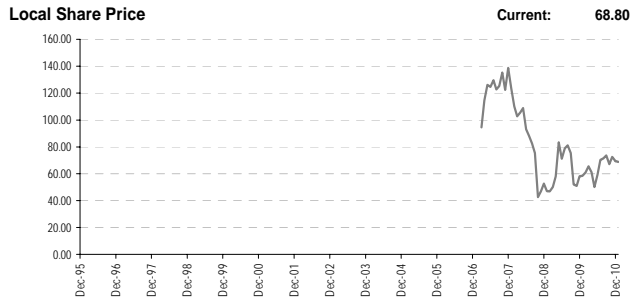
Figure 6: Idea's EV/EBITDA vs. Bharti's and RCOM's



Source: Bloomberg, J.P. Morgan

JPM Q-Profile
Idea Cellular Ltd. (INDIA / Telecommunication Services)
 As Of: 21-Jan-2011

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

| Idea Cellular Ltd. | | SEDOL | | B1MP4H4 | | | | As Of: 21-Jan-11 | | | |
|----------------------------|--------|--------|-------|---------|---------|---------|----------|--------------------|----------|----------|----------|
| INDIA | | | | | | | | Local Price: 68.80 | | | |
| Telecommunication Services | | | | | | | | EPS: 2.26 | | | |
| | Latest | Min | Max | Median | Average | 2 S.D.+ | 2 S.D. - | % to Min | % to Max | % to Med | % to Avg |
| 12mth Forward PE | 30.42x | 8.54 | 36.29 | 25.20 | 24.73 | 38.98 | 10.48 | -72% | 19% | -17% | -19% |
| P/BV (Trailing) | 1.91x | 1.13 | 16.50 | 2.27 | 5.53 | 16.55 | -5.49 | -41% | 764% | 19% | 189% |
| Dividend Yield (Trailing) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| ROE (Trailing) | 6.37 | -32.18 | 30.31 | 9.41 | 5.84 | 50.22 | -38.54 | -605% | 376% | 48% | -8% |
| Implied Value of Growth | 75.0% | 0.06 | 0.79 | 0.68 | 0.64 | 0.94 | 0.34 | -92% | 5% | -10% | -15% |

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Idea Cellular Limited: Summary of Financials

| Profit and Loss Statement | | | | | Balance Sheet statement | | | | |
|------------------------------|----------|----------|----------|----------|------------------------------|---------|---------|---------|---------|
| Rs in millions, year end Mar | FY10 | FY11E | FY12E | FY13E | Rs in millions, year end Mar | FY10 | FY11E | FY12E | FY13E |
| Revenue | 124,471 | 154,209 | 178,650 | 199,616 | Cash and equivalents | 14,204 | 5,795 | 17,566 | 4,813 |
| EBITDA | 33,650 | 37,194 | 43,429 | 53,137 | Accounts receivable | 4,656 | 5,569 | 6,451 | 7,208 |
| D&A | (20,149) | (24,039) | (29,539) | (29,940) | Others | 29,075 | 39,501 | 44,474 | 49,671 |
| | | | | | Total Current assets | 47,934 | 50,864 | 68,492 | 61,692 |
| EBIT | 13,501 | 13,154 | 13,889 | 23,197 | Total current liabilities | 40,680 | 53,189 | 61,464 | 66,539 |
| Interest income | 0 | 0 | 1,144 | 559 | Net working capital | 7,254 | (2,325) | 7,028 | (4,846) |
| Interest expense | (4,005) | (4,244) | (8,530) | (8,321) | Net fixed assets | 181,678 | 255,844 | 262,870 | 258,415 |
| Net Interest expense | (4,005) | (4,244) | (7,386) | (7,762) | Other long term assets | 5,526 | -14,390 | -14,916 | 61 |
| Profit before tax | 10,332 | 8,910 | 6,503 | 15,435 | Total non-current assets | 187,204 | 241,454 | 247,954 | 258,476 |
| Tax | (1,164) | (582) | (650) | (3,859) | Total Assets | 235,138 | 292,318 | 316,446 | 320,168 |
| Net profit - reported | 9,539 | 8,328 | 5,853 | 11,576 | Long-term debt | 78,593 | 114,363 | 124,363 | 111,434 |
| Net profit - adjusted | 9,539 | 8,328 | 5,853 | 11,576 | Other liabilities | 2,142 | 2,520 | 2,520 | 2,520 |
| Shares Outstanding | 3,118 | 3,302 | 3,302 | 3,302 | Total Liabilities | 121,415 | 170,072 | 188,347 | 180,493 |
| EPS (Rs) (Reported) | 3.1 | 2.5 | 1.8 | 3.5 | Shareholders' equity | 113,724 | 122,246 | 128,099 | 139,675 |
| EPS (Adjusted) | 3.1 | 2.5 | 1.8 | 3.5 | Total liabilities and equity | 235,138 | 292,318 | 316,446 | 320,168 |
| Revenue growth | 22.6% | 23.9% | 15.8% | 11.7% | Net debt/(cash) | 64,389 | 108,568 | 106,797 | 106,621 |
| EBITDA growth | 18.7% | 10.5% | 16.8% | 22.4% | Book value per share | 36.47 | 37.03 | 38.80 | 42.31 |
| Net profit growth | 5.9% | (12.7%) | (29.7%) | 97.8% | | | | | |
| EPS growth | 0.1% | (17.5%) | (29.7%) | 97.8% | | | | | |
| EBITDA margin | 27.0% | 24.1% | 24.3% | 26.6% | | | | | |
| EBIT Margin | 10.8% | 8.5% | 7.8% | 11.6% | | | | | |
| Net margin | 7.7% | 5.4% | 3.3% | 5.8% | | | | | |

| Ratio Analysis | | | | | Cash flow statement | | | | |
|-----------------|---------|---------|---------|---------|--------------------------------|----------|----------|----------|----------|
| %, year end Mar | FY10 | FY11E | FY12E | FY13E | Rs in millions, year end Mar | FY10 | FY11E | FY12E | FY13E |
| P/E (Adjusted) | 23.4 | 28.4 | 40.4 | 20.4 | Cash flow from operations | 25,421 | 37,781 | 45,197 | 48,399 |
| EV/EBITDA | 8.9 | 9.3 | 7.9 | 6.5 | Capex | (33,000) | (29,038) | (36,565) | (25,485) |
| P/B | 2.0 | 1.9 | 1.8 | 1.7 | Cash flow from other investing | 3,362 | (39,663) | (0) | 0 |
| ROE | 7.7% | 7.1% | 4.7% | 8.6% | Cash flow from financing | (24,010) | 31,720 | 2,614 | (17,762) |
| ROCE | 6.5% | 6.1% | 5.7% | 9.2% | Change in cash for year | (27,964) | 801 | 11,246 | 5,152 |
| ROA | 3.8% | 3.2% | 1.9% | 3.6% | Beginning cash | 30,864 | 2,900 | 3,701 | 14,946 |
| FCF Yield | (3.2%) | 3.7% | 3.6% | 9.7% | Closing cash | 2,900 | 3,701 | 14,946 | 20,099 |
| Capex to sales | (26.5%) | (18.8%) | (20.5%) | (12.8%) | | | | | |
| Debt/Capital | 40.9% | 48.3% | 49.3% | 44.4% | FCF | (7,579) | 8,744 | 8,632 | 22,914 |
| Net debt/EBITDA | 1.9 | 2.9 | 2.5 | 2.0 | | | | | |

Source: Company reports and J.P. Morgan estimates.

Other Companies Recommended in This Report (all prices in this report as of market close on 25 January 2011)
 Bharti Airtel Limited (BRTI.BO/Rs337.75/Neutral)

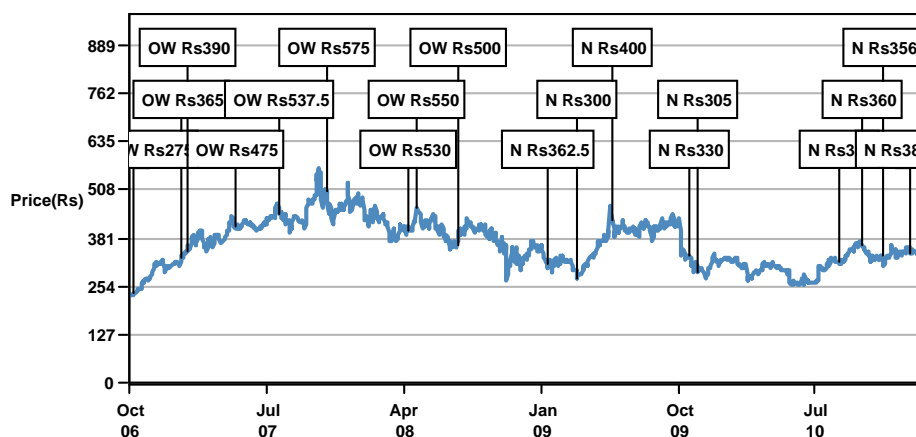
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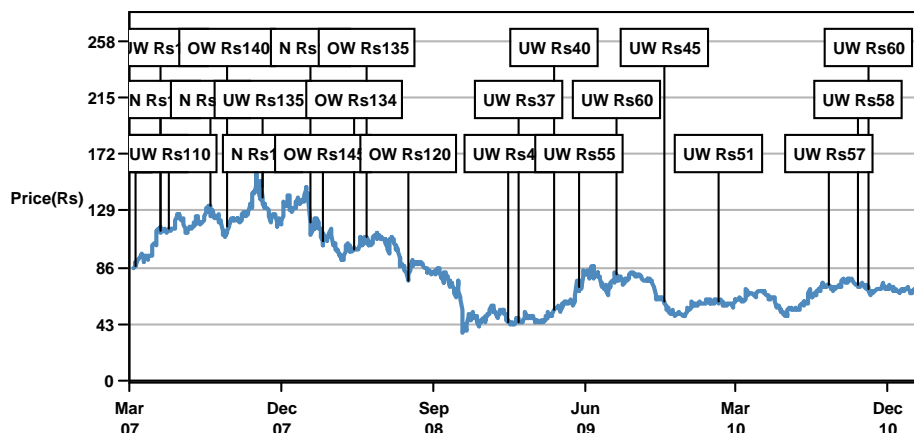
Bharti Airtel Limited (BRTI.BO) Price Chart



| Date | Rating | Share Price (Rs) | Price Target (Rs) |
|-----------|--------|------------------|-------------------|
| 10-Oct-06 | OW | 234.20 | 275.00 |
| 14-Jan-07 | OW | 330.75 | 365.00 |
| 24-Jan-07 | OW | 344.58 | 390.00 |
| 30-Apr-07 | OW | 413.12 | 475.00 |
| 27-Jul-07 | OW | 446.18 | 537.50 |
| 01-Nov-07 | OW | 503.30 | 575.00 |
| 11-Apr-08 | OW | 402.10 | 530.00 |
| 28-Apr-08 | OW | 463.92 | 550.00 |
| 17-Jul-08 | OW | 365.18 | 500.00 |
| 14-Jan-09 | N | 312.12 | 362.50 |
| 13-Mar-09 | N | 275.15 | 300.00 |
| 22-May-09 | N | 428.92 | 400.00 |
| 22-Oct-09 | N | 332.70 | 330.00 |
| 10-Nov-09 | N | 293.40 | 305.00 |
| 16-Aug-10 | N | 316.95 | 357.00 |
| 04-Oct-10 | N | 359.85 | 360.00 |
| 11-Nov-10 | N | 334.55 | 356.00 |
| 07-Jan-11 | N | 338.50 | 380.00 |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Idea Cellular Limited (IDEA.BO) Price Chart



| Date | Rating | Share Price (Rs) | Price Target (Rs) |
|-----------|--------|------------------|-------------------|
| 12-Mar-07 | N | 87.40 | 90.00 |
| 25-Apr-07 | N | 114.60 | 105.00 |
| 26-Apr-07 | UW | 116.25 | 105.00 |
| 10-May-07 | UW | 114.75 | 110.00 |
| 26-Jul-07 | N | 133.40 | 140.00 |
| 26-Aug-07 | OW | 117.10 | 140.00 |
| 25-Oct-07 | N | 146.65 | 140.00 |
| 28-Oct-07 | UW | 138.60 | 135.00 |
| 22-Jan-08 | N | 120.25 | 145.00 |
| 13-Feb-08 | OW | 106.25 | 145.00 |
| 10-Apr-08 | OW | 99.80 | 134.00 |
| 02-May-08 | OW | 108.55 | 135.00 |
| 17-Jul-08 | OW | 76.35 | 120.00 |
| 14-Jan-09 | UW | 43.95 | 40.00 |
| 01-Feb-09 | UW | 44.70 | 37.00 |
| 07-Apr-09 | UW | 53.30 | 40.00 |
| 22-May-09 | UW | 71.05 | 55.00 |
| 28-Jul-09 | UW | 79.90 | 60.00 |
| 22-Oct-09 | UW | 60.55 | 45.00 |
| 27-Jan-10 | UW | 60.30 | 51.00 |
| 16-Aug-10 | UW | 72.10 | 57.00 |
| 07-Oct-10 | UW | 72.65 | 58.00 |
| 27-Oct-10 | UW | 69.45 | 60.00 |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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|---|---------------------|-------------------|-----------------------|
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| IB clients* | 53% | 50% | 38% |
| JPMS Equity Research Coverage | 43% | 49% | 8% |
| IB clients* | 71% | 63% | 59% |

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