

## Company Flash

12 March 2008 | 6 pages

# IDEA Cellular (IDEA.BO)

## Citi India Conference 2008: Day 2 Takeaways

- Confident of spectrum in new circles** — Idea claimed that it is 2nd in the queue for spectrum in 8 of its 9 recently acquired licenses (first in Punjab). Spectrum release is likely in next 3-6 months. Capex in the new circles would be US\$1.2bn after accounting for savings from Indus towers. Launch in 6 months post-spectrum and EBITDA breakeven 18 months thereafter
- Spectrum mapping** — The spectrum release in Januray-08 (including Mumbai and Bihar for Idea) was from the 20Mhz with ONGC, Dept of Posts and other government agencies. Defence still occupies 40Mhz. Meanwhile spectrum is not a constraint in existing circles except few towns.
- Towerco to aid rollout** — Idea is contributing 8,500-9,000 towers to Indus with gross value of Rs21bn i.e. Rs2.3m per tower. Idea also claimed that their tower portfolio has got higher weightage which is factored into arriving at 16% weightage.
- Elasticity alive, MNP neutral to slight +ve** — Idea said that even the most marginal customer's usage goes upto 200mins over a period. The high pre-paid churn levels mean MNP will be a non-event. Though Idea will try to wean away post-paid subs in its new circles, it is not counting on it in a big way.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (12 Mar 08)	Rs101.75
Target price	Rs140.00
Expected share price return	37.6%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>37.6%</b>
Market Cap	Rs268,148M
	US\$6,644M

### Price Performance (RIC: IDEA.BO, BB: IDEA IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	1,683	0.74	636.7	136.6	35.3	30.9	0.0
2007A	5,022	1.94	160.0	52.5	12.1	35.5	0.0
2008E	10,261	3.89	101.0	26.1	7.6	36.0	0.0
2009E	12,163	4.62	18.5	22.0	5.7	29.4	0.0
2010E	14,267	5.41	17.3	18.8	4.3	26.2	0.0

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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## IDEA Cellular

### Company description

Idea Cellular, a pure-play wireless provider, is the fifth-largest cellular operator in India. It has licenses to provide cellular-phone services in 13 of the 23 telecom circles in India and an active presence in 11 of them. The company listed on the Indian bourse in March 2007 and is part of the Aditya Birla Group.

### Investment strategy

We rate Idea Buy/Low Risk. Continued robust wireless market expansion and Idea's ability to regain its growth potential following its restructuring and full control by Aditya Birla Group are key factors in our investment argument. Idea's strong competitive position in its existing circles and comparable operational parameters provide us sufficient comfort in management's ability to execute its plans. With a relatively smaller base compared to larger peers, we estimate earnings CAGR of 41% over FY07-10E, ahead of peers and more than double that of the broader market. However, post the disappointing quality of earnings in 2Q, the Idea stock will likely decouple from Bharti, with a renewed upsurge in investor sentiment probably hinging on a turnaround in operational data points.

### Valuation

We have set our 12-month target price at Rs140 based on Sep-08E DCF of Rs108 and towerco option value of Rs32/share through its 16% stake in Indus. We prefer DCF as our primary valuation methodology due to the back-ended nature of free cash flows given the new circle roll-outs. Our DCF assumes a WACC of 10.8% at a target debt to capital of 50.0% and terminal growth rate of 4.0% (similar to Bharti). Our DCF is based on explicit forecasts for FY07-16E with a terminal year EBITDA margin at 39.3% (~600bps below Bharti) and capex/sales of ~8% (in line with Bharti). The DCF value implies an EV/EBITDA of 11.8x, slightly lower than Bharti's target multiples (for the ex-towerco portion of Rs930), which is supported by Idea's higher growth rates notwithstanding Idea's smaller size and relatively less established track record.

### Risks

We have a Low Risk rating on Idea. Operationally, the risks facing Idea are slightly higher than its more established peers given the roll-out in new circles. Project cost over-runs, delays in spectrum allocation and hence commercial launches could affect the value accretion opportunity in new circles. Idea will also face competition from established players in new circles and market share gains may be lower than expected. Idea will incur higher capex requirements in the new circles due to the coverage compulsions, which may depress return parameters in the initial years. Any rollout plans beyond 13 circles may also require a fresh equity infusion. These risk factors could impede the stock from reaching our target price.

# Appendix A-1

## Analyst Certification

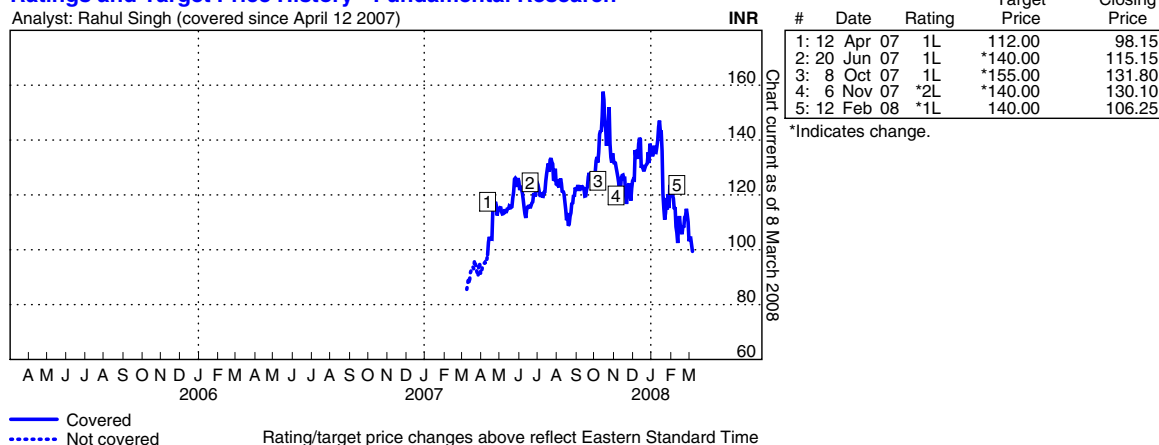
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#### Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since April 12 2007)



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