

RESULTS REVIEW
Idea Cellular Limited
Buy
Share Data

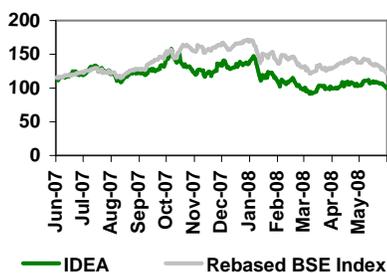
Market Cap	Rs. 262.61 bn
Price	Rs. 99.65
BSE Sensex	14,889.25
Reuters	IDEA.BO
Bloomberg	IDEA IN
Avg. Volume (52 Week)	1.86 mn
52-Week High/Low	Rs. 161 / 89
Shares Outstanding	2,635.4 mn

Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	4.2	7.1
+/- (%)	7.1%	68.7%
PER (x)	23.6x	14.0x
EV/ Subscribers (Rs.)	8,311.1	5,290.6
EV/Sales (x)	3.5x	2.5x
EV/ EBITDA (x)	10.8x	7.7x

Shareholding Pattern (%)

Promoters	57.69
FII's	7.71
Institutions	2.61
Public & Others	31.99

Relative Performance

Riding high on growth

Idea Cellular Ltd (Idea) reported another good quarter with net sales of Rs. 67.2 bn and net profit crossing the Rs. 10 bn mark to end the FY08. The key performance indicators of the quarter compared to previous quarter were:

- Additions of 2.9 mn subscribers led to a 40 bps growth in market share to 16.2% in 11 operating circles.
- Increase of 14%, 2.9%, and 9% in subscribers, ARPU, and MoU, respectively, boosted the revenue to Rs. 19.7 bn.
- Revenue growth reflected in the 16.4% rise in EBITDA to Rs. 6.6 bn; however, higher roaming and access charges restricted the margin to 33.7%, fully offsetting the benefit from decrease in acquisition and services cost per subscriber.
- Net profit increased to Rs. 2.8 bn while margins expanded marginally by 50bps to 14.2% due to benefit of economies of scale in subscribers acquisition cost.

Considering Idea's constant endeavour to increase its market share and the response it has received from the UP and Rajasthan circles, we expect that the Company would be able to command 10.5% of the overall wireless market share by FY10. However, we believe that the increase ARPU and MOU is not sustainable with the tariff rates dropping continuously. Factoring the above, we have revised our estimates for the sales and expect it to grow at a CAGR of 37.3% for FY08–FY10E subject to a timely roll out of operations in Mumbai and Bihar by the Q2'09 and in Tamil Nadu by Q3'09.

Key Figures (Consolidated)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	13,084	17,081	19,724	50.7%	15.5%	43,664	67,200	53.9%
EBITDA	4,371	5,709	6,644	52.0%	16.4%	14,653	22,556	53.9%
EBITDA Margin	33.4%	33.4%	33.7%			33.6%	33.6%	
Subscribers	14	21	24	71.3%	14.0%	14	24	71.3%
Average revenue per user (ARPU)	317	279	287	(9.5%)	2.9%			
Average minutes of use per user	387	377	411	6.2%	9.0%			
Average Realised Rate (ARR)	0.82	0.74	0.70	(14.8%)	(5.6%)			
Blended Churn	4.2%	4.7%	4.6%					

Per Share Data (Rs.)

Normalized EPS	0.7	0.9	1.1	42.2%	15.6%	2.2	3.9	83.2%
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Valuation

At the current price of Rs. 99.65, the stock is trading at a forward P/E of 23.6x FY08E and 14x FY09E. We valued Idea using SOTP and arrived at a target price of Rs. 137. For valuation of the mobile business, we have used DCF model assuming Rf 7.75%, Ke 15.5%, Kd 6.3%, WACC 14% and terminal growth rate 8%. We remain unchanged on our value for Idea's 16% stake in Indus Tower at Rs. 37 per share. Based on our valuation of the Company, we reiterate our rating of Buy.

Result Highlights

On a year-on-year basis, Idea has shown remarkable performance by recording a 53.9% increase in revenue to Rs. 67.2 bn; 53.9% growth in EBITDA of Rs. 22.6 bn; and more than two-fold increase in net profit to Rs. 10.4 bn. Revenue were propelled by a 71.3% increase in subscriber base to 24 mn and an 80% increase in total minutes of usage to 27,824 mn. While, the 53.9% EBITDA growth and 108% adjusted net profit growth was attributed to the revenue growth. Nevertheless, the economies from expanding operational scales supported the EBITDA margin to remain intact at 33.6% and net profit margin to increase by 406 bps to 15.6% despite increasing network operating costs.

Increased Subscribers and bloated ARPU fuel the revenue growth

Year ends with coverage of 2,476 census towns, 10,832 population centres

MOU and ARPU increase despite tariff cuts

Quarter Review

During the quarter, adjusted net sales increased 50.7% yoy and 15.5% qoq to Rs. 19,724 mn driven by 2.9 mn addition to subscriber base and 2.9% increase in ARPU to Rs. 287, offsetting lower Average Realized rate (ARR). By the end of the fourth quarter, Idea has expanded its subscriber base to 24 mn on the back of continuous widespread of the network and improved share to 18.8% in the total net additions.

Despite the market trend of declining ARPU, the Company was able to report an increase in ARPU to Rs. 287 from Rs. 279 in Q3'08. The major contributors were the 9% increase in average minutes of usage (MoU) to 411 min partially attributable to seasonality effect and the reduction in the blended churn to 4.6% suggesting improvement in customer response.

However, in the environment of reducing tariffs and increasing competition, we do not expect the same to be sustainable.

EBITDA and EBITDA margin grew by 16.4% to Rs. 6,643.6 mn and 26 bps to 33.7% due to a reduction of subscriber acquisition cost by 203 bps as a percentage of revenue. However, higher roaming and access charges partially offset the operating profit growth. The stock based expense of Rs. 37.6 mn charged in this quarter has been treated as an exceptional item of expenses.

Idea expects Himachal Pradesh, Uttar Pradesh (East), and Rajasthan to become EBITDA-positive by mid-2008 instead of this quarter, as originally expected, albeit margins have shown improvement.

Despite a fall in treasury income from Rs. 406 mn to Rs. 201 mn during the quarter coupled with the foreign exchange loss, which stood at Rs. 27 mn as against a gain of Rs. 146 mn in the previous quarter, the adjusted net profit stood at Rs. 2.8 bn, up 16.5% sequentially. However, high growth rates are likely to be sustained on the back of the Company's expected forays into the high ARPU Mumbai and Tamil Nadu circles and cost savings from shared tower infrastructure.

Key Developments

- Idea plans to foray its mobile services in four new circles: Tamil Nadu (including Chennai), Mumbai, Bihar, and Orissa. Operations are targeted to commence in Mumbai and Bihar by Q2'09, and in Tamil Nadu by Q3'09.
- A private equity firm, Providence Equity Partners would put USD 640 mn in Idea's unit, Aditya Birla Telecom (ABTL). The funds will be used for network rollout and ongoing operations of Aditya Birla Telecom, which has a licence in eastern Bihar state. The deal is expected to close by August 2008.

*Operations in four new circles
in the pipeline*

- Idea has joined hands with Tata Communications, Etisalat and HSBC India for a pilot project that will enable UAE-based NRIs to transfer money using mobile phones to Kerala.
- The Company has got license for 3G services and for 9 new circles to emerge as a pan-India GSM operator.
- Spice telecom revives the possibility of a merger with Idea.

Key Risks

- Delay in meeting the estimated deadline for the roll-out in Mumbai, Bihar, and Tamil Nadu.
- Delay in allotment of spectrum in other circles where the Company has already got the license.
- The Company has further pushed its breakeven target time for the three new circles (UP east, Rajasthan and Himachal Pradesh) to Mid-2008. Longer than expected time in achieving the breakeven will slow down revenue growth and pressurize EBITDA margins.

Outlook

Idea cellular Ltd has posted excellent numbers for the quarter ended March 2008; on the annual basis also growth of the Company has been phenomenal. The allotment of spectrum in newer regions like Tamil Nadu and Orissa are expected to generate impressive future earnings growth. Mumbai is the highest ARPU-generating circle in the country along with Delhi and can boost the realisations. Although, penetrating Mumbai and Chennai may not be easy, with six operators already present. But the tower infrastructure offered by Indus Towers may reduce costs and time involved in the rollout. Besides, PE investment in ABTL has also opened up newer doors and suggests that the Company is undervalued.

We valued Idea using SOTP and arrived at a target price of Rs. 137. As the consolidation of Indus Towers is still under process, we remain unchanged on our value for the 16% stake of Idea in Indus at Rs. 37 per share. We value the core business using a DCF model assuming Rf 7.75%, Ke 15.5%, Kd 6.3%, WACC 14%, and terminal growth rate 8%.

Presently, the stock is trading at current market price of Rs 99.65 which is at forward P/E of 23.6x FY08E and 14x FY09E. Keeping in view the robust growth opportunities in the Indian telecom market and the ongoing Capex plans of the Company, we maintain our BUY rating on the stock with a target price of Rs 137.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	29,655	43,664	67,200	89,464	126,750	37.3%
EBITDA	10,674	14,637	22,556	29,280	41,377	35.4%
<i>EBITDA Margin</i>	36.0%	33.5%	33.6%	32.7%	32.6%	
Subscribers	7	14	24	38	60	58.1%
% increase in subscribers	45.3%	90.2%	71.3%	59.0%	57.1%	
Average revenue per user (ARPU)	391	332	287	241	216	
Average minutes of use per user	289	364	411	386	395	
Average Realised Rate (ARR)	1.35	0.91	0.70	0.62	0.55	
Blended Churn	6.4%	4.3%	4.6%			
Per Share Data (Rs.)						
Normalized EPS	0.9	1.9	3.9	4.2	7.1	34.5%
PER (x)	97.3x	47.0x	25.3x	23.6x	14.0x	

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