



Idea Cellular

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,652	N.A.
S&P CNX: 4,223	REUTERS CODE
	N.A.

8 February 2007

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IPO Price Band: Rs65-Rs75

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	29,655	45,344	72,222	102,674
EBITDA (Rs m)	10,674	14,992	22,796	32,369
NP	2,030	4,369	7,724	10,744
EPS (Rs)	0.9	1.7	2.9	4.1
EPS Growth (%)	NA	76.9	76.8	39.1
BV/Share (Rs)	4.1	14.8	17.7	21.8
P/E (x)	80.0	45.2	25.6	18.4
P/BV (x)	18.3	5.1	4.2	3.4
EV/EBITDA (x)	22.2	15.1	10.5	7.7
EV/Sales (x)	8.0	5.0	3.3	2.4
RoE (%)	19.9	17.4	18.0	20.6
RoCE (%)	12.0	14.2	15.4	17.4

IPO DETAILS

Issue Size:	325.8m shares with FV of Rs10 each
Price Band:	Rs 65 to Rs75 per share
Issue Date:	12 February 2007 to 15 February 2007

OBJECTS OF ISSUE	(RS M)
Building & expanding network in new circles	15,711
Entry fee & capex for NLD operations	833
Rollout of services in Mumbai	6,470
Redemption of preference shares	7,567
Issue expenses	825
Total Gross Capex	31,406
Amount already Invested till 3QFY07	6,028
Amount to be invested in 4QFY07	10,495
Amount to be invested in FY08	14,883
Net capex for Next 15 months	25,378
Total Capital Raised through IPO	24,438

SHAREHOLDING PATTERN (%)	PRE-IPO	POST-IPO
ABNL	36.3	31.8
Birla TMT	12.3	10.8
Hindalco	9.9	8.7
Grasim	7.4	6.5
Total Promoters Holding	65.8	57.7
P5 Asia Investments	14.3	12.5
Citigroup	5.9	5.2
Wagner	4.4	3.9
Monet	3.9	3.4
Nomad Structure	0.9	0.8
Sequoia	0.8	0.7
Public & Others	4.0	15.8

We attended the IPO analyst meet of Idea Cellular (Aditya Birla group company) – GSM wireless operator in India with 12.4m subscribers across 11 circles. The company has obtained licenses and paid the license fees for two more circles, Mumbai and Bihar, the roll out of which is likely to begin in 4QFY08. Idea intends to have a pan-India footprint going forward. The company intends to raise Rs21.3b via the IPO with a greenshoe option to raise further Rs3.2b. The company has completed pre-IPO placement to the promoters and investors for Rs3.8b at Rs75, the upper price band of the IPO. Given the low teledensity of ~17%, declining handset prices, the current subscriber adds for industry are likely to accelerate further. Due to the increasing coverage driven by entry into new circle coupled with greater management focus after the change in ownership in April 2006, we expect Idea's subscriber base to grow at a 56% CAGR from FY07-FY09 resulting in 160bp improvement in market share. Considering the robust CAGR of 55% in net profit and reasonable relative valuations we recommend **Subscribe**.

Robust growth in subscriber base: Idea already covers about 55-60% of the country (presence in eleven circles) and intends to cover 75% of the country with rollouts in Bihar and Mumbai. Since Idea aims to achieve pan-India presence, it has applied for licenses in remaining 10 circles. We expect Idea's subscriber base to grow at 56% CAGR over FY07-FY09. We expect monthly net additions to accelerate from the current 0.8m in 4QFY07 to 1m in FY09 as Idea plans to launch its services in Mumbai and Bihar in 4QFY08. We have factored in a decline in ARPU of 14% for FY07, 10% for FY08 and 8% for FY09.

Improving share post change in ownership: After the exit of AT&T in September 2005, Tatas sold its entire holding (~48%) in Idea to Birlas in April 2006. Idea has improved its market share post change in ownership. Its share has increased 90bp from 7.6% in April 2006 to 8.5% in December 2006. We note, prior to its launch in three new circles in October the market share had already improved 60bp. Net adds for the company have been on the rise since it has rolled out in three new circles. Going forward, we expect Idea to improve its share from the current 8.5% to 9.5% by end-FY08 and 11.1% for end-FY09, driven by new circle expansion and increased management focus.

KEY REVENUE ASSUMPTIONS

Y/E MARCH	2005	2006	2007E	2008E	2009E
India Subs ('000)	55,600	98,441	171,641	259,241	329,441
Idea Subs ('000)	5,070	7,366	15,027	24,627	36,627
Market Share (%)	9.1	7.5	8.8	9.5	11.1
ARPU (Rs)	414	391	336	303	278
ARPU Decline (%)	23	8	14	10	8

Source: TRAI/AUSPI/Motilal Oswal Securities

Incumbency advantage and infrastructure sharing

The allocation of spectrum is generally within two frequency bands: 900MHz and 1,800MHz. Idea has been allocated the 900MHz frequency bands for seven of the circles in which it operates, namely Andhra Pradesh, Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, and Uttar Pradesh (West) Circles. The 900MHz frequency band is preferable, as it leads to lower overall capital cost compared with the 1,800MHz band. Of the seven circles, it has leadership in three circles and is amongst top three players in another three circles. Further, Idea proposes to share 50% of its sites next year resulting in lower capex. Due to the incumbency advantage and infrastructure sharing we have assumed Idea's capex/ sub at US\$80 (20% lower than Bharti's US\$102).

COMPETITIVE LANDSCAPE IN CIRCLES WHERE IDEA IS INCUMBENT PLAYER - MARKET SHARE (%)

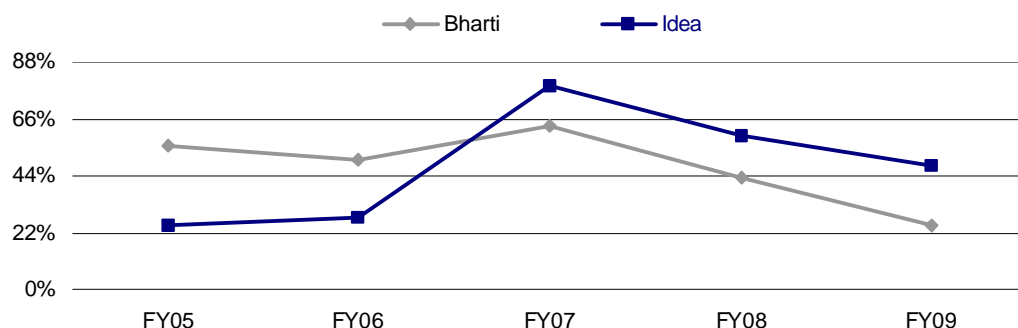
	MKT SIZE	BHARTI	RCOM	BSNL	HUTCH	IDEA	TATA TELE	OTHERS
Circles where Idea is an incumbent operator (a)								
Maharashtra	7.6	19.6	19.4	16.4	9.2	23.0	12.3	0.0
Gujarat	7.0	13.9	16.8	9.6	36.2	16.0	7.5	0.0
AP	8.0	26.4	22.3	13.8	11.2	13.5	12.8	0.0
Kerala	4.6	12.5	21.0	27.5	11.4	20.5	7.1	0.0
Haryana	2.5	18.5	12.8	17.9	16.6	20.3	13.9	0.0
UP (W)	4.8	13.0	19.3	17.2	19.4	21.2	9.8	0.0
MP	4.2	17.8	36.3	17.2	0.0	21.4	7.3	0.0
Total (a)	38.8	18.1	21.1	16.2	15.5	18.9	10.2	0.0
Circles where Idea is a non-incumbent operator (b)								
Delhi	7.8	24.4	17.4	0.0	18.9	11.6	17.1	10.6
UP (E)	6.1	13.9	20.7	28.3	27.5	2.3	7.2	0.0
Rajasthan	4.4	23.2	18.5	24.6	18.0	2.5	11.9	1.4
HP	0.8	42.3	19.3	30.7	0.0	1.0	6.7	0.0
Total (b)	19.1	21.5	18.8	16.0	20.7	6.1	12.3	4.6
Total (a+b)	57.9	19.2	20.4	16.2	17.2	14.7	10.9	1.5

Source: TRAI/AUSPI/Motilal Oswal Securities

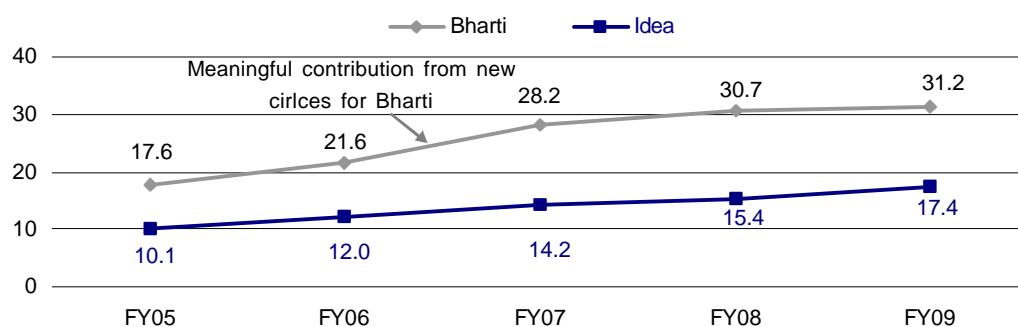
Accelerating network rollout and scale economies to accrue partly in FY09

Owing to ownership issues, Idea was lagging industry leader, Bharti in investments and network rollout. However, post the forthcoming issue, we expect Idea to accelerate investments. Note that despite the investments made, we do not anticipate that the entire return from the full investments will accrue by end-FY09. We note that Bharti's RoCE is likely to jump from 21.6% in FY06 to 28.2% in FY07. However, new circles for Idea would start contributing meaningfully only in FY10. Hence, the current financials do not fully reflect the likely improving financial profile and increasing investments. Still, due to scale benefits we expect RoCE to improve from 12% in FY06 to 17.4% in FY09.

TREND IN CAPEX TO SALES RATIO



TREND IN ROCE (%)



Source: Company/ Motilal Oswal Securities

Profit CAGR of 55% from FY07-FY09 despite hit from new circles

We expect the financials of Idea to improve with increasing scale and enhanced asset turnover. With growth of 56% CAGR in its subscriber base, savings from the lower roaming charges and NLD network, we expect EBITDA to grow at a CAGR of 46%. Though margins would decline from 36% to 31.5% in FY09 due to new circle rollouts, PAT is likely to grow at a CAGR of 55% from FY07-FY09 due to improved capital efficiency.

Risks

Delay in Spectrum Allocation: Idea has applied for licenses in 10 additional circles that would make it a pan-India player. Since Idea's growth plans are heavily dependent on new circle roll outs and spectrum allocation any delay in spectrum allocation could be negative for company.

Price competition: Considering the smaller footprint, late entry into new circles, Idea is more sensitive to price competition versus other pan India players. Since Idea cellular is more leveraged as compared to Bharti and RCOM (see table below) , Idea is more vulnerable to price competition.

NET DEBT/EBITDA (X)

	FY06	FY07E	FY08E	FY09E
Bharti	1.1	0.9	0.7	0.3
RCOM	1.1	0.4	0.0	-0.2
Idea	2.9	1.9	1.8	1.6

Source: Company/Motilal Oswal Securities

Valuations

Given the low teledensity of ~17% and declining handset prices, the current subscriber adds for industry are likely to accelerate further. Due to the accelerated capex plan and change in ownership, we expect Idea's subscriber base to grow at a 56% CAGR from FY07-FY09 resulting in 160bp improvement in market share. At the upper end of price band of Rs75, implied valuations of US\$153/sub are at a discount of 57% to Bharti's valuations; this seems undervalued when compared with 28% differential in ARPUs. On EV/EBITDA basis Idea is trading at 25% discount to Bharti, we think the discount is likely to narrow considering earnings CAGR of 55% for Idea v/s 34% for Bharti and 40% for RCOM. Considering the robust CAGR of 55% in net profit and reasonable relative valuations, we recommend **Subscribe**.

COMPARATIVE FINANCIALS AND VALUATIONS

	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	REVENUE (RS M)			REVENUE GROWTH (%)			PAT GROWTH (%)		
Bharti	187,032	277,017	353,850	60.4	48.1	27.7	84.2	45.6	23.7
RCOM	146,724	207,533	261,153	36.3	41.4	25.8	579.7	51.4	29.3
Idea	45,344	72,222	102,674	31.5	52.9	59.3	115.2	76.8	39.1
	EBITDA (RS M)			CONSOL. EBITDA MARGINS (%)			EBITDA GROWTH (%)		
Bharti	74,909	112,777	145,402	40.1	40.7	41.1	71.8	50.6	28.9
RCOM	57,760	85,157	108,477	39.4	41.0	41.5	133.3	47.4	27.4
Idea	14,992	22,796	32,369	33.1	31.6	31.5	40.5	52.1	42.0
	WIRELESS SUBS (M)			ARPU (RS)			EPS (RS)		
Bharti	37.3	59.5	75.6	429	403	383	22.0	32.0	39.5
RCOM	34.3	52.4	66.8	344	304	297	14.8	22.6	28.9
Idea	15.0	24.6	36.6	336	303	278	1.7	2.9	4.1
	P/E (X)			EV/SUB (US \$)			EV/EBITDA (X)		
Bharti	34.9	24.0	19.4	647	452	362	20.3	13.6	10.3
RCOM	33.4	21.8	17.1	467	298	243	17.9	11.8	9.1
Idea	44.4	25.6	18.4	338	218	153	15.1	10.5	7.7

For EV/subs comparison we have reduced the EV of both Bharti and RCOM by a proportionate contribution from non-wireless EBITDA.

Source: Motilal Oswal Securities

IPO DETAILS

	(RS B)
Authorised Share Capital	37.8
Issued, Subscribed and Paid Up Capital	23.1
Fresh Issue - 283.3m Shares of Rs10 each	2.8
Employee Reservation - 6.7m Shares of Rs10 each (Rs m)	0.1
Net Issue - 276.7m Shares of Rs10 each	2.8
Green Shoe Option 42.5m Shares	0.4
Equity Capital after the Issue - 2.6b Shares of Rs10 each	26.4
IPO As a % of Post Issue	12

Source: Idea RHP

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Revenues	22,557	29,655	45,344	72,222	102,674	
Change (%)	74.0	31.5	52.9	59.3	42.2	
Total Expenses	14,347	18,981	30,352	49,426	70,305	
EBITDA	8,210	10,674	14,992	22,796	32,369	
% of Gross Sales	36.4	36.0	33.1	31.6	31.5	
Depn. & Amortisation	4,427	5,495	7,150	10,690	14,845	
EBIT	3,783	5,179	7,842	12,106	17,525	
Net Interest	3,189	3,225	3,026	3,573	4,736	
Other Income	171	244	244	244	244	
PBT	765	2,198	5,059	8,777	13,032	
Tax	0	80	607	1,053	2,289	
Rate (%)	0.0	3.7	12.0	12.0	17.6	
Adjusted PAT	765	2,118	4,452	7,724	10,744	
Change (%)	-	176.7	10.2	73.5	39.1	
PAT after EO	683	2,030	4,369	7,724	10,744	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	27,425	27,425	26,354	26,354	26,354	
Security premium	0	0	24,429	24,429	24,429	
Additional Paid up Capital	998	998	998	998	998	
P&L Account	-19,222	-17,191	-12,822	-5,098	5,646	
Net Worth	9,202	11,232	38,959	46,683	57,427	
Loans	36,939	32,856	30,856	44,356	55,356	
Capital Employed	46,141	44,088	69,815	91,039	112,783	
Gross Block	41,586	49,666	85,375	128,338	177,693	
Less : Depreciation	16,437	20,831	26,908	36,525	50,296	
Net Block	35,975	38,769	67,328	99,601	134,111	
Goodwill	11,605	11,605	11,605	11,605	11,605	
Curr. Assets	5,569	5,987	7,547	9,241	10,377	
Inventories	176	114	145	145	145	
Debtors	1,514	1,457	1,671	1,953	2,145	
Cash & Bank Balance	1,772	1,493	2,178	2,847	2,962	
Other Current Assets	2,108	2,923	3,553	4,295	5,125	
Curr. Liab. & Prov.	7,008	12,272	16,664	29,407	43,310	
Sundry Liabilities	7,008	12,272	19,924	32,477	46,172	
Provisions	0	0	3,260	3,070	2,862	
Net Curr. Assets	-1,439	-6,285	-9,118	-20,166	-32,933	
Misc. Exps.	0	0	0	0	0	
Appl. of Funds	46,141	44,088	69,815	91,039	112,783	

E: MOST Estimates

RATIOS		2005	2006	2007E	2008E	2009E
Y/E MARCH						
Basic (Rs)						
EPS		0.3	0.9	1.7	2.9	4.1
Cash EPS		1.9	2.7	4.4	7.0	9.7
Book Value		3.4	4.1	14.8	17.7	21.8
DPS		0.0	0.0	0.0	0.0	0.0
Payout %(Incl.Div.Taxes)		0.0	0.0	0.0	0.0	0.0
Valuation (x)						
P/E			80.0	45.2	25.6	18.4
Cash P/E			27.3	17.2	10.7	7.7
EV/EBITDA			22.2	15.1	10.5	7.7
EV/Sales			8.0	5.0	3.3	2.4
Price/Book Value			18.3	5.1	4.2	3.4
Dividend Yield (%)			0.0	0.0	0.0	0.0
Profitability Ratios (%)						
RoE			19.9	17.4	18.0	20.6
RoCE		10.1	12.0	14.2	15.4	17.4
Turnover Ratios						
Debtors (Days)		97	68	44	28	18
Asset Turnover (x)		0.1	0.2	0.2	0.2	0.2
Leverage Ratio						
Debt/Equity Ratio(x)		4.0	2.9	0.8	1.0	1.0

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007E	2008E	2009E		
Op.Profit/(Loss) bef Tax	10,674	14,992	22,796	32,369		
Other Income	244	244	244	244		
Interest Paid	-3,225	-3,026	-3,573	-4,736		
Direct Taxes Paid	-80	-607	-1,053	-2,289		
(Inc)/Dec in Wkg. Cap.	4,567	7,080	11,719	12,881		
CF from Op.Activity	12,180	18,682	30,133	38,470		
(inc)/Dec in FA + CWIP	-8,165	-35,709	-42,963	-49,355		
(Pur)/Sale of Investments	-211	-83	0	0		
CF from Inv.Activity	-8,376	-35,792	-42,963	-49,355		
Issue of Shares	0	19,796	0	0		
Inc/(Dec) in Debt	-4,083	-2,000	13,500	11,000		
Other Financing Activities	0	0	0	0		
CF from Fin.Activity	-4,083	17,796	13,500	11,001		
Inc/(Dec) in Cash	-279	685	670	116		
Add: Opening Balance	1,772	1,493	2,178	2,847		
Closing Balance	1,493	2,178	2,847	2,963		

E: MOST Estimates



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Idea Cellular

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|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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