

"NEUTRAL"
CMP: 88

BSE Code	532822
NSE Code	Idea cellular
Bloomberg code	IDEA IN
Reuters code	IDEA.BO

Net Sales stood at Rs2174 cr up by 10.2% qoq in line with our expectation. ARPU declined by 3% to Rs278 and MOU increased by 4.1%. It was the lowest ARPU reported by Idea till now. Subscriber base increased by 13.3% to 2.72 cr representing 16.6% market share in its 11 service areas of operation. According to the management, ARPUs are expected to stabilize at Rs260 levels going forward.

Key Data

Sensex	14274.94
52 week H/L (Rs.)	161/74
June . H/L (Rs.)	112/92
Market Cap (Rs cr)	23283
Avg. daily volume (6m)	2376672
Face Value	10

Source: Capitaline

OPM Margins in Q1FY09 declined by 64bps to 32.93%. The main reason behind fall was rise in License fees cost by 1.3% due to expiry of period of concession (2% AGR) in license fees in Idea's 7 service areas. According to Management, UP East circle is expected to break even in the next quarter and Rajasthan & Bihar is expected to take time to be EBIDTA positive appx. 3 months. EBIDTA loss in new 3 circles-(UP East, Rajasthan and Himachal Pradesh where operation started in 2006) to 10.7% in Q1FY09 against 10.4% in Q4FY08.

Shareholding Pattern (%)

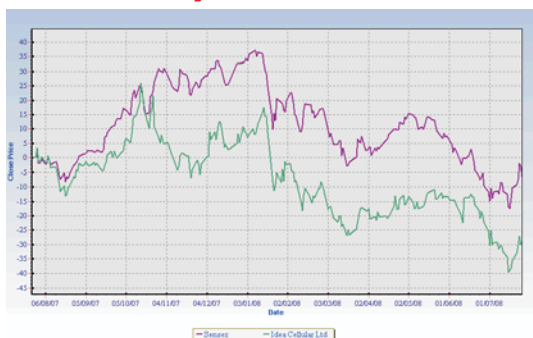
Promoters	57.69
Institution	5.38
Foreign holding	32.04
Non-promoter corporate holding	0.81
Public & Others	4.08

Source: Capitaline

Financial cost increased by 26.6% to Rs153 cr due to higher borrowings. Due to currency fluctuation, forex exchange loss stood at Rs15 cr against a loss of Rs27cr in last quarter. Depreciation stood at Rs 275 cr up by 6% due to higher capex.

Net Profit stood at Rs263 cr down by 5.4%qoq. The main reason behind de-growth in profit was due to higher depreciation and financing cost.

One-Year Performance (Rel. to Sensex)

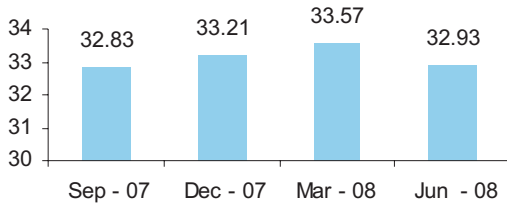


Source: Capitaline

Recent Developments

Idea Cellular acquired Spice group stake of 40.8% in Spice communication Ltd at a price of Rs77.30/share. It will also make a payment of Rs544 cr to Spice group as non-competitive fee. Idea & TM International along with their affiliates & associates will make an open offer for an additional 20% stake in Spice. The open offer will be made at a price of Rs77.3 per share. The board of Idea and Spice also approved the merger of Spice into Idea through a swap ratio which is determined at 49 shares of Idea for every 100 shares of Spice. Idea will also make a preferential allotment to TMI of 464.73 mn equity shares at Rs156.96 representing 14.99% of Idea's fully diluted equity.

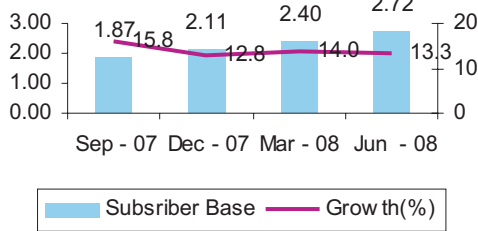
OPM(%)



Valuations & Recommendation

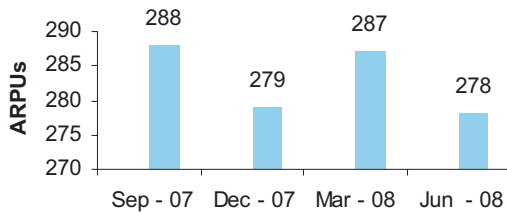
Idea is currently rolling out operations in Mumbai, Bihar, Orissa and Tamilnadu by the year end which will cover most part of India except eastern part. Idea will also roll out in the remaining service areas of Kolkata, West Bengal, Assam, North East and J&K, after receipt of spectrum, Idea's footprint will soon cover approximately 90% of India's telephony potential.

Subscriber base (in Cr)

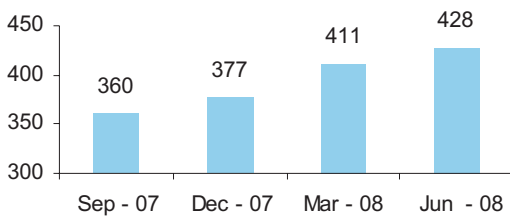


As telecom sector is getting crowded by new entrants, we are witnessing consolidation among the existing players. Merger between Spice – Idea is a move in this direction. As the cash infusion of Rs 4500 cr will help Idea to make its balance sheet clean and will provide a room for further expansions across India leading to pan India presence. But going forward as Idea moves towards Pan India presence, we think that the valuation multiples for the company can improve going forward. AT CMP of Rs88, the stock is trading at 22 x its Q1 Annualized EPS of Rs4. Currently we have a "Neutral" rating on the stock.

Trend in ARPUs



Average MOU/User



Financials

Idea FV – 10

Particulars	Q1 FY09	qoq (%)	yoy(%)	Q4FY08	qoq(%)
Net Sales	2173.50	10.20	47.13	1972.40	15.47
Total Expenditure	-1457.76	11.25	51.13	1310.29	14.86
Operating Profit	715.74	8.10	39.60	662.11	16.71
Other Income	4.61	-64.15		12.86	
Total Income	720.35	6.72	40.45	674.97	18.52
Interest	-152.64	26.62	967.41	-120.55	54.16
PBDT	567.71	2.40	13.77	554.42	12.84
Depreciation	-274.90	5.86	45.68	-259.69	14.15
Tax	-29.68	79.55		-16.53	
Reported Profit After Tax	263.13	-5.42	-14.76	278.20	17.37
Equity	2635.36			2635.36	
EPS	3.99			4.22	
OPM (%)	32.93			33.57	
NPM (%)	12.11			14.10	

Break up (%) (As % to Net Sales)	Q1 FY09	qoq (%)	yoy(%)	Q4FY08	qoq(%)
Roaming Access Charges	18.20	0.40	1.99	17.47	0.74
License fees	11.26	1.76	0.43	9.96	1.29
Network Operations	17.28	1.08	4.45	16.54	0.74
Employees	4.70	0.00	-0.09	4.66	0.04
Subscriber acquisition & servicing	11.34	-2.41	-4.11	13.25	-1.91
Other Expenditure	4.29	-0.51	-0.89	4.63	-0.34

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Hold Expected to remain in a narrow range

Avoid Expected to depreciate up to 10% over a 12-month period

Exit Expected to depreciate more than 10% over a 12-month period