

22nd January 2008**ACCUMULATE**

Price	Target Price
Rs120	Rs153

Sensex	17,605
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(17)	(9)	NA
Rel. to Sensex	2	(17)	(19)	NA

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	IDEA.BO
Bloomberg	IDEA@IN
Equity Capital	Rs 26.35Bn
Face Value	Rs10
52 Week H/L	Rs 161/75
Market Cap	Rs317bn
Daily Avg Vol (No of shares)	6198215
Daily Avg Turnover (US\$ mn)	21.3

Shareholding Pattern (%)

(31 st Dec.'07)	
Promoters	57.7
FII/NRI	36.2
Institutions	2.4
Private Corp.	0.6
Public	3.1

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Idea CellularResult
Update**In line with estimates**

Idea Cellular's Q3FY08 results were in line with our estimates. The Net sales for the quarter grew by 9.3% QoQ to Rs17.1bn. The EBITDA for the quarter grew by 11.1% QoQ to Rs5.7bn. The EBITDA margins expanded by 50bps QoQ to 33.2%. The expansion in the margins was primarily due to lower subscriber acquisition & servicing cost, which reduced by 330bps QoQ. The PAT growth at 7.5% QoQ to Rs2.4bn was lower than the EBITDA growth mainly on account of higher interest costs, which grew 22% QoQ. Idea's subscriber base during the quarter increased by 13% QoQ to 21mn subscribers. The continuous and faster decline in the ARPU (Rs279 in Q3FY08) and the RPM (Rs0.74 in Q3FY08) remain a concern on the financial performance of the company. Idea has recently been allotted the spectrum in Mumbai & Bihar circles where it plans to rollout the services over 6 months from the receipt of spectrum. The company has also received the Lols for the remaining 9 circles and has paid the license fees for the same. We await the spectrum allotment in these 9 circles before factoring the upsides from the same in our estimates. At current levels the stock trades at 10.3x EV/EBIDTA for FY09E. We maintain ACCUMULATE rating on the stock with price target of Rs153.

Results in line with expectations

The Net sales for the quarter grew by 9.3% QoQ to Rs17.1bn. The revenue growth was led by a 13% QoQ growth in the subscriber base along with a 3% sequential decline in the ARPUs. The EBITDA for the quarter grew by 11.1% QoQ to Rs5.7bn. The EBITDA margin expansion of 50bps QoQ to 33.2% was primarily due to lower subscriber acquisition & servicing cost (decline of 300bps) while the network operating costs increased by 180bps. The PAT for the quarter grew by 7.5% QoQ to Rs2.4bn.

ARPU, RPM decline faster

Idea's subscriber base during the Q3FY08 increased by 13% QoQ to 21mn subscribers. The ARPU for the quarter declined by 3% sequentially to Rs279. The MoU for the quarter at 377 minutes increased by 4.7% QoQ. The RPM declined by 7.5% QoQ to Rs0.74. The pace of decline in the ARPU and RPM has been faster than expected and thus remain a concern on the financial performance of the company.

Assets & depreciation to be transferred to Indus towers

During the quarter, Idea Cellular, Vodafone and Bharti Airtel have pooled together their passive infrastructure assets in the 16 circles and formed Indus Towers. Idea would transfer ~9000 towers to Indus for a 16% stake. The book value of the passive infra assets on the balance sheet of Idea is approximately Rs25bn and an estimated 85% of the value of assets would be transferred to Indus Towers. We await more details on the asset transfer to Indus before factoring the same in our estimates.

Spectrum & Lols to boost growth

Idea has recently been allotted the 2x4.4Mhz of start-up spectrum in the Mumbai & Bihar circles, however the spectrum would be handed over once the defense vacates the same. The company has also received the Lols for the remaining 9 circles and has paid the license fees for the same. In our estimates, we have factored the upside from the operations of Mumbai & Bihar circles from FY09 onwards and not the remaining 9 circles, which we would include on receipt of spectrum in those 9 circles. The formation of Indus Towers would enable Idea to rollout the services in the newer circles at a faster pace due to the readily available passive infrastructure.

Valuation & Outlook

At current levels the stock trades at 10.3x EV/EBIDTA for FY09E. We maintain our ACCUMULATE rating on the stock with a price target of Rs153 per share based on DCF value of telecom services business at Rs132 per share (WACC 12.2%) and value of tower business at Rs21 per share.

Quarterly result update

Quarterly result update	Q3FY08	Q2FY08	QoQ	Q2FY07	YoY
Net Sales	17,080.9	15,622.1	9.3%	11,482.0	48.8%
Personnel expenditure	954.4	878.0	8.7%	761.4	25.3%
Network operating expenditure	2,915.1	2,379.9	22.5%	1,426.6	104.3%
License and WPC Charges	1,736.3	1,551.1	11.9%	1,172.5	48.1%
Roaming & Access Charges	2,930.1	2,550.2	14.9%	1,955.8	49.8%
Subscriber acqn & servicing exp	2,185.4	2,513.6	-13.1%	2,051.2	6.5%
Admin & other exp	687.8	642.9	7.0%	401.9	71.1%
Operating expenses	11,409.1	10,515.7	8.5%	7,769.4	46.8%
EBIDTA	5,671.8	5,106.4	11.1%	3,712.6	52.8%
EBIDTA %	33.2%	32.7%		32.3%	
Depreciation	2,277.1	2,007.0	13.5%	1,800.5	26.5%
EBIT	3,394.7	3,099.4	9.5%	1,912.1	77.5%
Interest & fin charges	781.7	640.5	22.0%	789.8	
Other income	22.2	21.4		46.0	
PBT	2,635.2	2,480.3	6.2%	1,168.3	125.6%
Tax	267.5	277.0		30.6	
PAT	2,367.7	2,203.3	7.5%	1,137.7	108.1%
PAT %	13.9%	14.1%		9.9%	

% of sales	Q3FY08	Q2FY08	Chg bps	Q2FY07	Chg bps
Personnel expenditure	5.6%	5.6%	(3)	6.6%	(104)
Network operating expenditure	17.1%	15.2%	183	12.4%	464
License and WPC charges	10.2%	9.9%	24	10.2%	(5)
Roaming & access charges	17.2%	16.3%	83	17.0%	12
Subscriber acqn & servicing exp	12.8%	16.1%	(330)	17.9%	(507)
Admin & other exp	4.0%	4.1%	(9)	3.5%	53

Key performance indicators	Q3FY08	Q2FY08	QoQ	Q2FY07	YoY
Subscribers ('000)	21,054	18,672	12.8%	12,442	69.2%
ARPU (Rs)	279	288	-3.1%	322.0	-13.4%
MOU (mins)	377	360	4.7%	369.0	2.2%
RPM (Rs)	0.74	0.80	-7.5%	0.87	-15.2%

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