



Idea Cellular

IPO Fact Sheet

Issue details

Issue opens:	February 12, 2007
Issue closes:	February 15, 2007
Issue size:	Rs2,125 crore
Price band:	Rs65-75
Reservation for employees:	up to Rs50 crore
Net issue to public:	Rs2,075 crore equity
Of which:	
- QIB portion:	60%
- Non-institutional portion:	at least 10%
- Retail portion:	at least 30%

Company background

Idea is part of the diversified conglomerate, the Aditya Birla group. It is a leading telecom service provider (offers GSM-based mobile services) and is currently present in eight established circles, where it is an incumbent. It has also received the licence to operate in three new circles. In all it has eleven circles, which comprise one metropolitan circle, three category "A" circles, six category "B" circles and one category "C" circle. Besides these, it has a licence to operate in two other circles (Mumbai and Bihar). The company has obtained the NLD licence and applied for a licence to operate in the remaining circles to have a pan-India footprint.

Objects of the issue

Idea Cellular (Idea) plans to raise Rs2,125 crore from the proposed issue. It intends to use the issue proceeds along with the amount raised through a private placement to promoters at Rs75 per share and internal accruals to: (a) build, strengthen and expand its network and related services in the new circles; (b) pay the entry fees and finance the capital expenditure for the national long distance (NLD) operations; (c) roll out services in the Mumbai circle for which it has recently received a licence; (d) redeem preference shares to promoters; and (e) meet the issue-related expenses.

Shareholding pattern (%)

	Pre-issue	Post-issue (Rs65)	Post-issue (Rs75)
Promoter group	65.8	57.7	58.6
Institutional investors	30.2	26.5	26.9
Public	0.0	12.4	10.9
Others	4.0	3.5	3.5
	100.0	100.0	100.0

Expenditure items	Gross amount (Rs)	Already incurred (Rs)	To be financed through the issue proceeds (Rs)
Building, strengthening and expanding our network and related services in the new circles	1,571.10	600.3	970.8
Entry fee and capital expenditure for NLD operations	83.3	2.5	80.8
Roll-out of services in Mumbai circle	647.0	0	647.0
Redemption of preference shares	756.7	0	756.7
Issue expenses	82.5	0	82.5
Total	3,140.6	602.8	2,537.8
Financed by			
Pre-IPO placement			375.0
Issue proceeds			2125.0
Internal accruals			37.8
Total			2537.8

Investment positives

Opportunity to participate in India's buzzing sector

The Indian telecom industry continues to grow at a robust pace. The subscriber growth continues to be impressive with an increase of nearly 100% year on year as on December 31, 2006. The growth in the subscriber base is unlikely to slow down as in India the mobile penetration rate at 12.5% is much lower than that in the other economies of a similar size (eg China has a penetration rate of over 30%).

There have been few fresh issues in the telecom sector in recent times. In fact, the last telecom company that went public, Bharti Airtel, has rewarded its investors handsomely. The Bharti Airtel stock has provided returns at a compounded annual growth rate of 70.2% since its listing as compared to a 33% increase in the BSE Sensex over the same period. Also, telecom companies have been in limelight for the last few months on account of the acquisition talks of Hutchison Essar. Bharti Airtel has risen 22.4% in this period while Reliance Communications has increased 16% compared with the Sensex, which has climbed only 7.3% in the same period. Idea offers investors another opportunity to join the telecom bandwagon and participate in the country's buzzing sector, and that too at a reasonable valuation.

Strong parentage and promoter commitment

Idea started out as a joint venture between the Aditya Birla group and the American telecom giant AT&T. Following the merger of Birla-AT&T with Tata Cellular, the Tata group became a partner in the company in 2001. AT&T exited the business in September 2005 and so did the Tatas in June 2006. Since November 2005, the Aditya Birla group has been the major shareholder in the company, which has benefited from the group's strong and committed support. Since then Idea has invested over Rs2,500 crore to expand and roll out a telecom network in the established circles and the new circles. Following this investment, in the last nine months Idea's subscriber numbers have grown significantly, increasing by approximately 69% to 124.4 lakh subscribers as on December 31, 2006 from approximately 7.37 million as on March 31, 2006

Target to cover 70% of Indian population

Idea is present in eight existing circles (Haryana, Maharashtra, Uttar Pradesh [West], Madhya Pradesh, Andhra Pradesh, Gujarat, Kerala and Delhi). During the last year it started operations in three new circles (Himachal Pradesh, Rajasthan and Uttar Pradesh [East]). Also, it has received the licence for two new circles, namely Mumbai and Bihar. These 13 circles contribute close to 70% of the total subscriber population in the country. This gives Idea enough

geographical muscle, which along with the company's entry into two new circles bodes well for the business.

Market share position

Particular	8 circles	3 new circles	2 licences	Total	All India
Size (lakh)	683	165	151	999	1,465
% of total subscribers	46.6	11.3	10.3	68.2	100
Penetration	14.5	6.6	11	12.5	12.7

Source: Company

Healthy market share and early mover advantage

On an all-India basis, Idea's share of the subscriber market stood at 8.5% as on December 31, 2006. What's more impressive is the fact that in the eight existing circles, the company has a market share of 17.7%. Thus Idea is close behind Reliance Communications and Bharti Airtel, and ahead of Hutchison Essar and Bharat Sanchar Nigam Ltd (BSNL)/Mahanagar Telephone Nigam Ltd (MTNL). This shows that wherever its operations have stabilised and it is an incumbent, Idea is amongst the top players. This distinction also gives Idea the early mover advantage in these markets and enables it to get the cream of subscribers with better average revenue per user (ARPU) and better frequency.

In the three new circles Idea's market share is between 1% and 2.5%. With the operations stabilising in these areas and the entry into newer markets like Mumbai and Bihar, Idea will have a better share in net adds and an improving market share going forward.

Comparative market share

	8 circles	All India
Reliance	20.5	20.5
Bharti Airtel	19.1	22.0
Idea	17.7	8.5
Hutch	16.0	15.5
BSNL/MTNL	15.2	18.0

Source: Company, COAI

Larger scale and scope to improve operating performance

With the expected increase in the market share Idea will have a larger scale in terms of both the number of subscribers and the geographical coverage. Besides, with the NLD licence in pocket the scope of the business would also improve. Both these factors together will result in a robust growth in the top line. Though the margin could be under pressure in the short term due to the entry into the new circles, but in the long run, as the company captures more market share and achieves economies of scale, the margin would improve.

Investment concerns

Lower ARPUs and margins

Idea has a lower ARPU compared with Bharti Airtel and Hutchison Essar. Though it has a slightly higher ARPU than Reliance Communications', it takes a hit in its operating profit margin (OPM). Idea has a lower OPM at 33.6% compared with Reliance Communications and Bharti Airtel both of which have OPM of close to 40%. The lower ARPU can be attributed to the company's (a) lower market share; (b) absence in the lucrative Mumbai circle and (c) high share of pre-paid customers (88%). The margin is lower due to the lower ARPU and the launch of three new circles in the last year, which dragged down the OPM. Going forward, as the operations in the new circles stabilise in the medium term, the OPM would stabilise too.

Lower ARPU and margins

	Bharti Airtel	RCom	Idea
Subscriber base (lakh)	320	300	124
Market share	22	20.5	8.5
Present ARPU (Rs)	427	328	338
MOU	467	454	353
RPM (Rs)	0.91	0.72	0.96
Operating profit margin	39.5	39.9	33.6

Source: Sharekhan Research

Balance sheet structuring

Idea's balance sheet is considerably leveraged with the pre-IPO debt: equity ratio at about 2.7x due to a Rs3,976-crore debt and accumulated losses of the company. After the initial public offering (IPO), due to the fresh equity infusion and repayment of the preference shares, the debt: equity ratio of Idea should come down to a manageable 1.3x. Idea should be able to bring the ratio in line with industry standards with strong operational cash flows in future.

Lack of pan-India presence

In the absence of pan-India presence as enjoyed by the other integrated operators, Idea is unable to provide seamless roaming services and is forced to share its revenue with the other operators with whom it has a roaming arrangement for its subscribers. Besides, the company is largely dependent on a number of relevant fixed-line, NLD, international long distance and other mobile operators for its interconnection arrangements and leased-line arrangements. However, in future, both these concerns should get resolved as it starts operations in newer circles, expands its presence throughout India and commissions its own NLD network.

Valuations

Idea trades at 15.9x its FY2007E enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation and at \$423 EV/subscriber, at the higher end of the price band of the IPO. As such it is at a significant discount to the other listed peers like Bharti Airtel and Reliance Communications. What's more, the recent bids for Hutchison Essar peg the valuation of a comparable telecom

business at an EV of \$770 per subscriber. Idea's discount compared with these players could be attributed to its lack of pan-India presence and lower ARPU. We feel such a huge discount is unjustified (Idea trades at a discount of 59% and 42% to Bharti Airtel and Reliance Communications respectively on an EV/subscriber basis). We believe that the Idea issue is attractively priced, especially given the growth trajectory that the telecom industry as a whole is likely to charter in the times to come.

Comparative valuations

Particulars	Bharti	RCom	Idea at Rs65	Idea at Rs75
EV/Sub (\$)	1021.4	734.2	381.3	423.0
EV/EBIDTA (x)	20.1	16.9	14.3	15.9
Mcap/Sales (x)	7.7	6.4	3.9	4.4

Source: Sharekhan Research

Financials

Profit and loss account

Particulars	FY2004	FY2005	FY2006	9M2007
Sales	1296.6	2255.7	2965.5	3058.0
Total expenditure	921.0	1434.7	1898.1	2030.6
EBITDA	375.6	821.0	1067.4	1027.4
Other income	16.3	17.1	24.4	13.9
Interest	296.1	318.9	322.5	231.7
Depreciation and amortisation	331.6	442.7	549.5	495.7
PBT	-235.8	76.5	219.8	313.9
Tax	0.1	0.0	8.0	4.4
PAT	-235.9	76.5	211.8	309.6

Balance sheet

Particulars	FY2004	FY2005	FY2006	9M2007
Share capital	2259.5	2259.5	2259.5	2259.5
Preference shares	483.0	483.0	483.0	483.0
Reserves and surplus	-1890.6	-1822.3	-1619.3	-1281.2
Net worth	851.9	920.2	1123.2	1461.4
Total debt	2371.6	3693.9	3285.6	3975.9
Capital employed	3223.5	4614.1	4408.8	5437.2
Net fixed assets	1829.7	2419.5	2710.3	3812.4
Intangible Assets	966.9	1082.5	993.4	1190.5
CWIP	90.0	95.4	173.1	456.4
Good will	446.9	1160.5	1160.5	1160.5
Investments	45.0	0.0	0.0	95.0
Net current assets	-155.0	-143.9	-628.5	-1277.5
Capital deployed	3223.5	4614.1	4408.8	5437.2

Ratio analysis

Particulars	FY2004	FY2005	FY2006	9M2007
OPM(%)	29.0	36.4	36.0	33.6
NPM(%)	-18.2	3.4	7.1	10.1
RoCE(%)	-7.4	2.0	4.7	6.3
RoNW(%)	-26.2	8.6	20.7	24.0

Valuation metrics

Particulars	FY2004	FY2005	FY2006	9M2007
EPS (Rs)	-0.9	0.3	0.8	1.2
P/E	-80.9	249.2	90.1	61.6
Book value	3.8	4.1	5.0	2131.5
Price/BV	19.9	18.4	15.1	0.0
EV/EBIDTA	57.1	27.7	20.9	22.4
EV/Sales	16.5	10.1	7.5	7.5

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