Idea Cellular

(IDEA.BO / IDEA IN)

Rating (from Underperform)	**OUTPERFORM* [V]**
Price (27 Oct 08, Rs)	39.55
Target price (Rs)	(from 95.00) 60.00[1]
Chg to TP (%)	51.7
Market cap. (Rs mn)	122,609 (US$ 2,463)
Enterprise value (Rs mn)	157,829
Number of shares (mn)	3,100.09
Free float (%)	43.00
52-week price range	147.10 - 36.90

**Stock ratings are relative to the relevant country index.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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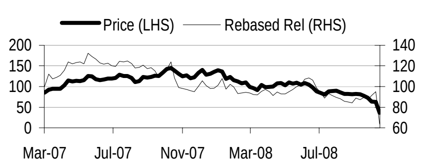
UPGRADE RATING

Near term weakness is in price, growth is not

- **Event:** We are changing our estimates for Idea to build in: 1) its expansion into nine new circles, 2) the acquisition of Spice, 3) the consolidation of the tower business and 4) the stake sale to TM International (TMIT.KL, RM4.42, OP, TP RM8.13). We also take cognisance of the increasing competitive pressures and reduce our estimates on Idea's core 11 circles. This leads to an estimated EPS decline of 39% and 40% in FY09 and FY10, respectively.
- **View:** For the core business (11 circles), we now build a sharper ARPU fall-off (12-17% over FY09-10E versus 8-9% earlier) and margin erosion as the company chases a faster network rollout without a commensurate increase in subscribers/usage. We build no addition to our NPV of Idea due to its expansion into new circles and assume that the acquisition of Spice was expensive, despite being largely underwritten by a stake sale to TMI. Despite this, we believe that Idea should remain a strong player in 11 circles and that it has enough capital to finance its cash needs for next two years.
- **Catalyst:** We expect Hindalco to be able to finance its cash needs before 10 November without resorting to selling its stake in Idea. This should remove a big overhang from the stock. Consensus numbers should also get adjusted within the next couple of months as Idea's management shares greater detail about its new initiatives, leading to greater confidence in earnings. Finally, as usage picks up after the seasonally slow September quarter, comfort on core earnings should also return.
- **Valuation:** The stock could remain volatile in the near term as investments in new circles lead to ROE and EPS declines in FY3/09E. Indeed, our worst-case valuation of the share is Rs28. However, once we look past the near-term volatility, we find value in the shares. We thus upgrade our rating to OUTPERFORM with a new target price of Rs60 (from Rs95), based on DCF.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 8509.56 on 27/10/08
On 27/10/08 the spot exchange rate was Rs49.78/US$1

Performance Over	1M	3M	12M
Absolute (%)	-49.2	-55.2	-71.5
Relative (%)	-21.8	-24.9	-35.5

Financial and valuation metrics

Year	3/08A	3/09E	3/10E	3/11E
Revenue (Rs mn)	67,199.8	93,576.5	134,398.5	158,583.1
EBITDA (Rs mn)	22,518.0	27,212.4	35,654.8	43,112.7
EBIT (Rs mn)	13,749.9	14,438.0	17,037.2	22,352.5
Net income (Rs mn)	10,423.0	9,229.9	11,366.5	16,042.4
EPS (CS adj., Rs)	3.96	3.15	3.45	4.87
Change from previous EPS (%)	n.a.	-39.4	-40.4	-26.4
Consensus EPS	n.a.	4.41	5.47	6.90
EPS growth (%)	86.9	-20.4	9.4	41.1
P/E (x)	10.0	12.6	11.5	8.1
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	8.1	5.8	4.9	3.9
P/B (x)	2.9	1.0	0.7	0.7
ROE (%)	29.4	7.8	6.2	8.3
Net debt/equity (%)	169.7	30.0	28.5	23.0

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

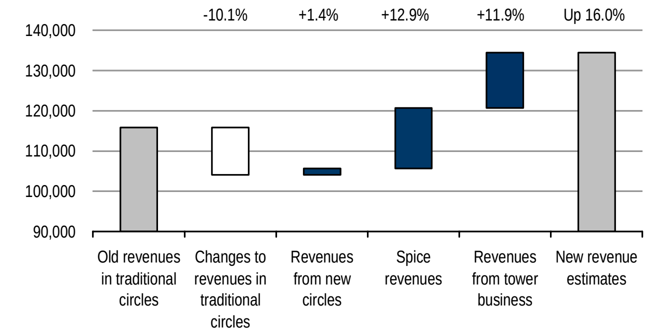
Focus charts

Figure 1: **Summary of changes to our estimates**

	Old estimates			New estimates			% change		
(Rs mn)	**FY3/09**	**FY3/10**	**FY3/11**	**FY3/09**	**FY3/10**	**FY3/11**	**FY3/09**	**FY3/10**	**FY3/11**
Revenues	93,623	115,839	138,349	93,576	134,399	158,583	0.0	16.0	14.6
% YoY growth	39.3	23.7	19.4	39.3	43.6	18.0			
EBITDA	32,422	38,241	45,818	27,212	35,655	43,113	-16.1	-6.8	-5.9
EBITDA margin (%)	34.6	33.0	33.1	29.1	26.5	27.2	-5.6	-6.5	-5.9
EPS (Rs)	5.20	5.79	6.61	3.15	3.45	4.87	-39.4	-40.4	-26.4
Capex	49,757	53,038	38,380	79,578	40,122	26,380	59.9	-24.4	-31.3

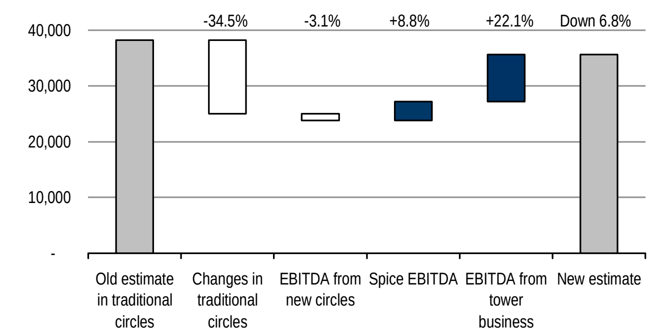
Source: Credit Suisse estimates

Figure 2: **Factors resulting in change in revenue estimates in FY3/10 (Rs mn)**



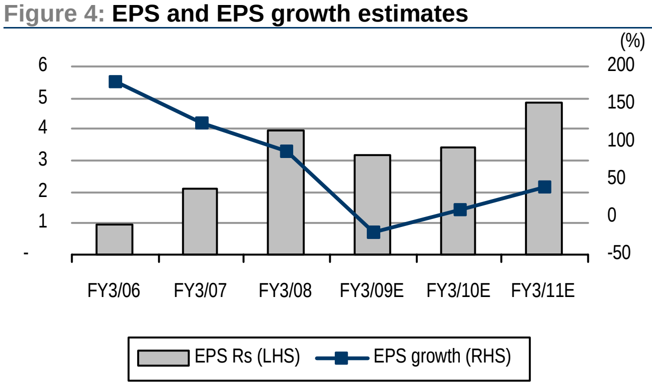
Source: Credit Suisse estimates

Figure 3: **Factors resulting in change in EBITDA estimates in FY3/10 (Rs mn)**



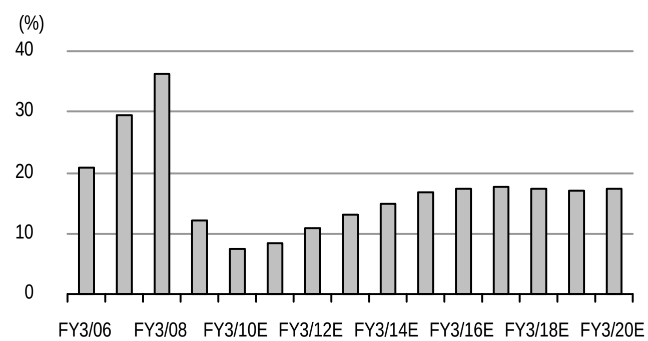
Source: Credit Suisse estimates

Figure 4: **EPS and EPS growth estimates**



Source: Company data, Credit Suisse estimates

Figure 5: **Idea ROE estimates**

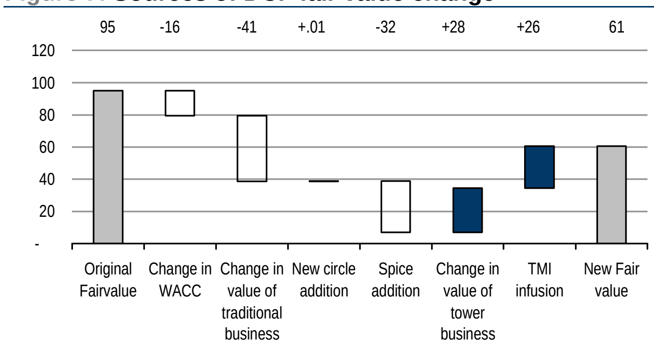


Source: Company data, Credit Suisse estimates

Figure 6: **Idea's trailing 12-month P/B trend**

Source: Credit Suisse estimates

Figure 7: **Sources of DCF fair value change**



Source: Credit Suisse estimates

Building a consolidated model

Changes to our consolidated model lead to a 40% decline in our FY3/09 and FY3/10 EPS estimates

We have changed our model for Idea to build in: 1) the company's expansion into nine new circles, 2) the acquisition of Spice, 3) the consolidation of the tower business earnings and 4) the stake sale to TMI.

Given the recent results, we have also changed our assumptions for the current 11 circles to build in a slight frontloading of subscriber additions at the cost of a sharper ARPU decline. This has also led to lower long-term margins for the company.

With these changes, our FY3/10 and FY3/11 revenue estimates rise 16% and 15%, respectively. Our EPS (with dilution on the TMI stake sale and Spice merger) declines 39%, 40% and 26% for FY3/09E, FY3/10E and FY3/11E, respectively.

Figure 8: **Summary of changes to estimates**

	Old estimates			New estimates			% change		
Rs mn	FY3/09	FY3/10	FY3/11	FY3/09	FY3/10	FY3/11	FY3/09	FY3/10	FY3/11
Revenues	93,623	115,839	138,349	93,576	134,399	158,583	0.0	16.0	14.6
% YoY growth	39.3	23.7	19.4	39.3	43.6	18.0			
EBITDA	32,422	38,241	45,818	27,212	35,655	43,113	-16.1	-6.8	-5.9
EBITDA margin (%)	34.6	33.0	33.1	29.1	26.5	27.2	-5.6	-6.5	-5.9
EBIT	19,235	22,064	25,463	14,438	17,037	22,352	-24.9	-22.8	-12.2
EBIT margin (%)	20.5	19.0	18.4	15.4	12.7	14.1			
EPS (Rs)	5.20	5.79	6.61	3.15	3.45	4.87	-39.4	-40.4	-26.4
Capex	49,757	53,038	38,380	79,578	40,122	26,380	59.9	-24.4	-31.3

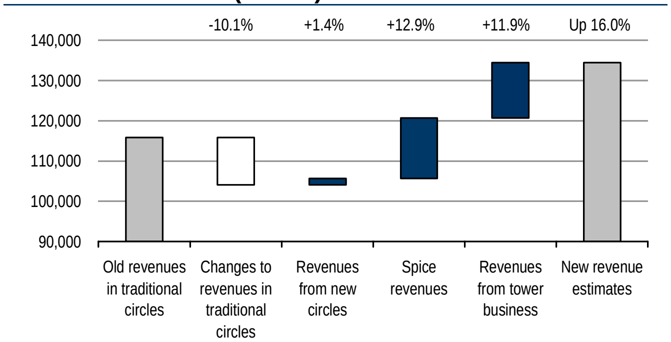
Source: Credit Suisse estimates

Sources of change

Revenues

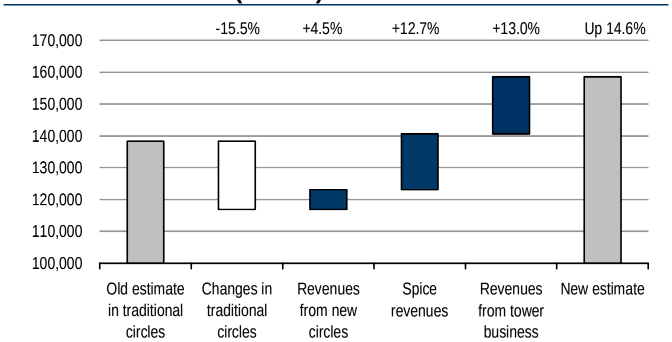
The changes to our revenue estimates are driven by weaker revenue in traditional circles, compensated by revenue from new circles, Spice revenues and external revenue from the tower business.

Figure 9: **Factors resulting in a change in our revenue estimates in FY3/10 (Rs mn)**



Source: Credit Suisse estimates

Figure 10: **Factors resulting in change in our revenue estimates in FY3/11 (Rs mn)**

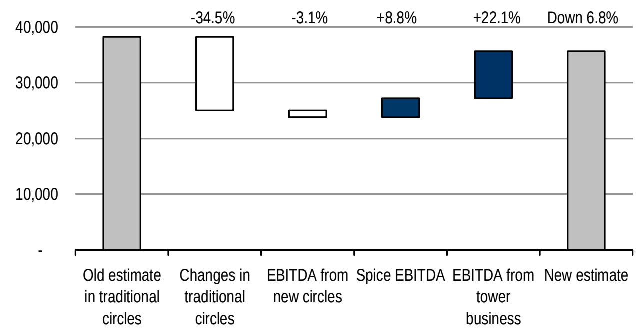


Source: Credit Suisse estimates

EBITDA

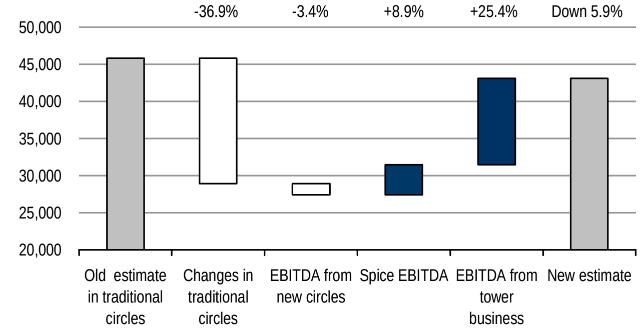
We build weaker margins into the traditional business, as the company ramps up its roll-out of network coverage. This is further reduced by a shift of passive infrastructure costs from below the EBITDA line (depreciation) to rentals above the line. This is compensated by EBITDA from the tower business and Spice circles, leading to a 6-7% reduction in our EBITDA estimates.

Figure 11: Factors resulting in a change in our EBITDA estimates in FY3/10 (Rs mn)



Source: Credit Suisse estimates

Figure 12: Factors resulting in change in our EBITDA estimates in FY3/11 (Rs mn)

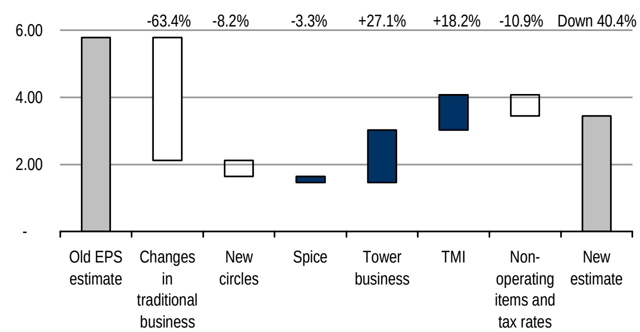


Source: Credit Suisse estimates

EPS

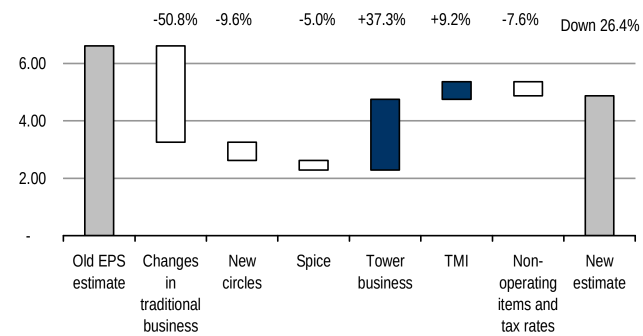
The company's net profit should be impacted negatively by: 1) a weaker performance by traditional business, 2) losses in nine new circles, 3) a higher cost of debt and 4) share issuance to TMI. On the other hand, 1) the addition of profits from Spice and the tower business, and 2) interest income due to a cash infusion by TMI adds to EPS.

Figure 13: Factors resulting in change in our EPS estimates in FY3/10 (Rs)



Source: Credit Suisse estimates

Figure 14: Factors resulting in change in our?> EPS estimates in FY3/11 (Rs)

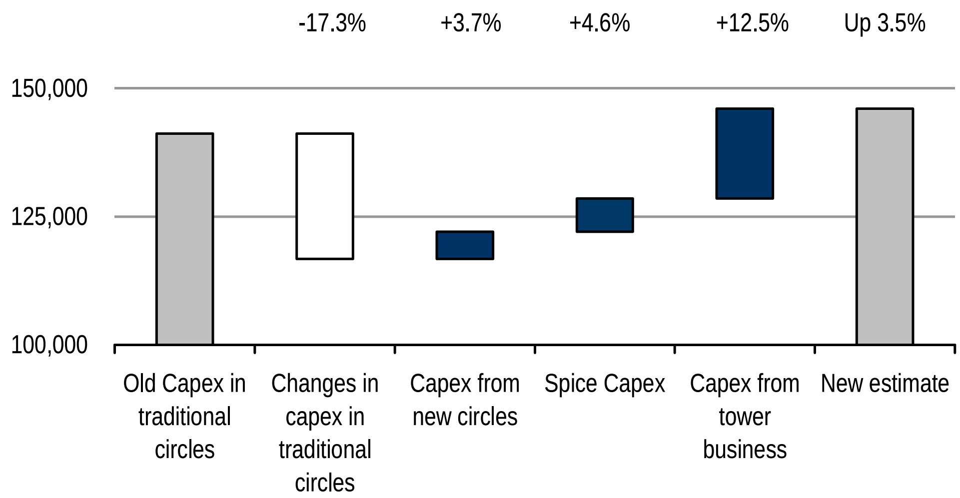


Source: Credit Suisse estimates

Capex

We build a significant frontloading of capex, as the company aggressively rolls out capex in both traditional and new circles. Due to this front-loading, a year-to-year comparison of capex may be misleading. We present below changes to our estimates of total capex over FY3/09-11. Capex in traditional business should decline as some of it gets transferred to the tower business. Overall, our capex estimates rise by 3.5% for FY09-11.

Figure 15: Factors resulting in changes to FY09-11 capex estimates (Rs mn)



Source: Company data, Credit Suisse estimates

Key assumptions

In this section, we set out our key assumptions for each of the businesses. In short:

Our estimates remain more conservative compared to management's forecasts

- In the traditional circles, we assume a slight frontloading in the subscriber base, coupled with sharper ARPU drops of 12% and 17% for FY3/09 and FY3/10. We also build in lower margins on the back of the aggressive network rollout, without a commensurate uptick in subscribers and usage.
- We expect new circles to break even after four years.
- We expect the tower business to contribute significantly from external revenues from FY3/10 onwards.

Traditional business

In Idea's traditional business, we assume a frontloading of subscriber additions, resulting in our March 2009 subscriber estimate going up 5%, returning to our earlier estimated level by FY3/11. However, we build in a much sharper ARPU fall than earlier, leading to a 17% and an 8% drop in revenue for FY3/10 and FY3/11. We also build in an explicit separation of the tower business. This has led to an increase in network costs.

We also build a sharper ARPU fall and lower margins in Idea's traditional 11 circles

Figure 16: **Changes to traditional business estimates**

	Old estimates			New estimates			% change		
	FY3/09	FY3/10	FY3/11	FY3/09	FY3/10	FY3/11	FY3/09	FY3/10	FY3/11
Subscribers (mn)	34.1	44.1	53.2	36.0	45.3	53.7	5	3	1
Market share (%)	16.3	15.9	15.5	16.7	16.4	16.0			
ARPU (Rs)	268	247	237	258	213	197	-4	-14	-17
% YoY	-9	-8	-4	-12	-17	-8			
MoU	422	456	479	422	431	440	0	-6	-8
% YoY	10	8	5	10	2	2			
RPM (Rs)	0.64	0.54	0.49	0.61	0.50	0.45	-4	-8	-10
% YoY	-16	-15	-9	-19	-19	-10			
Revenues (Rs mn)	93,623	115,839	138,349	93,058	104,100	116,902	-1	-10	-16
% YoY	39	24	19	38	12	12			
EBITDA	31,198	36,637	43,827	27,860	25,030	28,932	-11	-32	-34
EBITDA margin (%)	33.3	31.6	31.7	29.9	24.0	24.7			

Source: Company data, Credit Suisse estimates

New and Spice circle assumptions

We expect Idea to break even at the EBITDA level only after four years in its nine new circles, by which time it could have reached a subscriber base of almost 7 mn. For Spice, we expect a 15% three-year revenue CAGR to FY3/12.

In new circles, Idea should get 5% incremental market share and reach EBITDA break-even after four years

Figure 17: **New circle estimates**

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13
Subscribers (mn)	0.4	2.1	3.7	5.1	6.5
Market share (%)	0.3	1.3	2.0	2.4	2.7
Incremental market share (%)	1.1	4.3	5.0	5.1	5.1
ARPU (Rs)	115	108	178	174	172
Revenues (Rs mn)	518	1,580	6,185	9,235	12,033
% YoY		205	291	49	30
EBITDA margin (%)	-125	-75	-25	-15	3

Source: Credit Suisse estimates

Figure 18: **Spice circles estimates**

	FY3/10	FY3/11	FY3/12	FY3/13
Subscribers (mn)	7.2	8.6	9.7	10.4
Market share (%)	14.8	14.8	14.8	14.7
ARPU (Rs/sub./month)	202	185	188	186
Revenues (Rs mn)	14,984	17,531	20,603	22,493
% YoY	12	17	18	9
EBITDA margin (%)	22.5	23.3	24.0	24.4

Source: Company data, Credit Suisse estimates

Tower business

We build in the tower segment as a separate subsidiary from FY3/10 onwards. The contribution from the tower business to consolidated P&L is given below.

Consolidating the tower business in our estimates rather than taking an SOTP value in the target price

Figure 19: **Tower business contribution**

(Rs mn)	FY3/10	FY3/11
Revenue	19,759	25,612
EBITDA	8,446	11,637

Source: Company data, Credit Suisse estimates

We expect Idea's tower company, along with its 16% stake in Indus, to have 24,669 towers as of March 2010, with a tenancy of 1.6 rising to 2 by FY3/12. In terms of revenue, we expect a 32% CAGR between FY09 and FY12 from the tower businesses.

Figure 20: **Tower business – revenue build-up**

	FY3/10	FY3/11
Within Indus group		
No of towers	131,619	142,032
No of BTS	220,425	272,492
Rental revenue (Rs mn)	70,730	91,023
Pass-through revenue (Rs mn)	35,955	45,581
Total revenue (Rs mn)	106,685	136,604
Idea's share (16%) (Rs mn)	**17,070**	**21,857**
Outside Indus group		
No. of towers	3,610	4,324
No. of BTS	5,158	8,316
Rental revenue (Rs mn)	1,748	2,488
Pass-through revenue (Rs mn)	942	1,268
Total revenue (Rs mn)	**2,690**	**3,756**
Idea's share of total towers	24,669	27,049
Idea's share of total BTS	40,426	51,915
Revenue from tower businesses consolidated into Idea	**19,759**	**25,612**

Source: Credit Suisse estimates

Upgrading to OUTPERFORM

Significant underperformance creates an opportunity

We are upgrading our rating for Idea to OUTPERFORM from Underperform with a revised target price of Rs60 (previously Rs95), based on our discounted cash flow (DCF) model. We note that the stock has declined 75% in the past 12 months, underperforming the BSE-30 Index by 22%, and now offers value even at our conservative assumptions.

A worst-case valuation of Rs28 assumes limited improvement in returns

Furthermore, we find the worst-case value for the share is Rs28, a 29% discount to current price. This, when contrasted with 51% upside based on our fair value, gives a good risk-reward for the trade.

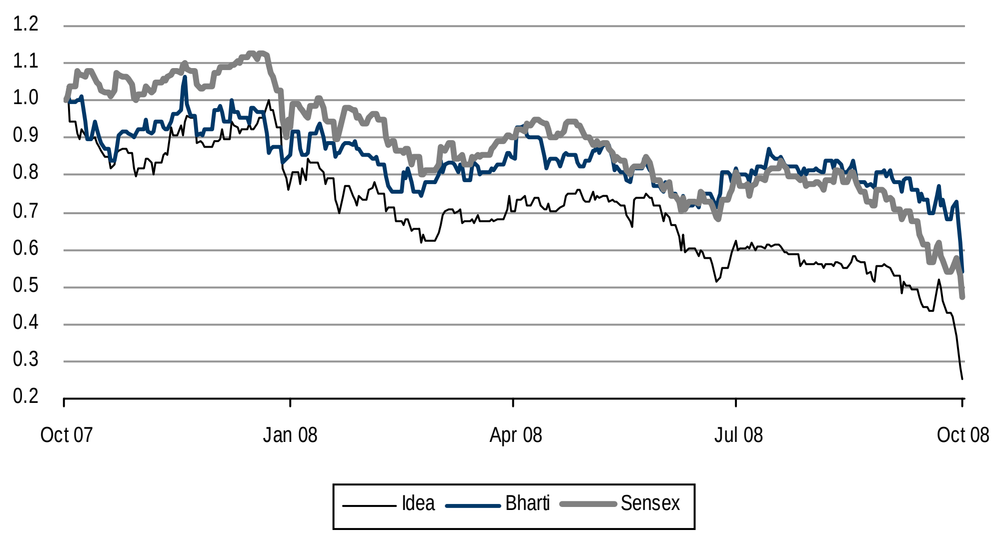
The company should not need any further capital to finance its expansion

We believe that the share price could remain volatile in the near term, due to concerns over credit markets and promoters' financial positions. However, we note that: 1) Idea does not need to raise debt to fund its capex for the next two years, 2) our metal analyst indicates that Hindalco should be able to raise adequate financing to roll forward its debt and 3) Idea's business is attractive enough for global telecoms companies/private equity players to pay a significant premium to the current price to get a strategic stake in the company if Idea's promoters want to sell further stakes in the company.

Share has underperformed significantly

Over the past 12 months, Idea's shares have declined 75%, underperforming the BSE-30 Index by 22% and Bharti by 29%.

Figure 21: Idea's share performance versus Bharti and the Sensex



Source: Bloomberg

DCF model exhibits value

Our DCF model returns a fair value of Rs61/share for Idea. This is at a 54% premium to the current price.

Our Rs60 target price does not assume any value addition from new expansion

Figure 22: Sources of change in DCF target price

	Rs
Original target price	95
Impact of change in WACC	-16
Change in value of traditional business and tower business	-13
New circle addition	0
Spice addition	-28
TMI infusion and dilution	22
Final fair value	**61**

Source: Credit Suisse estimates

Figure 23: DCF model assumptions

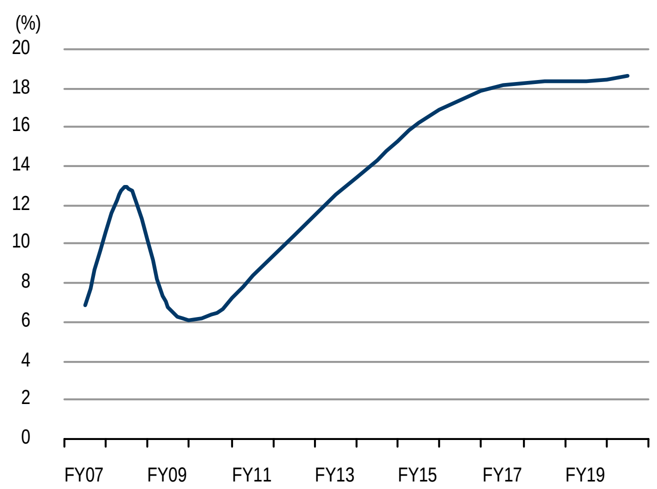
(%)	Mar 08	Mar 09	Mar 10	Mar 11	Mar 12	FY3/13-25	Terminal
Revenue growth	54.5	39.3	43.6	18.0	13.8	4.0	2.0
EBIT margins	20.5	15.4	12.7	14.1	15.5	23.0	26.5
NOPAT margins	12.9	6.8	6.4	8.4	10.4	17.4	17.5
Invested capital turns	0.70	0.60	0.55	0.64	0.72	1.26	1.44
ROIC	11.9	5.0	4.3	5.4	7.5	20.9	25.4

Source: Credit Suisse estimates

What could be the worst-case DCF value?

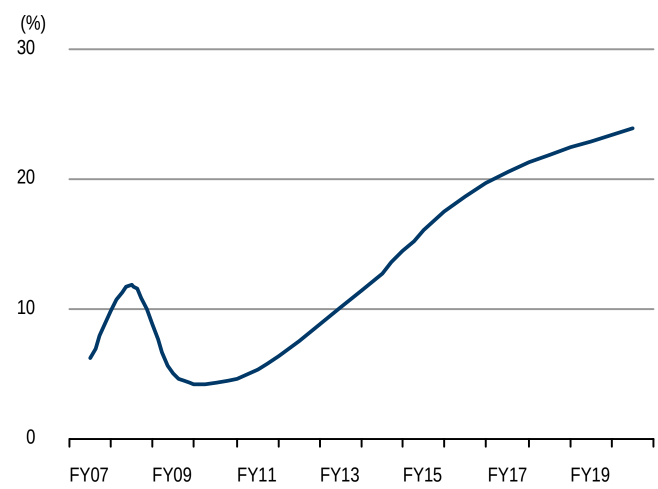
In line with our earnings model, our DCF model builds in reducing losses and hence increasing returns from the new circles that the company is entering. This leads to an increase in margins and returns for the company going forward.

Figure 24: NOPAT margin estimates



Source: Credit Suisse estimates

Figure 25: ROIC estimates



Source: Credit Suisse estimates

Building in a worst-case valuation, we assume that the ROIC would increase to cost of capital and then stay stable at those levels. This leads to a value of Rs28/share for the company (29% downside).

Should we ring fence the loss making business?

Another way to value Idea would be to ring fence Idea's profitable businesses (eight old circles, the tower business and the Spice acquisition) from its loss-making business (three circles that it entered 24-30 months ago, nine circles for which entry is currently planned). This effectively assumes zero value from Idea's new circles.

Our DCF model also assumes a contribution of less than Rs4 from Idea's new businesses. This value comes from the three circles that Idea entered 24-30 months ago, while we build no value accretion from the nine new circles that Idea plans to enter now. Thus, using this method should also give Rs57/share as Idea's fair value.

The company does not need to raise cash

The company raised US$1.5 bn of equity capital early in the year

Idea raised around Rs74bn cash by selling equity in the company and its tower business (and after accounting for the purchase of Spice) early this year. We note that the Spice-Idea merger would be a cash-less transaction, with TMI's stake in Spice swapped with new shares of Idea.

Figure 26: **Cash raised by Idea**

Source	Amount (Rs mn)	Comment
From TMI	72,944	For 14.99% stake at Rs156.96 per share of Idea
From Providence	28,160	For 20% stake in ABTL, a subsidiary of Idea
Spent on Spice	-27,199	Only cash payment to promoters, excludes shares to be issued on merger
Net cash inflow	73,905	

Note that Spice-Idea merger would be a cash-less transaction, with an increase in equity base of Idea (by issuance of shares) offset by addition of Spice assets and goodwill
Source: Company data, Credit Suisse estimates

Thus, Idea does not need to raise further cash (either from debt or equity) to finance its expansion over next two years.

Figure 27: **Summary cash flow**

Rs mn	FY3/09	FY3/10	FY3/11
Cash from operations	35,973	55,242	45,796
Net cash inflow from TMI/Providence/Spice	73,905		
Capex required	-79,578	-40,122	-26,380
FCF	30,300	15,120	19,416

Source: Company data, Credit Suisse estimates

Our model does not build investments in 3G

3G is not a big worry

Our model does not build investments into 3G and this could be an addition to our capex estimates. However, we note that: 1) excluding Delhi and Mumbai, the government has indicated good availability of 3G spectrum, which should limit the bid price, 2) the current credit crunch could lead to cautious bidding by various operators and 3) the 3G spectrum auction could be delayed until the new government is formed, which would take it to mid-FY3/10. Thus, we are not unduly concerned about investments in 3G by Idea.

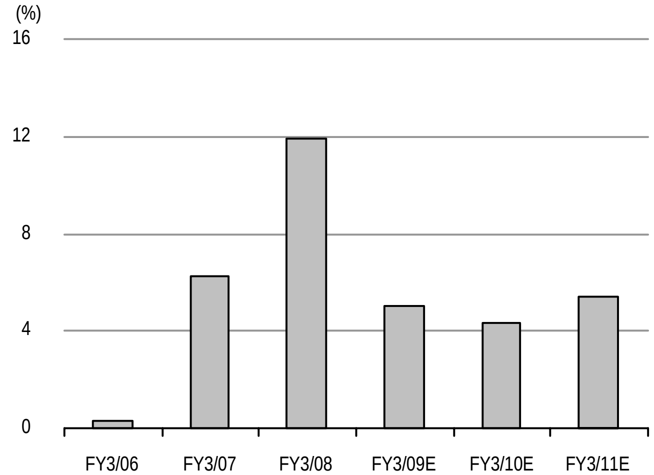
Could we be early in upgrading the stock?

In the current market environment, the stock could trade below its fair value for some time. Furthermore, investors could be looking more closely at near-term metrics, rather than at the investment cycle of the company. We present below three issues that could trouble investors in near term.

Significant fall in returns as company invests into new businesses

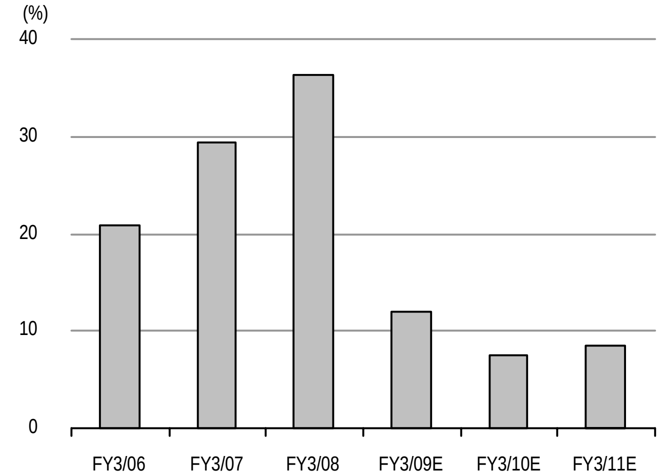
Idea would face a significant decline in returns due to investments in new businesses. However, this is adequately compensated by the share trading at 0.7x FY3/10 book value.

Figure 28: Idea's ROIC estimates



Source: Company data, Credit Suisse estimates

Figure 29: Idea's ROE estimates



Source: Company data, Credit Suisse estimates

Figure 30: Trailing 12-month P/B trend

Source: Credit Suisse estimates

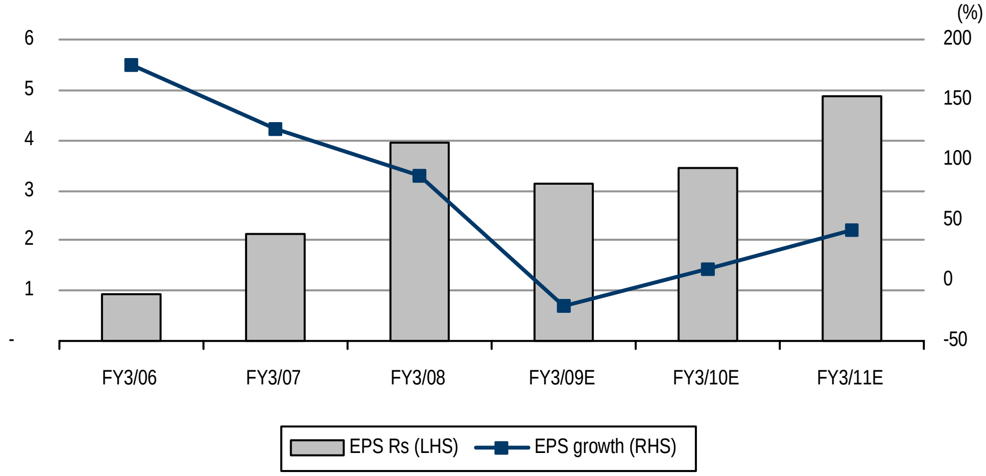
Figure 31: Trailing 12-month EV/IC trend

Source: Credit Suisse estimates

EPS growth also turns negative in FY3/09

Due to losses in the new circles, further weakness in its original 11 circles and an increase in the share count due to the stake sale to TMI, Idea's EPS could decline by 20% in FY3/09. This has led to P/E derating of the company. However, Idea should exhibit an 24% EPS CAGR in the period FY3/09-11. Thus, we believe that current its P/E, at 12.5x FY3/09 Credit Suisse's estimates, is cheap.

Figure 32: EPS and EPS growth estimates



Source: Company data, Credit Suisse estimates

Figure 33: Consensus 12-month forward P/E trend

Source: Datastream, company data, Credit Suisse estimates

Could Idea's promoters sell shares in the market?

One key issue playing in the minds of investors is the stretched financial condition of Idea's promoter group, in particular Hindalco. Our metals analyst indicates that Hindalco has to roll over $3.03 bn (Rs152 bn) in bridge loans at its SPV by 10 November 2008. The rights issue was not successful, but with the underwriting the company should be able to get at least 90% of the targeted proceeds of Rs50 bn. In addition, Hindalco has Rs97bn invested in mutual funds as of 31 March 2008 – total consolidated cash was Rs117bn. While raising any amount of debt is a challenge in the current environment, given the company's size and its still profitable domestic business, it is unlikely that it would have to sell its cross holdings in the Aditya Birla group of companies.

Summary financials

Figure 34: **Idea: summary consolidated financials**

Year-end 31 March (Rs mn)	FY3/06A	FY3/07A	FY3/08	FY3/09E	FY3/10E	FY3/10E
Income statement						
Revenues	29,655	43,500	67,200	93,576	134,399	158,583
EBITDA	10,674	14,489	22,518	27,212	35,655	43,113
EBITDA margins (%)	36.0	33.3	33.5	29.1	26.5	27.2
EBIT	5,179	7,771	13,750	14,438	17,037	22,352
EBIT margins (%)	17.5	17.9	20.5	15.4	12.7	14.1
Profit before tax	2,198	4,929	11,148	10,087	12,916	18,230
Profit after tax	2,118	4,858	10,423	9,230	11,367	16,042
EPS (Rs)	0.94	2.12	3.96	3.15	3.45	4.87
Balance sheet						
Cash and equivalents	1,493	18,199	4,975	29,934	12,734	30,758
Receivables and other current assets	4,494	6,461	10,525	14,656	18,899	22,024
Total current assets	5,987	24,661	15,500	44,590	31,632	52,782
Gross fixed assets	47,934	70,627	110,141	189,719	262,801	289,181
Net fixed assets	27,103	44,254	78,899	143,728	184,822	191,597
Total assets	56,360	85,823	127,623	220,388	297,560	324,330
Total current liabilities	12,313	21,520	27,022	37,642	48,497	56,493
Total long-term liabilities	32,856	42,505	65,154	65,154	65,154	75,154
Total equity	11,191	21,798	35,455	117,592	183,910	192,683
Total liabilities	56,360	85,823	127,632	220,388	297,560	324,330
Cash flow statement						
Net income	2,118	4,858	10,423	9,230	11,367	16,042
Depreciation	4,394	5,541	4,870	15,904	33,142	20,760
Interest expenses	3,225	3,051	2,776	7,167	6,515	4,887
Other income (net)	-244	-209	-175	-2,816	-2,395	-764
Change in working capital	4,597	7,240	1,438	6,488	6,612	4,871
Cash flow from operation	14,089	20,482	19,333	35,973	55,242	45,796
Change in investments	-	-12	-5,548	-	-	-
Change in fixed asset	-7,188	-27,872	-50,933	-79,578	-40,122	-26,380
Change in other asset	-	11,554	651	-	-83,151	-
Other income (net)	244	209	175	2,816	2,395	764
Cash flow from investing	-6,945	-16,121	-55,655	-76,762	-120,879	-25,616
Change in debt and liabilities	-4,083	9,649	22,649	-	-	10,000
Change in equity reserves	-117	5,749	3,234	72,906	54,952	-7,269
Interest expenses	-3,225	-3,051	-2,776	-7,167	-6,515	-4,887
Cash flow from financing	-7,424	12,347	23,107	65,739	48,436	-2,156
Change in cash	-279	16,707	-13,216	24,950	-17,200	18,024

Source: Company data, Credit Suisse estimates

Figure 35: Key ratios

	FY3/06A	FY3/07A	FY3/08A	FY3/09E	FY3/10E	FY3/11
Margins (%)						
EBITDA margins	36.0	33.3	33.5	29.1	26.5	27.2
EBIT margins	17.5	17.9	20.5	15.4	12.7	14.1
Net profit margins	7.1	11.2	15.5	9.9	8.5	10.1
YoY growth (%)						
Revenue growth	31.5	46.7	54.5	39.3	43.6	18.0
EBITDA growth	30.0	35.7	55.4	20.8	31.0	20.9
EBIT growth	36.9	50.0	76.9	5.0	18.0	31.2
Net profit growth	179.0	129.4	114.5	-11.4	23.1	41.1
Return ratios (%)						
ROE (average)	20.8	29.5	36.4	12.1	7.5	8.5
ROE(End of Period)	18.9	22.3	29.4	7.8	6.2	8.3
ROIC	0.3	6.3	11.9	5.0	4.3	5.4
Turns ratios (x)						
Working capital turns	-7.63	-5.11	-6.05	-7.44	-8.82	-8.94
Fixed asset turns	1.16	1.22	1.09	0.84	0.82	0.84
Other ratios						
Net debt/equity	2.8	1.1	1.7	0.3	0.3	0.2
Gross debt/ equity	2.9	1.9	1.8	0.6	0.4	0.4
Interest cover	1.6	2.5	5.0	2.0	2.6	4.6

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 27 Oct 08)*
Bharti Airtel Ltd (BRTI.BO, Rs566.45, OUTPERFORM, TP Rs950.00, MARKET WEIGHT)
Hindalco Industries Ltd (HALC.BO, Rs40.40, NEUTRAL [V], TP Rs105.00)
Idea Cellular Ltd (IDEA.BO, Rs39.55, OUTPERFORM [V], TP Rs60, MARKET WEIGHT)
Spice Communications (SPCM IN, Rs30.90)
TM International Snd Bhd (TMIT.KL, RM4.58, OUTPERFORM [V], TP RM8.13)

Disclosure Appendix

Important Global Disclosures

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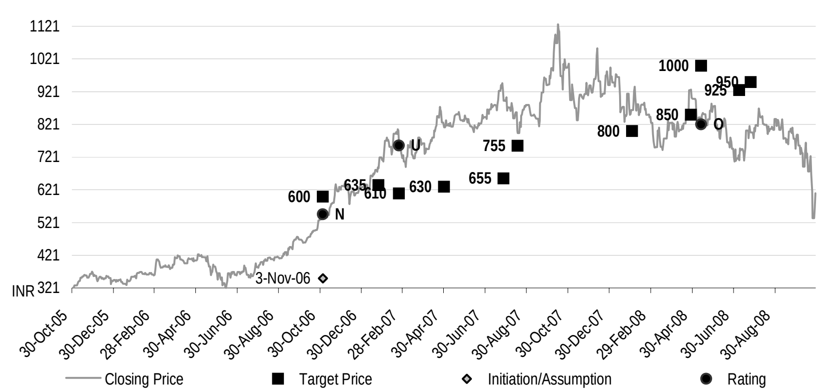
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BRTI.BO

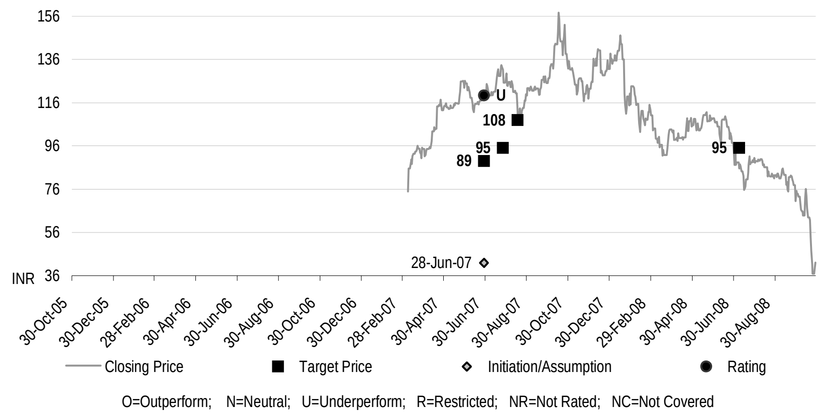
BRTI.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
3-Nov-06	546.65	600	N	X
24-Jan-07	686.9	635		
23-Feb-07	756.1	610	U	
30-Apr-07	812.05	630		
27-Jul-07	892.35	655		
17-Aug-07	794.5	755		
1-Feb-08	864.45	800		
28-Apr-08	927.85	850		
13-May-08	821.25	1000	O	
8-Jul-08	711.9	925		
25-Jul-08	796.45	950		



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

3-Year Price, Target Price and Rating Change History Chart for IDEA.BO

IDEA.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
28-Jun-07	119.35	89	U	X
26-Jul-07	131.3	95		
17-Aug-07	110.75	108		
8-Jul-08	85.7	95		



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Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs950 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 12 and beta of 0.9. Our DCF model builds in strong cashflow growth till FY3/15, a 4% medium term growth (FY3/15 - FY3/30) and 3% terminal growth. Our target price also includes the value add due to sharing of infrastructure.

Risks: Risks to our 12-month target price of Rs950 for Bharti include faster than expected roll out of operations by new competitors entering the Indian telecom market and players looking for new network roll out like RCOM, Aircel etc., as also faster than expected drop in pricing

Price Target: (12 months) for (IDEA.BO)

Method: Our 12-month target price of Rs60 for Idea Cellular Limited is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 12.5 and beta of 1.1. Our DCF model builds in negative cash flows for two years, followed by a period of strong cashflow growth till FY3/16, and a 2% terminal growth rate.

Risks: Risks to our 12-month target price of Rs60 for Idea are: 1) execution risk - Idea is entering new circles, where it is the sixth or seventh operator. If marketshare or margins are below our estimates or capex higher than our numbers, it could lead to a downside risk to our target price, 2) market risk - this would include the possibility of irrational competition from some players trying to gain market share, which could negatively impact margins and returns. 3) economic risk - a slowdown in the Indian economy could slow down subscriber additions. Our model assumes around 9 mn monthly net additions per month for FY09. 4) valuation risk - continuous pressure on telecom stocks or Indian market could keep the share performance weak

See the Companies Mentioned section for full company names.

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