

# Idea Cellular

(IDEA.BO / IDEA IN)

## UPGRADE RATING

Rating (from Underperform) <b>OUTPERFORM* [V]</b>	
Price (27 Oct 08, Rs)	39.55
Target price (Rs)	(from 95.00) 60.00 <sup>1</sup>
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.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

### Research Analysts

#### Bhuvnesh Singh

65 6212 3006

bhuvnesh.singh@credit-suisse.com

#### Sunil Tirumalai

9122 6777 3714

sunil.tirumalai@credit-suisse.com

#### Vikramaditya Narendra

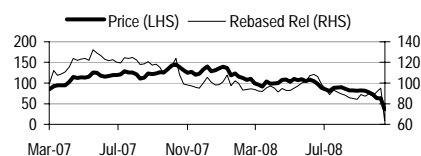
91 22 6777 3943

vikramaditya.narendra@credit-suisse.com

## 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.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

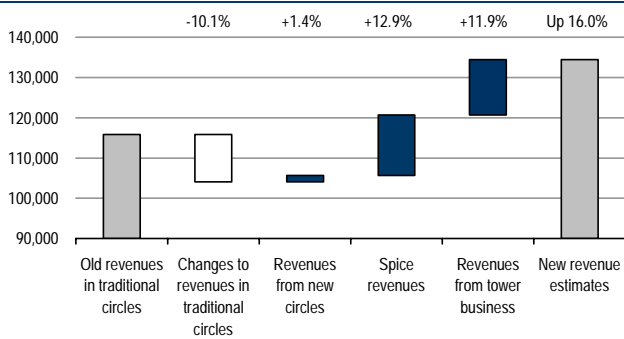
# Focus charts

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

(Rs mn)	Old estimates			New estimates			% change		
	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

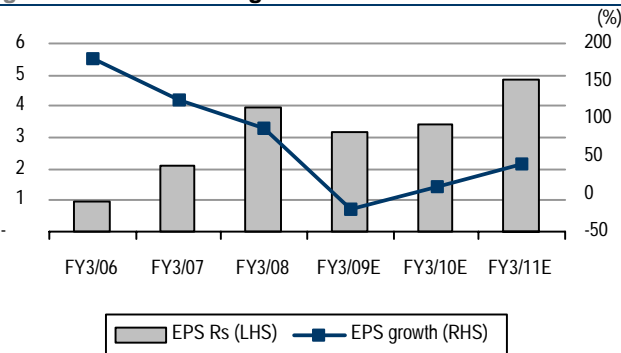
Source: Credit Suisse estimates

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



Source: Credit Suisse estimates

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



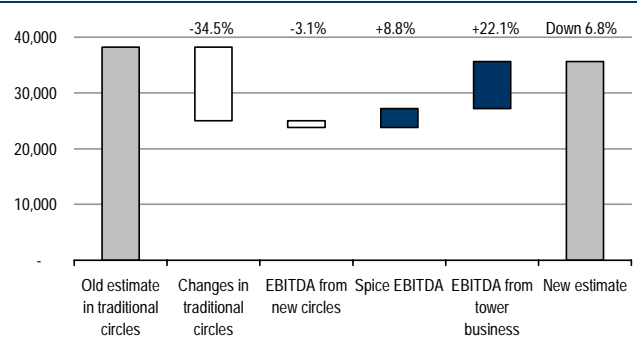
Source: Company data, Credit Suisse estimates

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



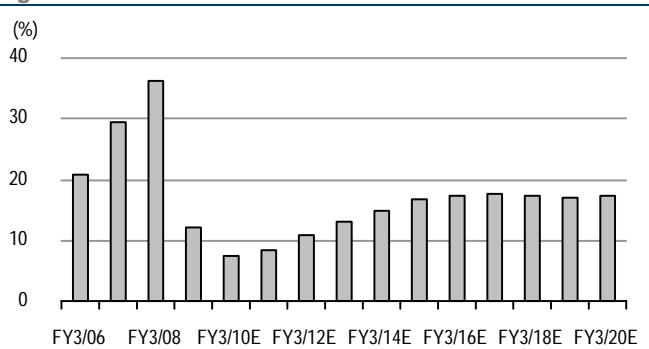
Source: Credit Suisse estimates

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



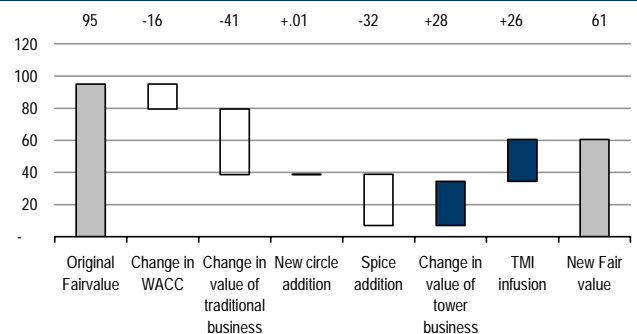
Source: Credit Suisse estimates

**Figure 5: Idea ROE estimates**



Source: Company data, Credit Suisse estimates

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



Source: Credit Suisse estimates

# Building a consolidated model

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.

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

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

Rs mn	Old estimates			New estimates			% change		
	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

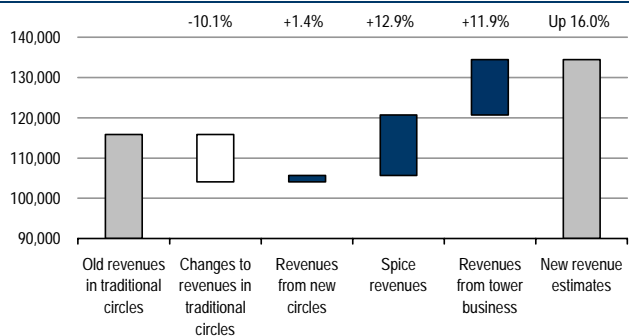
Source: Credit Suisse estimates

## Sources of change

### Revenues

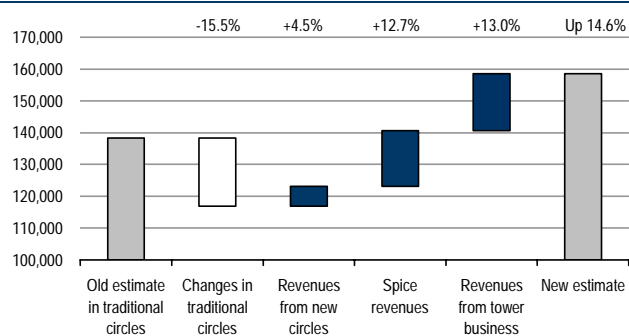
The changes to our revenue estimates are driven by weaker revenue in traditional circles, compensated by revenue from new circles, Spice revenues and external revenue from the tower business.

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)

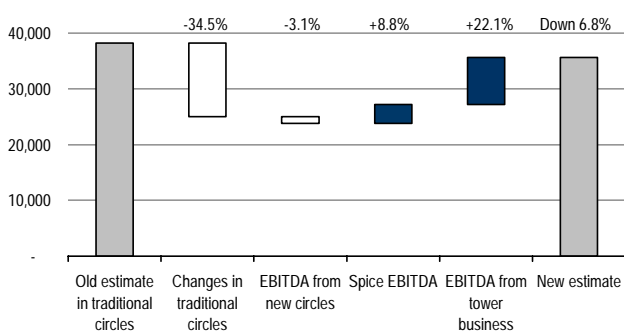


Source: Credit Suisse estimates

### EBITDA

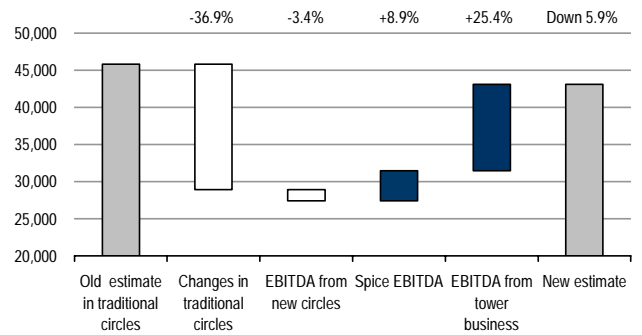
We build weaker margins into the traditional business, as the company ramps up its roll-out of network coverage. This is further reduced by a shift of passive infrastructure costs from below the EBITDA line (depreciation) to rentals above the line. This is compensated by EBITDA from the tower business 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)**

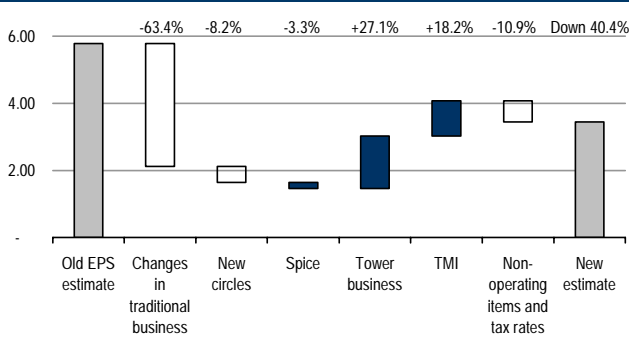


Source: Credit Suisse estimates

**EPS**

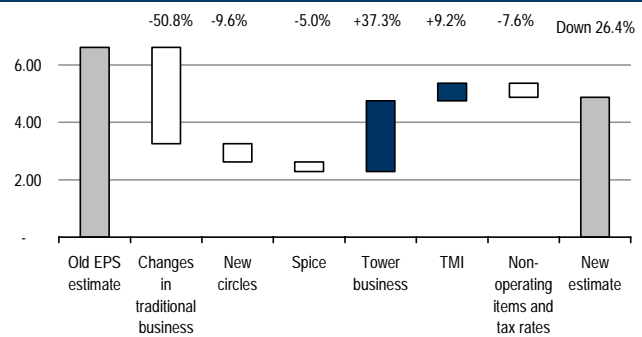
The company's net profit should be impacted negatively by: 1) a weaker performance by traditional business, 2) losses in nine new circles, 3) a higher cost of debt and 4) share issuance to TMI. On the other hand, 1) the addition of profits from Spice and the tower business, and 2) interest income due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

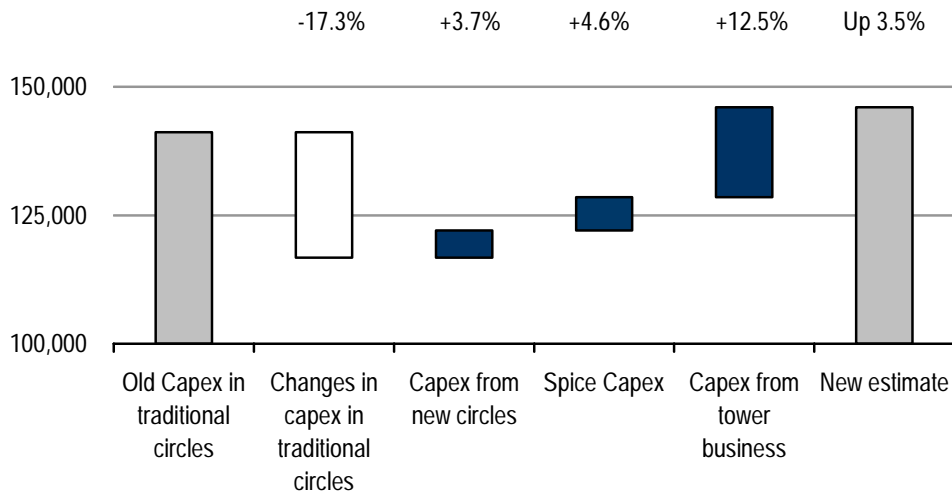


Source: Credit Suisse estimates

**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:

- 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.

Our estimates remain more conservative compared to management's forecasts

## 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
<b>Within Indus group</b>		
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
<b>Idea's share (16%) (Rs mn)</b>	<b>17,070</b>	<b>21,857</b>
<b>Outside Indus group</b>		
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
<b>Total revenue (Rs mn)</b>	<b>2,690</b>	<b>3,756</b>
Idea's share of total towers	24,669	27,049
Idea's share of total BTS	40,426	51,915
<b>Revenue from tower businesses consolidated into Idea</b>	<b>19,759</b>	<b>25,612</b>

Source: Credit Suisse estimates

# Upgrading to OUTPERFORM

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.

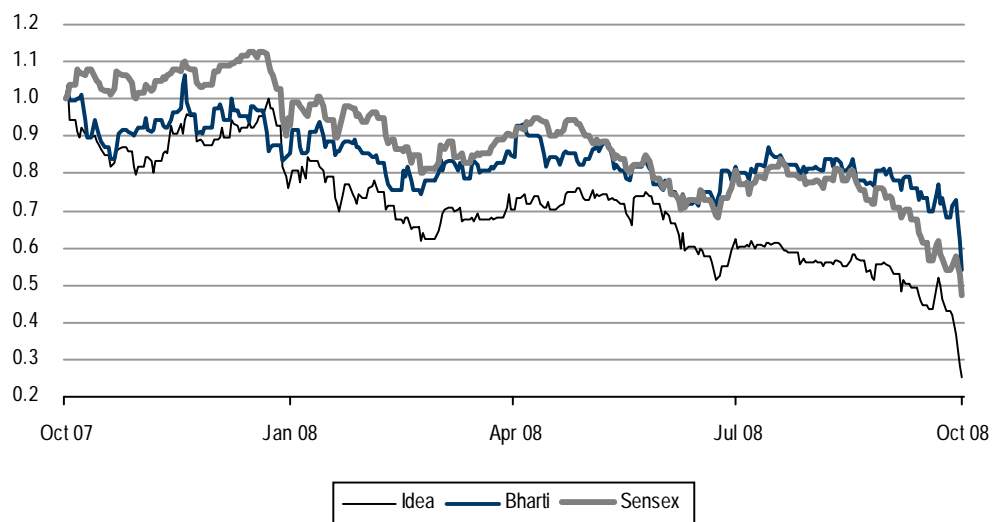
Furthermore, we find the worst-case value for the share is Rs28, a 29% discount to current price. This, when contrasted with 51% upside based on our fair value, gives a good risk-reward for the trade.

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

Significant underperformance creates an opportunity

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

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



## 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
<b>Final fair value</b>	<b>61</b>

Source: Credit Suisse estimates

**Figure 23: DCF model assumptions**

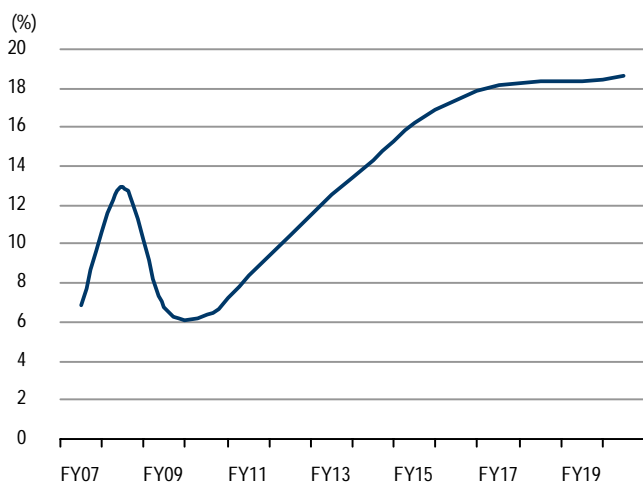
(%)	Mar 08	Mar 09	Mar 10	Mar 11	Mar 12	FY3/13-25	Terminal
Revenue growth	54.5	39.3	43.6	18.0	13.8	4.0	2.0
EBIT margins	20.5	15.4	12.7	14.1	15.5	23.0	26.5
NOPAT margins	12.9	6.8	6.4	8.4	10.4	17.4	17.5
Invested capital turns	0.70	0.60	0.55	0.64	0.72	1.26	1.44
ROIC	11.9	5.0	4.3	5.4	7.5	20.9	25.4

Source: Credit Suisse estimates

## What could be the worst-case DCF value?

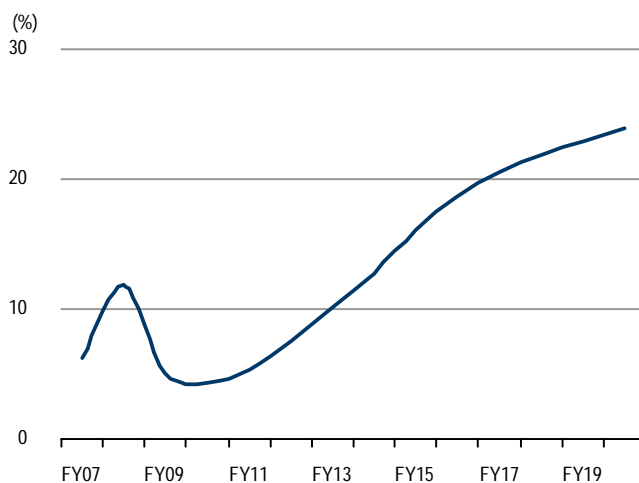
In line with our earnings model, our DCF model builds in reducing losses and hence increasing returns from the new circles that the company is entering. This leads to an increase in margins and returns for the company going forward.

**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

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.

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

**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

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.

3G is not a big worry

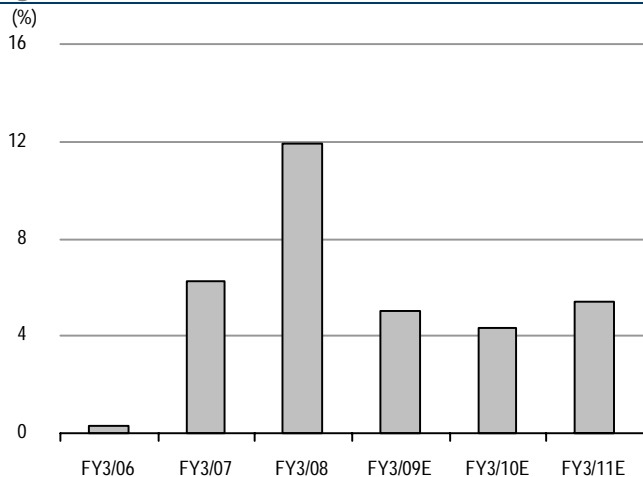
## Could we be early in upgrading the stock?

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

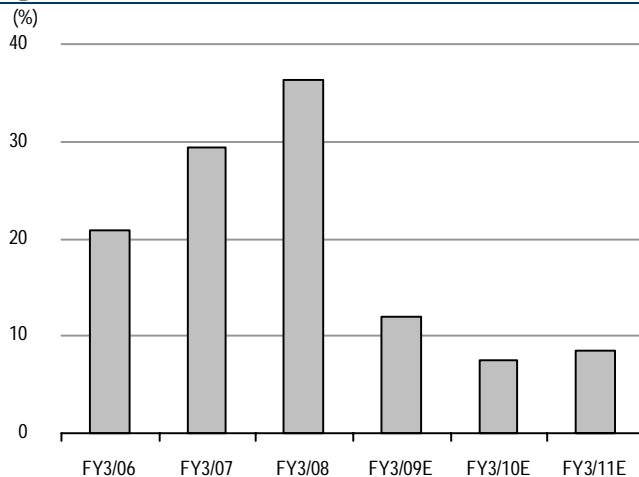
Idea would face a significant decline in returns due to investments in new businesses. However, this is adequately compensated by the share trading at 0.7x FY3/10 book value.

**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**

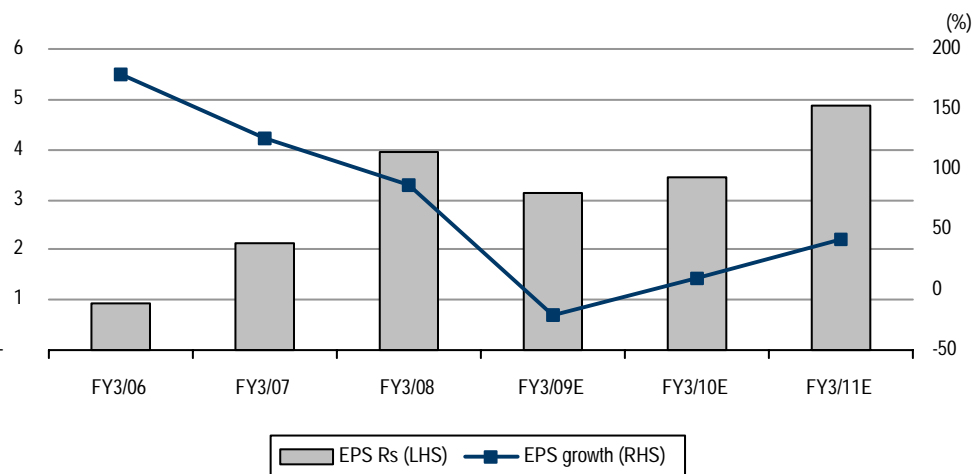


Source: Credit Suisse estimates

**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
<b>Income statement</b>						
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
<b>Balance sheet</b>						
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
<b>Cash flow statement</b>						
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
<b>Margins (%)</b>						
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
<b>YoY growth (%)</b>						
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
<b>Return ratios (%)</b>						
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
<b>Turns ratios (x)</b>						
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
<b>Other ratios</b>						
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)

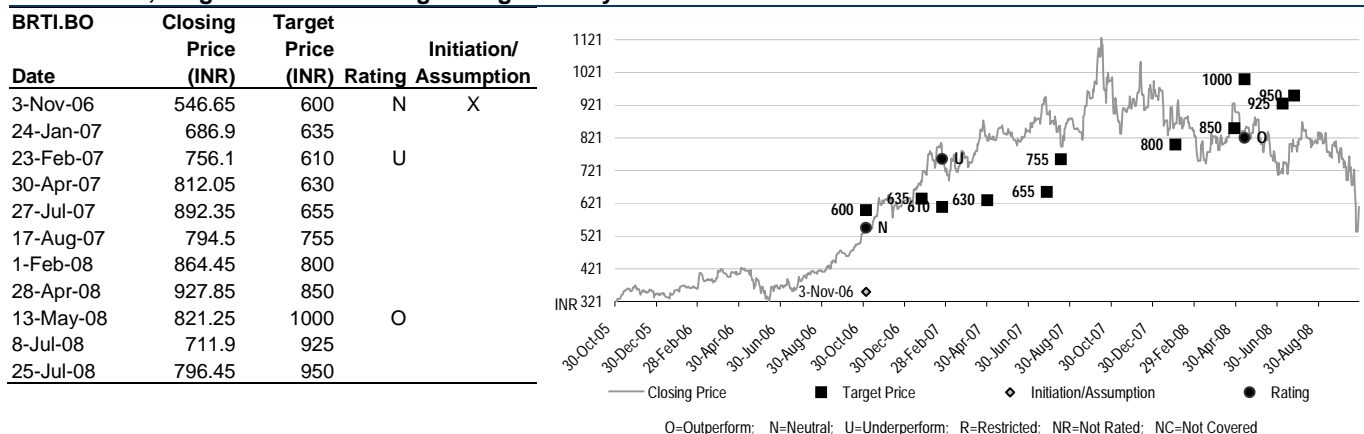
## Disclosure Appendix

### Important Global Disclosures

I, Bhuvnesh Singh, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

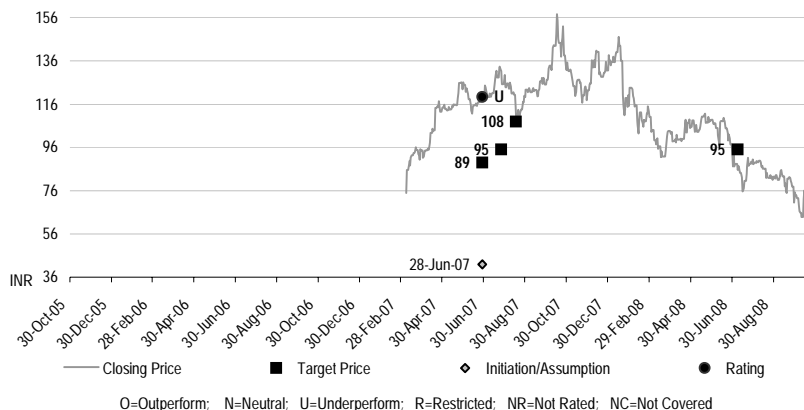
See the Companies Mentioned section for full company names.

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



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

IDEA.BO	Closing Price	Target Price	Initiation/
Date	(INR)	(INR)	Rating 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	



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**Analysts' stock ratings are defined as follows\*\*\*:**

**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.

*\*The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

*\*\*In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

*\*\*\*For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.*

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**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.

*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*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.*

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

	Global Ratings Distribution	
Outperform/Buy*	41%	(59% banking clients)
Neutral/Hold*	44%	(56% banking clients)
Underperform/Sell*	13%	(49% banking clients)
Restricted	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**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.*

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (BRTI.BO, IDEA.BO) within the next 3 months.

**Important Regional Disclosures**

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (BRTI.BO, IDEA.BO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Bhuvnesh Singh, non-U.S. analyst, is a research analyst employed by Credit Suisse Singapore Branch.
- Sunil Tirumalai, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (India) Private Limited.
- Vikramaditya Narendra, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (India) Private Limited.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch, Credit Suisse Securities (India) Private Limited, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse Taipei Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2008 CREDIT SUISSE and/or its affiliates. All rights reserved.

**CREDIT SUISSE (Hong Kong) Limited**  
Asia/Pacific: +852 2101-6000