January 10, 2008

IDBI capital

COMPANY REPORT

Idea Cellular Ltd.

Rs.138 | Buy

An *idea* to add value

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Nifty: 6157; Sensex: 20582

Key Stock Data

Sector	Telecom
Bloomberg/Reuters	IDEA@IN/IDEA.BO
Shares o/s (m)	2,635
Market cap (Rs bn)	364
Market cap (US$ m)	9,255
3-m daily average vol.	18,26,984

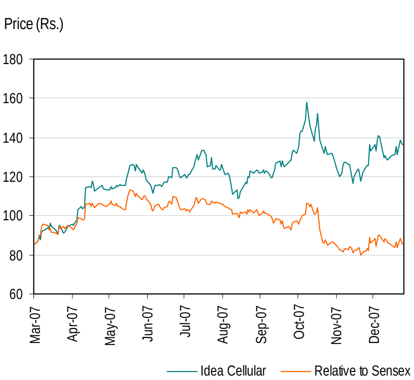
Price Performance

52-week high/low			Rs161/84
	-1m	-3m	-9m
Absolute (%)	0.4	1.1	43.5
Rel to Sensex (%)	(4.3)	(13.1)	(14.8)

Shareholding Pattern (%)

Promoters	57.69
FIIs/NRIs/OCBs/GDR	36.32
MFs/Banks/FIs	1.80
Non Promoter Corporate	0.72
Public & Others	3.46

Stock vs Relative to Sensex



Source: Capitaline

Summary

Idea Cellular Ltd. (Idea), a GSM operator has presence in 11 out of 23 circles in India and intends to expand and have a pan-India presence. Of the 11 circles, it launched operations in 3 circles – UP (East), Rajasthan and Himachal Pradesh in the last quarter of 2006. It already has license for Mumbai and Bihar circles; and recent reports indicate that it is very likely to get spectrum in these two circles soon.

Our DCF valuation gives us the value of core business at Rs.138. We value the tower subsidiary at Rs.32/share on EV/tenant basis on peer group comparison. At our target price of Rs.169 and CMP of Rs.138, we rate Idea as a 'Buy'.

Investment highlights

- **Strong position in incumbent circles – Aggressive expansion plans**

  Over the past few quarters, the A and B telecom circles have been consistently accounting for over 70% of incremental GSM subscriber additions. Idea has operations in 9 out of the 13 A and B circles. At the end of November 2007, Idea had a subscriber base of over 20m subscribers. Although its pan-India market share seems low (8.9% in November 2007), Idea is amongst the top two mobile operators in 5 circles. The company has received licenses to operate in 2 new circles (Mumbai and Bihar) and has applied for licenses in the remaining 9 circles.

- **To hive off tower subsidiary – JV with Bharti Airtel and Vodafone to unlock value**

  Three key GSM players in India; Bharti Airtel (Bharti), Vodafone and Idea have decided to form a joint venture forming an independent tower entity called Indus Towers. We believe this is a good move towards consolidating the telecom tower business. Idea will benefit through low capex/operating expenses in newer circles. Indus Towers will come up with an IPO sometime in the future. The ownership structure is 42% each will be owned by Bharti and Vodafone and the remaining 16% will be owned by Idea.

- **Spectrum decision to impact future growth**

  Since Idea will have to bank on organic growth to improve its market share, we believe that the spectrum policy is critical. Bharti, BSNL and Tata Teleservices (M) Ltd. (TTML) already have an all-India presence, while Reliance Communications (RCOM), through CDMA, has a national presence to fall back upon even if it takes time to obtain GSM spectrum. Vodafone (which already has a presence in 15 circles, covering 72% of the population and 85% of GDP) and Aircel have licenses for all the other circles. In contrast, Idea has licenses for only two more circles. The expansion in additional circles would depend upon a number of factors, including vacation of spectrum by The defence forces, tightening of subscriber norms, and precedence of its claim for spectrum over RCOM.

Table 1: Financial snapshot (Rs. m)

Year-end: March	FY06	FY07	FY08 (E)	FY09 (E)	FY10(E)
Total revenues	29,869	43,873	65,637	84,606	94,553
EBITDA	10,864	14,862	22,003	29,854	35,036
PAT	2,118	5,022	10,152	12,426	14,963
EPS (Rs)	0.9	2.2	3.8	4.7	5.6
P/E (x)	147.6	63.1	36.1	29.5	24.5

Source: Company reports; IDBI Capital Market Services

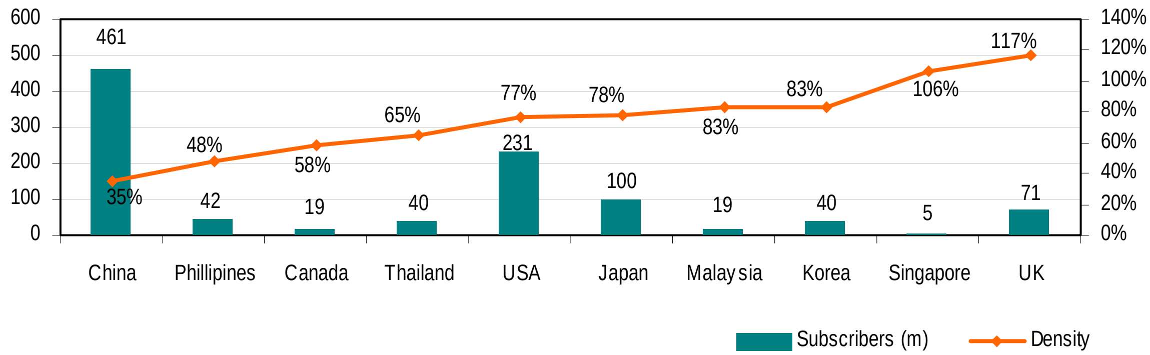
Investment positives

Rapid Indian consumer acceptance and high popularity of cellular

Industry still offers scope to expand

Difficult access to fixed line telephones, declining cost of ownership coupled with increasing affordability and wide coverage has fueled a rapid growth of cellular subscribers in India. From a mere 6.6m subscribers in FY02 (GSM+CDMA), the mobile subscriber base hit 166m at the end of March 2007, growing at a compounded rate (CAGR) of 90% from FY02 to FY07. According to TRAI, the subscriber base of fixed and mobile services reached above 264.8m at the end of November 2007; of these 39.31m fixed-line subscribers and 225.4 mobile subscribers. A total of 66.51m subscribers were added during 2006-07 registering the highest ever annual growth of 58%. Still, with a tele-density of 21%, India is lower as compared to other countries in the world, offering further scope for strong subscriber additions.

Figure 1: Worldwide telecom subscribers and tele-density



Source: TRAI

Idea has a 15.5% market share in its circles...

Strong position in incumbent circles

Idea had 20.1m mobile subscribers at the end of November 2007, amounting to a market share of 15.5% in its operational circles and a market share of 9.0% on pan India basis. For the quarter ended September 2007, Idea at 2.5m subscribers achieved the highest ever net adds. Idea is amongst the top two mobile operators in 5 circles, including the high per capita income states of Maharashtra, Gujarat and Haryana and Kerala. The company is awaiting launch of spectrum in its Mumbai and Bihar circles. There remains headroom for growth in the existing circles as the mobile penetration is lower than the national average.

Table 2: Circle wise subscribers and market shares

Idea	Idea subscribers	Total subscribers	Market share (%)	Comments
Maharashtra	4	17.8	22.5	Ranked 1st
Gujarat	2.26	14.8	15.3	Ranked 2nd after Vodafone Essar
Andhra Pradesh	2.72	17.7	15.4	Ranked 3rd after Bharti and RCOM
Madhya Pradesh	2.54	10.3	24.7	Ranked 2nd
Delhi	1.89	15.06	12.5	Ranked 4h
Kerala	2.31	10.2	22.6	Ranked 2nd after BSNL
Haryana	0.9	5.6	16.1	Ranked 4th
UP (West)	2.02	10.2	19.8	Ranked 2nd after Vodafone Essar
UP(East)	0.69	14.5	4.8	Ranked 5th
Rajasthan	0.7	11.6	6.0	Ranked 5th
Himachal Pradesh	0.04	1.97	2.0	Ranked 4th
11 Circles	20.07	129.73	15.5	

Source: Company reports; IDBI Capital Market Services

Losses reduce further in newer circles

Gradual improvement in the newer circles

Idea is present across 11 telecom circles in India. The company has divided its operations into 8 'Established Circles' and 3 'Newer Circles' (the newer circles include Rajasthan, Himachal Pradesh and UP East), where the company started operations in Q3FY07. The established circles reported EBITDA margins of 35.8%, higher by 67bps YoY, but lower by 206bps QoQ. On the other hand, the newer circles reported a much-improved performance, recording a 1,643bps QoQ improvement and narrowing down EBITDA level losses to 21.6% (38.0% in Q1FY08). Management expects the newer circles to break even at the EBITDA level by Q4FY08.

Table 3: Revenue and margine in established and newer circle

	Sep. '07	Jun. '07	Mar. '07	Sep. '06
Gross revenue				
8 established circles	14,795	14163	12761	10128
3 new circles	848	613	434	-
EBITDA				
8 established circles	5,311	5369	4803	3581
3 new circles	(183)	-233	-330	-
EBITDA margin				
8 established circles (%)	35.9	37.9	37.6	35.4
3 new circles (%)	(21.6)	(38.0)	(76.0)	
PAT	2,203	3,085	1,933	1,102
PAT margin (%)	14.1	20.9	14.6	10.9

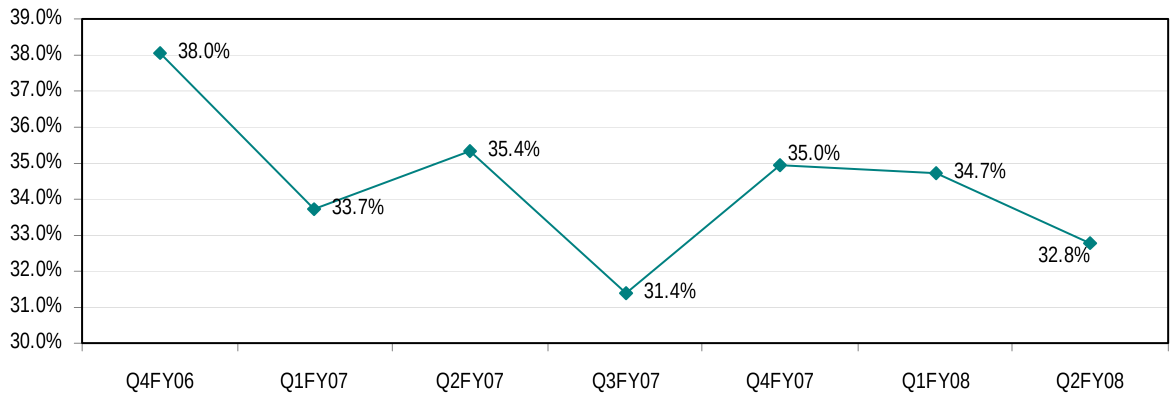
Source: Company reports; IDBI Capital Market Services

Significant network expansion... Putting pressure on margins

Entry into newer circles impacting margins

At the end of October 2007 quarter, Idea was present in 2,644 census towns (1,353 a year ago) and 5,808 other population centers (1,678 a year ago). The corresponding figures for Q1FY08 are 2,084 and 3,982 respectively. This, we believe, is significant expansion. Network expansion usually has a lag effect – the costs of expansion are recognized upfront whereas the revenue from the same start flowing next quarter onwards. This has resulted in a 245bps YoY and a 202bps QoQ fall in EBITDA margins in Q2FY08.

Figure 2: Quarterly margins



Source: Company reports

We believe, Idea has a wide scope for improvement in margins. The established players like Bharti and RCOM, with a pan India presence have clocked margins of around 40-42% in the recent quarters. Idea should be in a position to do the same once it is present in all the 23 circles. Although there is still time for Idea to achive this.

To hive off passive infrastructure into an independent entity with Bharti and Vodafone

Indus Towers – Changing dynamics of the tower business

Bharti Airtel, Vodafone and Idea formed an independent tower entity called Indus Towers. Indus Towers will provide passive infrastructure services in India to all operators and other wireless service providers, including broadcasters and broadband services providers. In metros passive infrastructure is important due to spectrum constraints. In Category A and Category B circles, passive infrastructure is important due to wider geographical coverage, new roll-outs by anchor clients, low ARPUs and low density of population.

Indus Towers will also have high aggressive plans to bid for USO fund supported roll-outs. 3 anchor clients means that the capital recovery ratio would be higher implying higher cost savings ratio. This also means that the new circle roll-outs by Idea would thus be at a comparatively lower capex/opex. Since there is not much information available on the subsidiary, we still value Idea's tower business on standalone basis at this stage.

Mumbai and Bihar launch much awaited

Mumbai and Bihar launch to set momentum

Idea has already got a license for Bihar and Maharashtra circles and is awaiting grant of spectrum in the same. As per the current regulatory environment, Idea is likely to be among the first few service providers to be allocated spectrum for these 2 circles. Mumbai, being the financial capital of the country, is strategically a very important place, although teledensity there is over 70%. Bihar has lower teledenisity and thus offers a good scope for subscriber additions. Also launch of services in these 2 circles will also mean reduction in roaming expenses for the company as well as the subscribers following lower interconnect cost to adjoining circles. The capex for launch of operations in a new circle is around Rs.7,000m. The launch in Bihar could come slightly cheaper due to availability of share of infrastructure.

Diagram 1: Idea's current circles

Source: Company reports; IDBI Capital Market Services

Concerns

Spectrum decision to impact future growth

Since Idea will have to bank on organic growth to improve its market share, we believe that the spectrum policy is critical. Bharti, BSNL and TTML already have an all-India presence, while RCOM, through CDMA, has a national presence to fall back upon even if it takes time to obtain GSM spectrum. Vodafone (which already has a presence in 15 circles, covering 72% of the population and 85% of GDP) and Aircel have licenses for all the other circles. In contrast, Idea has licenses for only 2 more circles. The expansion in additional circles would depend upon a number of factors, including vacation of spectrum by The defence forces, tightening of subscriber norms, and precedence of its claim for spectrum over RCOM.There could be delays in getting licenses and spectrum in newer circles, thus resulting in slowdown in expected pace of subscriber additions.

Ongoing litigation for spectrum

The TRAI has proposed increased subscriber numbers criterion for grant of additional spectrum, which TEC increased further. DoT also allowed use of dual technology that will enable RCOM to start offering GSM services. There have been 2 lobbies headed by Bharti and RCOM respectively fighting an intense battle on these policies. According to current status, the TRAI recommendations were implemented which was challenged by RCOM. We believe, Bharti would be impacted the most negatively by both TRAI and TEC criteria. The impact on Idea would be neutral to positive, as it would be able to get spectrum in 11-13 more circles. RCOM would benefit on the back of allocation of pan India GSM spectrum.

Other regulatory issues

Indian regulator has shown pro consumer behavior in the recent past, thereby fuelling competition. The recent changes in policies have resulted in lowering of roaming charges, spectrum distribution and removing the cap on number of players in a particular circle. Players like AT&T, Unitech etc have applied for pan India telecom license accordingly. However, we believe that the incumbent players still have a window of 12-24 months in which they could focus on ramping up subscriber additions. However, policies like unlimited competition along with number portability could result in some price war thus putting pressure on margins.

Quality of additional subscribers is deteriorating...

Although subscriber additions are on track, the quality of incremental subscribers is deteriorating. We believe that with increasing competition and penetration, Idea will concentrate more on B and C circles. However, this also means that the ARPUs will remain under pressure.

Even for the Q2FY08, despite a 15.8% QoQ increase in the subscriber numbers, the revenue was up a muted 5.7% during the same period. ARPU was down 14% YoY and 10% sequentially.

The most disturbing part of the result was sequential decline in MoU per user. Even after 70% increase in cell sites since March 2007, idea's minutes of usage were up just 10% in the currently concluded quarter. Minutes of usage per subscriber was also down 5%. The company attributed the development to following factors.

- Usage growth among high end users, which till now compensated for marginal subscriber addition, could have been plateaued.
- Seasonality could have played a role.
- Non usage by existing subscribers likely indicates a roaming churn - subscribers opt out for a competitor's service but keep the live connection that could have lifetime validity with no incremental monthly payout associated with the same.

Valuation

Sum of parts method

We value Idea's core business on DCF basis and the tower business on EV/subscriber basis. Our DCF valuation gives us the core business value at Rs.138. Adding to this the value of tower business at Rs.32, we arrive at a fair value of Rs.169/share, upside of 20% from the current price of Rs.138. At the CMP of Rs.138, the stock is trading at a PE multiple of 36.1x on FY08E EPS of Rs.3.8 and 29.5x of FY09E EPS of Rs.4.7/share.

Table 4: DCF for core business (Rs.mn)

	FY08	FY09	FY10-FY17E
EBIT (1-T)	30,102	39,679	11,6493
Free cash flow to firm	(20,386)	(1,026)	2,25,083
NPV			
Discounted terminal value	28,3126		
Discounted cash flows	10,5288		
EV	38,8414		
Net debt	24,306		
Value per share (discounted to present)	137		

Ke 14.3%, Terminal value @ 3.0% growth, B= 1.05 Rf.10 year yield = 8.0%; Risk pr 6%
s/o: 2,650m

Source: Company reports; IDBI Capital Market Services

Tower company valuation

Table 5: Idea cellular

	FY08	FY09
Number of towers	14,000	18,000
Tenants per tower	1.05	1.08
Total tenants	14,700	19,440
EV per tenant	57,86,804	57,86,804
Total EV (m)	85,066	112495
Debt as % of EV	22	25
Market cap	66,351	84,371
Per share value (Rs.)	25.0	31.8

Source: Company reports; IDBI Capital Market Services

Comparative EV per subscriber

We compare Idea with Bharti and RCOM on comparative valuation basis. Currently given Bharti and RCOM are the strong players with pan-India presence and very high margins; they enjoy higher EV/subscriber valuation

Comparative EV per subscriber

Currently Idea is getting lower EV/Subscriber valuation as compared to RCOM or Bharti, mainly due to lower EBITDA margins as well as non pan-India presence. However, as regulatory clouds start receding and Idea marches towards pan-India presence followed by improving margins, the company should catch up on these valuations.

Globally, Vodafone is trading at EV/subscriber of Rs.40,000 with a customer base of 232m. Indian companies are in the similar range. In fact with high margins and growth trajectory, we believe these multiples are not expensive.

Table 6: Comparative EV per subscriber

	Bharti	Idea	RCOM	TTML
Last price (Rs.)	936	138	790	62.2
Current market cap (Rs. m)	1,777,514	363,548	162,9225	117,622
EBITDA margin quarterly (Sep 07) (%)	42.8	32.7	42.9	23.2
EBITDA marginTTM (%)	42.5	34.2	41.9	21.9
EV (Rs. m)	1,816,847	387,855	1662,948	137,074.8
EV TO T12M EBITDA	18.96	25.81	23.96	39.28
Mobile subscribers Nov '07	53.0	20.2	39.4	21.03
EV/Subscriber (Rs.)	34,306	19,200	42,206	6518
ARPU	366.0	317.0	361	

Source: Company reports; IDBI Capital Market Services

Business profile

Idea is a GSM service provider which commenced operations (in 1995), as a joint venture between the Aditya Birla group and A&T (presence through Birla Communications). However, the shareholding structure has since undergone significant changes, with the Aditya Birla group now holding majority stake. We take a brief look at various changes that the shareholding pattern has undergone since inception

Table 7: Corporate history

1995	Commenced operations as a joint venture between the Birla Group and AT&T (presence through Birla Communications) in Maharashtra and Gujarat Circles.
2000	Merger of Birla A&T Communications and Tata Cellular (operations in Andhra Pradesh circle).
2001	Renamed Birla Tata AT&T (BATA Ltd.) with each promoter owning and equal 33% stake, Acquired RPG Cellular (operating in Madhya Pradesh).
2002	Rebranded 'Idea Cellular' launched operations in Delhi as fourth cellular operator.
2004	Acquired Escotel – Incumbent operator in Haryana, UP (W) and Kerela and license holder for Rajasthan, HP and UP (E)
2005	AT&T exits Idea Cellular. Birlas and Tata's pick up the AT&T stake.
2006	Tata's exit Idea Cellular by selling their 48% stake to the A V Birla Group for a consideration of Rs44bn. The Birlas offloaded 33% to Private Equity Investors in the second half of 2006. The Birlas held 65.1% stake post the restructuring .
2007	Idea listed in March raising Rs.25bn for funding capex and redemption of preference shares.

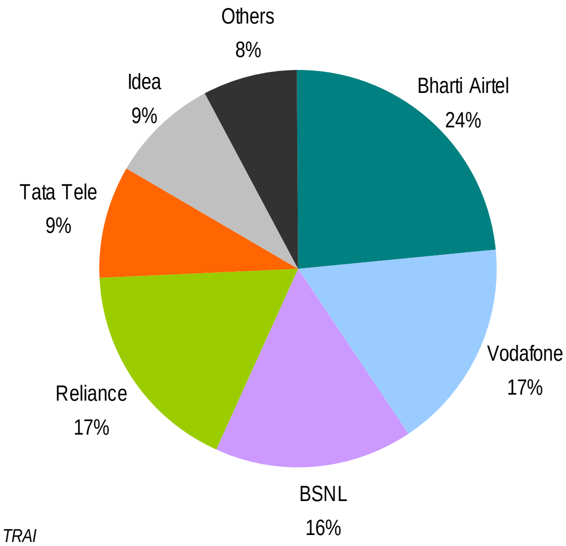
Source: Company Reports and our estimates

Competitors

Indian telecom industry is characterized by intense competition. Bharti, RCOM, BSNL, Vodafone, Tata teleservices and Idea are the biggest market players. Of these, except Idea everyone else has a pan India presence and integrated operations giving them presence across value chain.

However, despite present only in 11 circles, Idea commands a pan India market share of 9% and could improve it further following launch of services in the newer circles.

Figure 3: Market share of mobile subscribers (November 2007)



Source: TRAI

Indian telecom industry

The Indian telecom sector is going through a dream run aided by regulatory environment, heightened competition leading to very low tariffs, low handset cost and rising income levels. Mobile phone category addressing voice-centric demand has grown tremendously and currently even demand for based services is driving the demand. Initial growth was driven by the urban area now shifting to rural region.

The dynamics of the industry have changed significantly over the last decade with 7 fixed-line and 12 cellular players operating in the market. It is evolving rapidly with numerous services offered, including fixed-line, cellular and wireless in local loop (WLL), etc., operating in different combinations of service segments, such as local, national long distance (NLD) and international long distance (ILD) services.

Wireless

Wireless service providers in India offer services through CDMA and GSM based technologies. RCOM and TTML are largest CDMA based mobile service providers while GSM based service providers include Bharti, BSNL, Hutch, MTNL, Idea, Aircel and RCOM. Bharti and RCOM have presence in all the 23 circles in country.

Value-added services (VAS)

The mobile VAS market in India is growing at around 40% annually, the contribution of VAS to total telecom revenues has been increasing over the last 2-3-years from 2-3% to 8-10% currently. This figure is expected to reach 60% in the next 10-years. According to the 'Mobile Value Added Services Report' jointly prepared by the Internet and Mobile Association of India (IAMAI) and IMRB International, The Mobile Value Added Services (MVAS) industry could be worth of Rs.45,600m by the end of 2007, from its current size of Rs.28,500m.

Telecom tower business emerging as a new star

The new trend among Indian telecom operators is establishment of separate subsidiaries for setting up and sharing of passive infrastructure – namely towers. These companies undertake building of the towers, operations and maintenance, security arrangements and emergency back-up. According to industry estimates, India has about 85,000 towers and will need over 1,80,000 by end of FY08.

The cell sites are either ground-based or mounted on roof-tops. The ground based sites cost around Rs.3m, while the latter costs Rs.0.7m. The usual pay back period for telecom operators is 12-13-years. Tower companies usually have three business models: built-to-suit sites, green-field sites and buying sites from operators and leasing them out. In the first model, operators provide locations of cell sites to tower companies. In this case, the operator is called the anchor tenant. The tower company builds, owns and operates the site and gives them plug and play. Then, it gets other operators to share the site.

In green-field projects, tower companies pick up sites, undertake planning and construction and offer them to interested parties. The monthly rent ranges from Rs.40,000 in rural areas to upwards of Rs.1 lac in metros. According to industry estimates, with every additional operator sharing the tower, incremental costs go up only 10%, however revenues increase by 80% as the rent charged from subsequent operators is only slightly less than the anchor tenant. Further, rentals are revised upwards annually.

With passive infrastructure sharing, operators are expected to save close to 30% on capex and opex when it comes to passive infrastructure management. Right now, sharing among operators is limited to two in most cases, whereby tower companies are aiming at an average of 2.5 to 2.7 carriers per tower. Furthermore, only 30% of sites are being shared-tower companies expect it to take this number higher with a focused approach

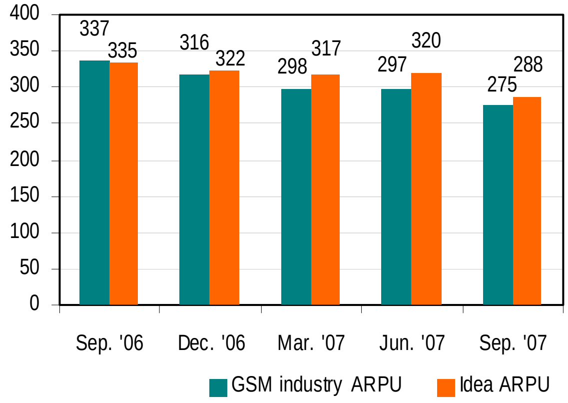
The maximum money is made by the tower company when it adds an operator to an existing tower. So with four operators sharing a site, a tower company is likely to recover its capex in about 6-7-years.

Falling ARPUs

The telecom industry is witnessing continuous softening of ARPUs. Idea's ARPUs have also reduced over last few quarters, however they are still above the industry average. Although the ARPUs have gone down, the players have managed to maintain their margins following increasing minutes of usage, expanding subscriber base and economies of scale.

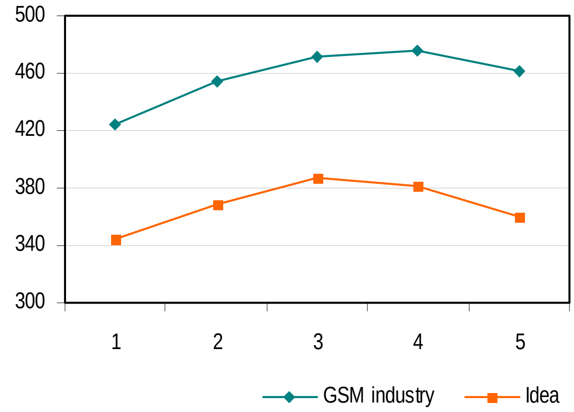
Going ahead, we believe, the softening will continue as more and more marginal subscribers will be added to the already existing base. However, the key lies in minutes of usage. The worrying factor here is last quarter has seen softening of minutes of usage in the industry for the first time. We will like to watch if this is a one off item or a continuing trend.

Figure 4: ARPUs



Source: TRAI; Company reports

Figure 5: Minutes of usage



Source: TRAI; Company reports

Financials

FY07 results

Idea posted a profit after tax of Rs.5,020.60m for the year ended March 31, 2007 where as the same was at Rs.1,256.00m for the year ended March 31, 2006. Total revenue is Rs.43,873.30m for the year ended March 31, 2007 where as the same was at Rs.20,176.40m for the year ended March 31, 2006.

The group has posted a net profit after tax of Rs.5,022.20m for the year ended March 31, 2007 where as the same was at Rs.2,117.70m for the year ended March 31, 2006. Total revenue is Rs.43,873.30m for the year ended March 31, 2007 where as the same was at Rs.29,869.20m for the year ended March 31, 2006.

Q2FY08 results

Idea Q2FY08 performance was disappointing with revenues at Rs.15.6bn (growing 5.7% QoQ and 54.7% YoY). Weak MoUs and a decline in RPM led to a 10% QoQ decline in ARPU. Increase in network operating expenses led to EBITDA margins declining 200bps QoQ. Despite the margin contraction witnessed, lower Interest costs and Depreciation led to a 100% YoY growth in bottomline. However, sequentially, a fall of 28.6% following margin fall, higher Interest costs and taxes. Effective tax rate was higher at 11.2% compared to 0.5% in the last quarter. The tax rate was high on account of deferred tax provision of Rs.261m. PAT decreased 28.6% QoQ to Rs.2.2bn.

Table 8: Quarter history (Rs. m)

Year-end: March	Jun. '06	Sep. '07	Sep. '06	YoY change (%)	Dec. '06	Mar. '07	Jun. '07
Net total revenues	9,022	15,644	10,128	54	11,313	13,410	14,773
QoQ growth (%)		*6*	*12*		*11.7*	*18.5*	*10.2*
Total operating expenses	(5,982)	(10,516)	(6,548)	61	(7,760)	(8,722)	(9,646)
QoQ growth (%)		*9.0*	*9.5*				
Operating profit	3,040	5,128	3,581	43	3,553	4,688	5,127
Other income							
QoQ growth (%)			*18*		*(1)*	*32*	*9*
EBIT	1,584	3,121	1,881	66	1,752	2,927	3,240
QoQ growth (%)		*(4)*	*19*				
Interest	(721)	(641)	(773)	(17)	(582)	(975)	(143)
Pre-tax profits	863	2,480	1,108	124	1,170	1,952	3,097
QoQ growth (%)		*(20)*	*28*		*5.6*	*66.9*	*58.7*
Prov for taxation	(4)	(277)	(6)	4,441	(41)	(19)	(16)
Reported net profit	859	2,203	1,102	100	1,129	1,933	3,081
QoQ growth (%)		*(28.5)*	*28.2*		*2.5*	*71.3*	*59.4*

Source: Company reports; IDBI Capital Market Services

Financial summary

Profit and loss account

(Rs. m)

Year-end: March	FY06	FY07	FY08 (E)	FY09 (E)	FY10 (E)
Income					
Mobility	29,496	43,500	65,615	84,606	94,553
NLD/Other	166	164	692	-	-
Less: Intersegment			(692)	-	-
Other income	207	209	21	-	-
Total	29,869	43,873	65,637	84,606	94,553
Opening expenditure					
Cost of trading goods	(72)	(52)	-	-	-
Personnel expenditure	(1,781)	(2,609)	(3,699)	(5,076)	(5,673)
Network operating expenditure	(3,197)	(5,336)	(9,559)	(12,691)	(14,183)
License and WPC charges	(3,020)	(4,487)	(6,547)	(7,824)	(8,699)
Roaming and access charges	(4,994)	(7,321)	(10,581)	(12,441)	(12,052)
Subscriber acquisition and servicing expenditure + Advertisement and business promotion expenditure	(4,718)	(7,649)	(10,432)	(13,336)	(15,128)
Administration and other expenses	(1,221)	(1,558)	(2,816)	(3,384)	(3,782)
Total	(19,005)	(29,011)	(43,634)	(54,753)	(59,517)
Profit before interest, depreciation and amortisation	10,864	14,862	22,003	29,854	35,036
Interest and financing charges	(3,171)	(3,051)	(2,897)	(5,729)	(6,382)
Depreciation amortisation of intangible assets	(5,495)	(6,718)	(8,120)	(10,153)	(11,346)
Profit/(Loss) before tax, exceptional items/Prior period items	2,198	5,093	10,986	13,972	17,308
Provision for current tax	(80)	(70)	(834)	(1,546)	(2,344)
Provision for deferred tax					
Provision for fringe benefit tax					
MAT credit					
Net profit/(Loss) after tax and before exceptional items/Prior period items	2,118	5,022	10,152	12,426	14,963
No of equity shares of Rs.10 each outstanding (m)	2,260	2,292	2,650	2,650	2,650
Weighted no. of equity shares of Rs.10 each outstanding (m)					
Earnings/share – Annualized (Rs.)	0.9	2.2	3.8	4.7	5.7

Source: Company reports; IDBI Capital Market Services

Balance sheet

(Rs. m)

Year-end: March	FY06	FY07	FY08 (E)	FY09 (E)	FY10 (E)
Liabilities and provisions					
Net worth represented by					
Share capital	27,425	25,929	25,929	25,929	25,929
Reserves and surplus	998	20,371	6,021	18,447	33,410
Total	28,424	46,300	31,950	44,376	59,339
Loan funds					
Secured loans	15,709	35,398	35,398	35,398	35,398
Unsecured loans	17,147	7,107	22,107	42,107	50,107
	32,856	42,505	57,505	77,505	85,505
Deferred tax liability		11	11	11	11
Total	61,280	88,816	89,465	121,891	144,855
Fixed assets					
Gross block (At Cost)	47,940	70,627	120,627	165,627	200,627
Less: Depreciation	(20,831)	(26,372)	(34,493)	(44,645)	(55,992)
Net block	27,109	44,254	86,134	120,981	144,635
Intangible assets (Net)	9,934	11,776	11,776	11,776	11,776
Capital work-in-progress	1,734	5,069	5,069	5,069	5,069
Total	38,777	61,100	102,979	137,827	161,480
Goodwill on consolidation	11,791	61	61	61	61
Investments	-	12	12	12	12
Current assets, loans and advances					
Inventories	109	179	131	169	189
Sundry debtors	1,303	1,525	1,378	1,692	1,891
Cash and bank balances	1,493	18,199	984	2,858	3,913
Other current assets	678	758	656	846	946
Loans and advances	2,343	4,000	3,938	5,076	5,673
	5,926	24,660	7,088	10,642	12,612
Less: Current Liabilities	(12,302)	(21,520)	(20,676)	(26,651)	(29,311)
Total	(6,376)	3,140	(13,588)	(16,009)	(16,699)
Profit and loss account	17,088	24,502	-	-	-
Total Assets	61,280	88,816	89,465	121,891	144,855

Source: Company reports; IDBI Capital Market Services

Cashflow statement

(Rs. m)

Year-end: March	FY06	FY07	FY08 (E)	FY09 (E)	FY10 (E)
A) Cash flow from operating activities					
Net Profit/(Loss) after tax	1,256	5,021	10,152	12,426	14,963
Adjustments for:					
Depreciation, amortisation of assets	2,629	5,637	8,120	10,153	11,346
Amortization of intangible assets	847	1,081			
Interest charge and forex	2,530	3,051			
Profit on sale of current investments	(10)	(81)			
Provision for bad and doubtful debt	194	368			
Provision for gratuity and leave encashment and site restoration	21	154			
Provision for fringe benefit tax	29	59			
Provision for deferred tax	-	11			
Liability no longer required written back	(91)	(175)			
Interest received	(22)	(171)			
(Profit)/Loss on sale of fixed assets/ assets discarded	1	(2)			
Operating profit before working capital changes	7,382	14,952	18,272	22,579	26,310
Changes in current assets and current Liabilities					
(Increase)/Decrease in sundry debtors	(4)	(590)	146	(314)	(199)
(Increase)/Decrease in inventories	47	(70)	48	(38)	(20)
(Increase)/Decrease in other current assets	(125)	28	101	(190)	(99)
(Increase)/Decrease in loans and advances	(179)	(2,044)	61	(1,138)	(597)
Increase /(Decrease) in current liabilities	1,144	3,872	(845)	5,975	2,660
Increase /(Decrease) in current liabilities	883	1,196	(488)	4,296	1,745
Cash generated from operations	8,265	16,148	17,784	26,875	28,055
Tax paid (FBT & TDS)	(43)	(97)			
Net cash from operating activities	8,222	16,051	17,784	26,875	28,055
B) Cash flow from investing activities					
Purchase of fixed assets (including CWIP)	(2,925)	(22,815)	(50,000)	(45,000)	(35,000)
Proceeds from sale of fixed assets	23	19	-	-	-
Short term deposits with subsidiaries	(0)		-	-	-
Payment for purchase of shares	-	(100)	-	-	-
Sale/ (purchase) of other investments (Net)	-	81	-	-	-
Interest and dividend received	33	64	-	-	-
Net cash used in investing activities	(2,869)	(22,751)	(50,000)	(45,000)	(35,000)
C) Cash flow from financing activities					
Proceeds from issue of share capital	-	25,000	-	-	-
Share issue expenses	-	(620)	-	-	-
Repayment of preference share capital	-	(4,830)	-	-	-
Premium on redemption of preference capital	(2,218)	(2,733)	-	-	-
Proceeds from short term loan	16,120	35,397	15,000	20,000	8,000
Repayment of short term loan	(12,702)	(15,690)	-	-	-
Proceeds from borrowings – Net	-	17,875	-	-	-
Short term loan from / to subsidiary and other body corporates	(4,099)	(27,959)	-	-	-
Interest paid	(2,681)	(3,039)	-	-	-
Net cash from financing activities	(5,580)	23,401	15,000	20,000	8,000
Net increase / (decrease) in cash and cash equivalent	(228)	16,701	(17,216)	1,875	1,055
Cash and cash equivalent at the beginning	1,519	1,291	18,199	984	2,858
Add:					
Cash and cash equivalents taken over on acquisition	-	205			
Cash and cash equivalent at the end	1,291	18,197	984	2,858	3,913

Source: Company reports; IDBI Capital Market Services

Key ratios

Year-end: March	FY06	FY07	FY08 (E)	FY09 (E)	FY10 (E)
Growth ratio (%)					
Revenue		46.9	49.6	28.9	11.8
EBITDA		36.8	48.0	35.7	17.4
EBIT		51.7	70.5	41.9	20.2
Net profit		137.2	102.1	22.4	20.4
Margin ratio (%)					
EBITDA	36.4	33.9	33.5	35.3	37.1
EBIT	18.0	18.6	21.2	23.3	25.1
Pre-tax profit	7.4	11.6	16.7	16.5	18.3
Net profit	7.1	11.4	15.5	14.7	15.8
Valuation					
P/E (x)	147.6	63.1	36.1	29.5	24.5
P/B	27.6	14.5	11.5	8.3	6.2
P/S	10.5	7.2	5.6	4.3	3.9
EV/Sales	11.5	7.8	6.4	5.2	4.7
EV/EBITDA	31.6	23.0	19.2	14.8	12.8
EV/Net Profit	162.4	68.0	41.7	35.5	29.9
EPS (Rs.)	0.9	2.2	3.8	4.7	5.6
Book Value	5.0	9.5	12.1	16.7	22.4
Return tatio (%)					
RoCE	12.0	12.6	14.6	14.9	14.7
RoNW	18.7	23.0	31.8	28.0	25.2
RoE	18.7	23.0	31.8	28.0	25.2
Balance sheet ratio					
D/E	2.9	2.0	1.8	1.8	1.4
Current ratio	0.5	1.2	(0.3)	(0.4)	(0.4)
Tax rate (%)		0	0	(0.7)	(0.1)
CMP (Rs.)	138	138	138	138	138
S/O	2,260	2,292	2,650	2,650	2,650
Market Cap	312,493	316,982	366,495	366,495	366,495
Net debt	31,363	24,306	56,521	74,647	81,592
EV	343,856	341,288	423,016	441,142	448,087
Assets	56,494	85,834	110,141	148,542	174,166

Source: Company reports; IDBI Capital Market Services

Technical evaluation

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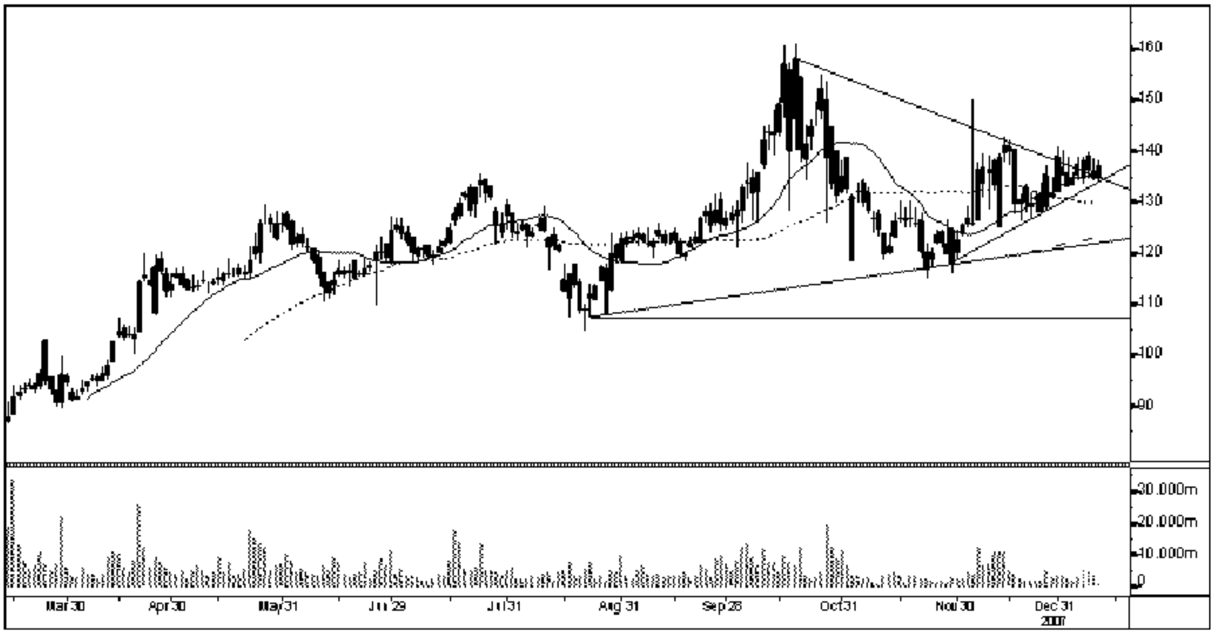

Source: Bloomberg

The intermediate consolidation for Idea Cellular seems to get over soon. On the upside, if it sustains above Rs.140 a target of Rs.159 would be achieved in short term. On the downside, Rs.128 looks to be a very good support, below which it could go to Rs.122.

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