

Idea Cellular

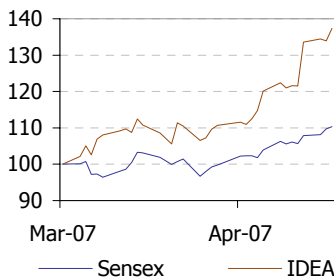
 Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 2,635mn
 Market cap : Rs 310bn
 52 week high/low : Rs 120/ Rs 75
 Avg. daily vol. (1mth) : 14.7mn shares
 Bloomberg code : IDEA IN
 Reuters code : IDEA.BO

Shareholding (%) Mar-07

 Promoters : 57
 Public Shareholding * : 43

* Includes 37.68% of Foreign Shareholding.

LEVERAGING THE INCUMBENCY FACTOR

Idea's Q4FY07 topline and operating profit at Rs 13.1bn and Rs 4.4bn were almost in line with our expectations. Lower interest outgo and depreciation (v/s our estimates) led to an impressive PAT at Rs 1.9bn (~66% YoY growth). A 22.5% QoQ increase in consolidated MoUs cushioned the 5.7% QoQ decline in ARR (average realized rate) and roaming tariffs.

Established circles stage a strong growth

Idea's ~50% YoY growth in Q4FY07 revenues in 8 established circles leads operating profit performance. These circles with 38.7% EBITDA margin (including other income) had a stellar performance on the back of 81.4% YoY growth in subscriber base (QoQ growth at 10.7%), higher ARPUs and a higher % of VAS revenues.

New circles to ↑ profitability in coming quarters

Idea's 3 new circles continue to be in an investment phase causing a dent of ~7% to consolidated EBITDA (~6.6% on EBITDA of established circles). A lower than threshold level subscriber base (0.65mn), low ARPUs v/s established circles and investments in S&M have been key factors for negative EBITDA. Nonetheless, an ↑ in subscriber base in the coming quarters would improve profitability of the consolidated entity.

NLD operations reflect good volume momentum

With segment margins of ~20.8%, NLD operations corroborate our optimism with respect to volumes in the long distance segment.

Valuations: Idea's USD 2bn investments in the ensuing years are likely to increase its market share and lead to better growth rates. However, with a 20% discount to Bharti's target multiple of 18x FY08 EV/EBITDA for the wireless business, the price upside is limited. We are thus revising our rating from sector **Outperformer** to **Neutral**.

Financial summary

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	PAT (Rs mn)	Cons. EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2006	29,489	10,674	2,117	-	0.9	177	0.0	39.3	12.0	3.4
2007	43,664	14,637	5,033	1.7	1.9	104	49.5	23.9	12.7	18.9
2008E	67,480	23,056	8,493	3.2	3.2	69	36.5	21.3	14.9	15.3
2009E	95,677	33,027	11,727	4.5	4.4	38	26.4	23.5	19.8	10.9

Source: *Consensus broker estimates, Company, ENAM estimates

Results Update

(Rs mn)	Quarter ended			12 months ended		
	Mar-07	Mar-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	13,084	8,557	52.9	67,480	43,664	54.5
EBIDTA	4,363	3,193	36.7	23,056	14,637	57.5
Other income	326	102	220.9	188	465	(59.6)
PBIDT	4,689	3,294	42.3	23,244	15,102	53.9
Depreciation	1,761	1,310	34.4	9,999	6,718	48.8
Interest	975	790	23.4	4,397	3,291	33.6
PBT	1,953	1,194	63.5	8,847	5,092	73.7
Tax	19	26	(27.7)	354	60	491.8
PAT	1,934	1,168	65.6	8,493	5,033	68.8
No. of shares (mn)	2,635	2,260	-	2,635	2,635	-
EBIDTA margins (%)	33.3	37.3	-	34.2	33.5	-
PBIDT margins (%)	35.8	38.5	-	34.4	34.6	-
EPS - annualized (Rs)	2.9	2.1	41.8	3.2	1.9	68.8

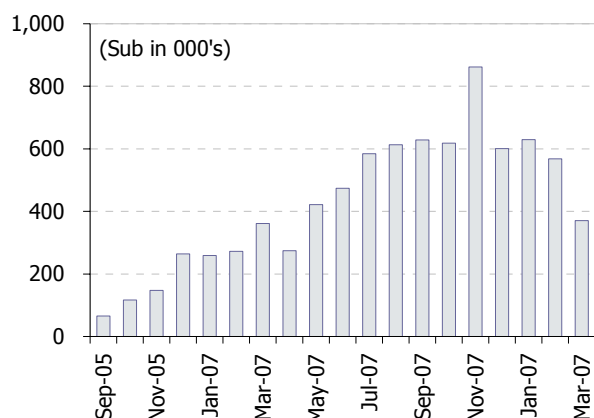
Source: Company, ENAM Research

Business Overview

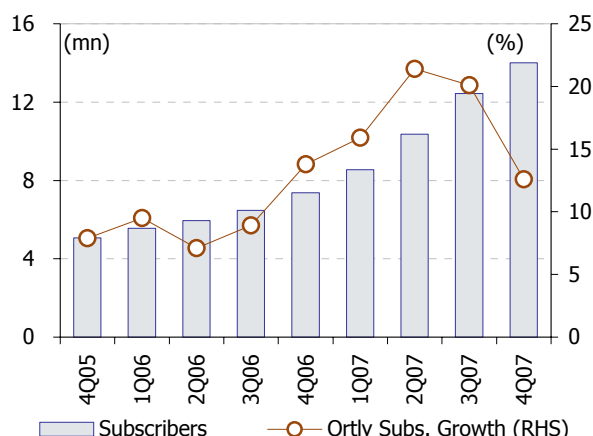
(Rs mn)	3 months ended			12 month ended		
	Mar-07	Mar-06	Chng(%)	Mar-07	Mar-06	Chng(%)
Gross Revenue	13,411	8,659	54.9	44,129	29,899	47.6
Established Circles	12,977	8,659	49.9	43,538	29,899	45.6
New Circles	434	-	-	591	-	-
EBITDA*	4,689	3,294	42.4	15,102	10,918	38.3
Established Circles	5,018	3,294	52.4	15,959	10,918	46.2
New Circles	(330)	-	-	(857)	-	-
EBITDA Margin (%)	35.0	38.0	(3.0)	34.2	36.5	(2.3)
Established Circles	38.7	38.0	0.6	36.7	36.5	0.1
New Circles	(75.9)	-	-	(145.1)	-	-
PAT	1,934	1,168	65.6	5,033	2,118	137.6
PAT Margin (%)	14.4	13.5	0.9	11.4	7.1	4.3

Source: Company, ENAM Research, * includes other income

Monthly Net Additions



Mobile Subscribers



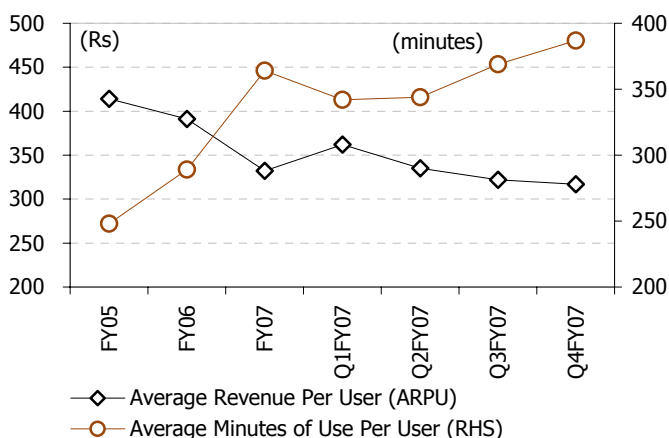
Source: COAI, ENAM Research

Circle-wise Subscriber Distribution

(000s)	Mar-06	% Total	Dec-06	% Total	Mar-07	% Total
Established Circles						
Delhi	867	11.8	1,316	10.6	1,448	10.3
Maharashtra	1,782	24.2	2,575	20.7	2,875	20.5
Gujarat	1,025	13.9	1,631	13.1	1,704	12.2
A.P.	935	12.7	1,591	12.8	1,801	12.9
Kerala	796	10.8	1,393	11.2	1,547	11.0
Haryana	312	4.2	748	6.0	844	6.0
U.P.(W)	921	12.5	1,481	11.9	1,562	11.2
U.P.(E)	0	0.0	208	1.7	343	2.4
M.P.	729	9.9	1,329	10.7	1,578	11.3
New Circles						
H.P.	-	-	11	0.1	17	0.1
Rajasthan	-	-	161	1.3	292	2.1
U.P.(E)	-	-	208	1.7	343	2.4

Source: Company, ENAM Research

ARPU v/s MoU



Source: Company, ENAM Research

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