

3 October 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

# Idea Cellular

## On a high growth path

Initiation of coverage

### Buy

**Target price**  
Rs121.00

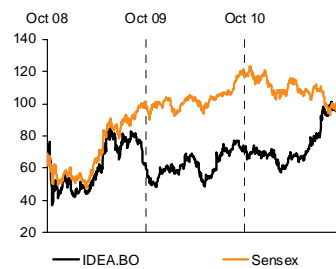
**Price**  
Rs98.50

**Short term (0-60 days)**  
n/a

**Market view**  
Underweight

#### Price performance

	(1M)	(3M)	(12M)
Price (Rs)	99.95	79.85	73.65
Absolute (%)	-1.5	23.4	33.7
Rel market (%)	-0.1	41.3	63.1
Rel sector (%)	-1.5	23.4	33.7


**Market capitalisation**  
Rs325.37bn (US\$6.60bn)

**Average (12M) daily turnover**  
Rs456.64m (US\$10.31m)

Sector: BSE Tech  
RIC: IDEA.BO, IDEA IN  
Priced Rs98.50 at close 30 Sep 2011.  
Source: Bloomberg

#### Analyst

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We expect Idea's EBITDA to touch 2.2x in three years led by price stability, minute market share gains, improvement in network utilisation and a fall in churn rate. We believe ROE will expand to 15.8% by FY14. Initiate coverage with Buy.

#### Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (Rsm)	123,979	154,384	197,447	243,333	273,609
EBITDA (Rsm)	33,580	37,258	50,902	70,266	81,173
Reported net profit (Rsm)	9,539	8,987	8,863	17,767	25,177
Normalised net profit (Rsm) <sup>1</sup>	9,539	8,987	8,863	17,767	25,177
Normalised EPS (Rs)	2.89	2.72	2.68	5.36	7.60
Dividend per share (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	34.07	36.20	36.78	18.38	12.97
EV/EBITDA (x)	11.60	11.60	8.78	6.12	4.99
Price/book value (x)	2.86	2.65	2.54	2.23	1.90
ROIC (%)	6.94	6.64	6.79	10.00	12.30

1. Post-goodwill amortisation and pre-exceptional items  
Accounting standard: Local GAAP  
Source: Company data, RBS forecasts

year to Mar, fully diluted

#### We believe revenue growth momentum will improve due to price stability

We expect Idea's revenue to grow at about a 21% CAGR over FY11-14F led by: 1) a minutes of use (MoU) CAGR of about 21% over FY11-14 to 639bn minutes; and 2) stable revenue per minute (RPM) of 43.1p in FY11 to 42.8p in FY14. We expect the company to gain incremental minute market share (MinMS) of 18% over FY11-14 led by gains from mobile number portability (MNP), consolidation of leadership in the old circles, and improved market share in the new circles, including the Punjab and Karnataka circles acquired from Spice. We forecast this will lead to a MoU CAGR of about 21% over FY11-14.

#### EBITDA likely to touch 2.2x in three years, in our view

We expect Idea's EBITDA to grow at a CAGR of 29.6% over FY11-14. We also expect the EBITDA margin to expand from 24.1% in FY11 (26.6% in 1QFY12) to 29.7% in FY14 led by: 1) an improvement in network utilisation (from 5.8m minutes/cell site in 1QFY12 to 6.7m by FY14); and 2) a reduction in the churn rate (from 9.2% in FY11 to 5.4% in FY14). The EBITDA losses from new circles (Rs5.4bn loss in FY11) could contract.

#### TRAI recommendations, if implemented, could have a negative impact

We believe it would be difficult to implement the Telecom Regulatory Authority of India's recommendations on spectrum charges in their current form because it may lead to an unlevel playing field among new and existing companies. However, our target price factors in the worst-case impact of the recommendations: a downside of Rs23/sh, in our view.

#### We initiate with a Buy; Idea is the biggest beneficiary of structural improvement

We initiate with a Buy and a 12-month target price of Rs121. We believe Idea would outperform its peers driven by: 1) higher growth: EBITDA CAGR of 29.6% over FY11-14; and 2) an expansion of ROE to 15.8% by FY14 (from 7.6% in FY11). Our target price implies EV/EBITDA multiples of 7.2x FY13F and 5.9x FY14F.

This note should be read along with our sector report (*Ripe for profitable growth*, 3 October 2011) for a better understanding of the investment argument.

**Important disclosures can be found in the Disclosures Appendix.**

# The basics

## Versus consensus

EPS (Rs)	RBS	Cons	% diff
2012F	2.7	2.5	6%
2013F	5.4	4.4	21%
2014F	7.6	6.9	10%

Source: Bloomberg, RBS forecasts

## Catalysts for share price performance

We believe the key catalysts for Idea's share price performance are:

- Increase in voice RPM over the next few quarters.
- Reduction in the churn rate leading to an improvement in profitability.
- Consistent improvement in the company's minute market share and revenue market share.

However, we emphasize that 2Q12 is a seasonally weak quarter and the EBITDA is likely to decline qoq owing to higher employee costs (salary hike is effective from 2Q) and higher network cost (diesel prices increased about 10%).

On the regulatory front, we expect National Telecom Policy 2011, once implemented, would provide a stable regulatory outlook as the known concerns (such as spectrum renewal charges) will be addressed by the policy. The policy would also lay the guidelines for consolidation, spectrum sharing and spectrum trading.

## Earnings momentum

- We believe Idea's financial performance is likely to beat its peers on the back of improvement in its minute market share by 200bp over FY11-14, implying a MoU CAGR of 21% in the same period. We expect a revenue CAGR of 21.0% over FY11-14 mainly because of price stability in its voice business.
- We expect the operating margin to expand from 26.6% in 1QFY12 to 29.7% by FY14, leading to an EBITDA CAGR of 29.6% and an EPS CAGR of 41.0% over FY11-14.

## Valuation and target price

We initiate with a Buy and a 12-month target price of Rs121. Our target price is based on SOTP valuation; we discounted the SOTP-based fair value of March 2013 by six months to derive the 12-month target price (September 2012). Idea's mobile business is valued at 7.0x EV/EBITDA (a discount to our target EV/EBITDA of 7.5x for Bharti's mobile business) and the tower business (a 16% stake in Indus Towers) is valued at Rs5.0m EV/tower. Our target price of Rs121 factors in the possible impact of TRAI's recommendations (a potential downside of Rs23, in our view) on spectrum pricing; hence, there is a significant margin of safety in our fair value of Rs144. Our target price implies EV/EBITDA multiples of 7.2x FY13F and 5.9x FY14F.

## How we differ from consensus

Our revenue forecasts are 4-7% higher than Bloomberg consensus estimates for FY13 and FY14. We expect the company to continue to positively surprise on revenue growth owing to higher-than-expected market share gains. Our EBITDA forecasts are 6-11% higher than Bloomberg consensus estimates for FY13 and FY14. We believe the consensus is not factoring in entirely the operating margin levers that could benefit Idea (among the listed peers) on the back of structural improvement in the sector (price stability and reduction in churn rate).

## Risks to central scenario

The key risks to our target price and rating:

- Higher-than-expected impact from one-time spectrum fees and spectrum renewal charges
- Lower-than-expected tariffs
- Lower-than-expected minute market share performance
- Higher-than-expected competitive intensity leading to higher marketing and subscriber acquisition costs

## Forced ranking\*

Company	Rec	Upside / Downside
Bharti	Buy	26%
Idea	Buy	23%
China Mobile	Buy	14%
RCom	Hold	-7%

\* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.  
Source: RBS forecasts

## Key events

Date	Event
Oct-Nov, 2011	2Q FY12 results release
Oct-Nov, 2011	National Telecom Policy-2011 to be introduced

Source: Company data, Industry

# Key assumptions and sensitivities

**Table 1 : Key assumptions**

	FY12F	FY13F	FY14F
Minute market share (%)	13.3	13.9	14.3
Minutes (bn)	466	563	639
Blended RPM (p/min)	42.3	43.2	42.8
Voice RPM (p/min)	36.6	36.6	35.8
3G subs (m)	4	7	9
Non-voice revenue (%)	13.6	15.4	16.3
Churn rate (%)	8.8	7.8	5.4
Capex intensity (% of revenue)	21.8	17.7	14.8

Source: RBS forecasts

**Table 2 : Sensitivity analysis**

	Change	Target price Rs/sh	Change in TP	EBITDA Rs bn	Change in EBITDA
<b>Base case</b>		<b>121</b>		<b>81.2</b>	
Change in Voice RPM	+2.5%	132	9%	85.9	6%
	-2.5%	109	-9%	76.4	-6%
Change in ARPU	+2.5%	134	11%	86.5	7%
	-2.5%	107	-11%	75.8	-7%
Change in Churn rate	-25%	125	4%	82.8	2%
	+25%	116	-4%	79.5	-2%

Source: RBS forecasts

**Table 3 : Our forecasts are higher than consensus estimates**

Rsm	FY12F			FY13F			FY14F		
	RBS	Consensus	Difference (%)	RBS	Consensus	Difference (%)	RBS	Consensus	Difference (%)
Revenue	197,447	192,938	2.3	243,333	228,536	6.5	273,609	262,674	4.2
EBITDA	50,902	50,634	0.5	70,266	63,379	10.9	81,173	76,231	6.5
PAT	8,863	8,326	6.4	17,767	14,691	20.9	25,177	22,768	10.6

Source: Bloomberg, RBS forecasts

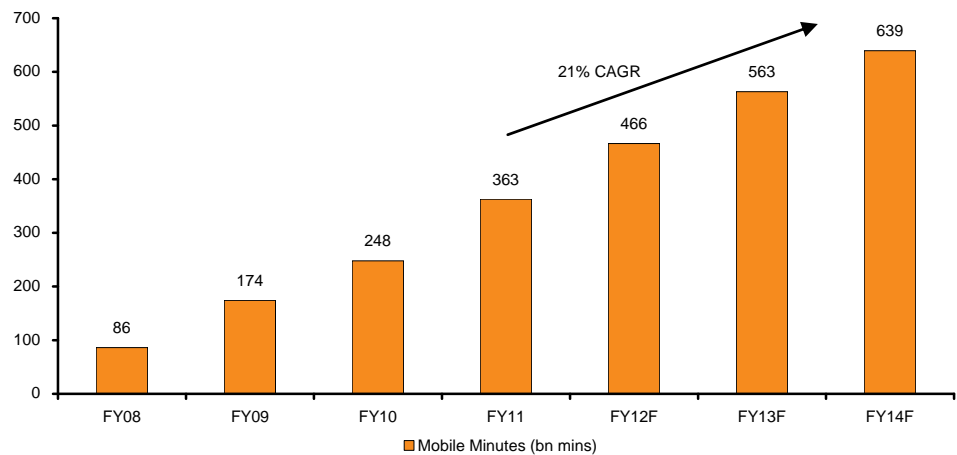
# Revenue growth momentum to improve...

We believe Idea's revenue growth momentum will improve given our expectation of price stability in the industry. We expect Idea to gain higher incremental minute market share, leading to a 200bp improvement in its minute market share to 14.3% by FY14.

## ...led by price stability and minute market share expansion

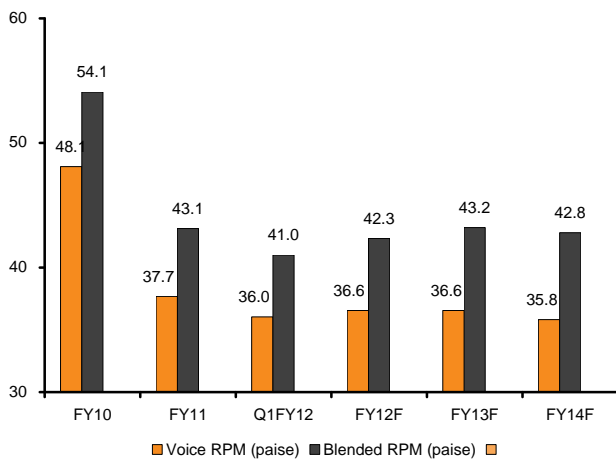
We expect Idea's revenue to grow at about a 21% CAGR over FY11-14 led by: 1) a minute CAGR of about 21% over FY11-14 to 639bn minutes; 2) stable revenue per minute (RPM) of 43.1p in FY11 to 42.8p in FY14; and 3) incremental 3G data revenue. Idea's blended RPM is supported by voice RPM (expected to grow from 37.7p/min in FY11 and 36.0p/min in 1QFY12 to 35.8p/min in FY14). We expect the share of non-voice revenue (including 3G revenue) in mobile revenue to grow from 12.6% in FY11 to 16.3% in FY14.

**Chart 1 : Minute CAGR of 21% over FY11-14**



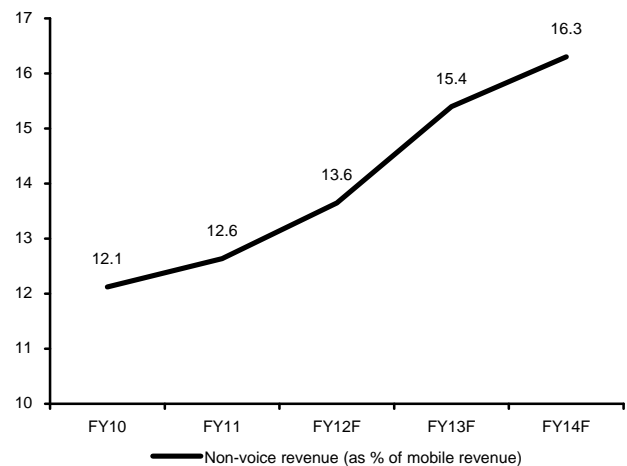
Source: Company data, RBS forecasts

**Chart 2 : Price stability driven by stable voice RPM...**



Source: Company data, RBS forecasts

**Chart 3 : ...and increase in non-voice revenue**

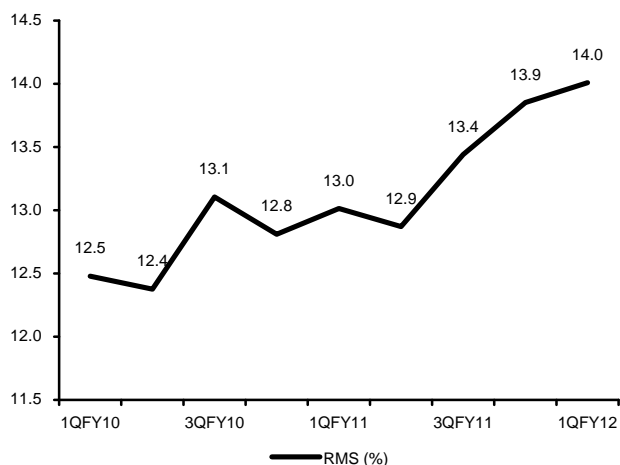


Source: Company data, RBS forecasts

## RMS improved to 14.0% in 1QFY12...

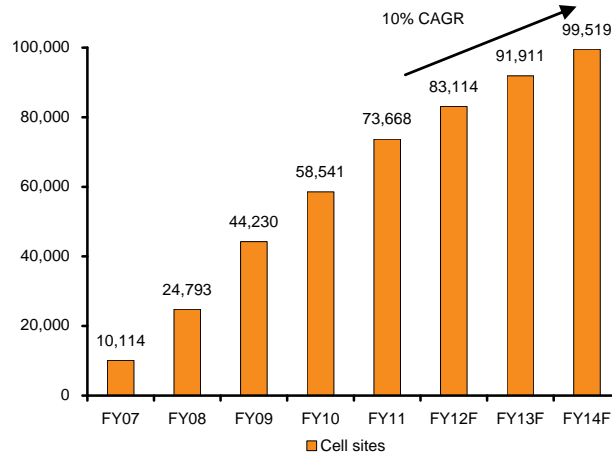
Idea's RMS improved to 14.0% in 1QFY12 (vs 9.5% in FY08) amid hyper-competition. This was driven by the company's huge investment in its network, which has expanded seven times over the past four years from around 10,000 cell sites in FY07 to 73,668 cell sites in FY11.

Chart 4 : RMS improved to 14.0% in 1QFY12...



Source: TRAI

Chart 5 : ...led by network coverage expansion



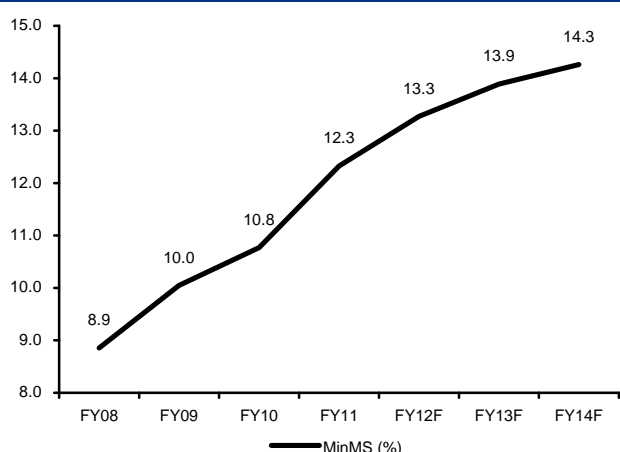
Source: Company data, RBS forecasts

## ...we expect Idea to capture 14.3% MinMS by FY14 (+200bp)

**We expect Idea to gain 18% incremental minute market share**

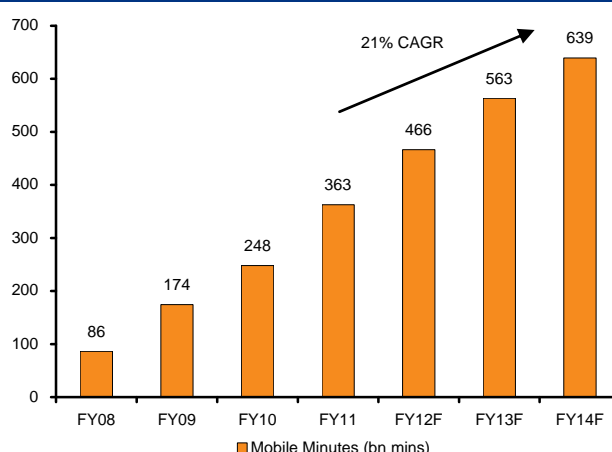
Idea's RMS expansion is driven by its higher MinMS, which expanded from 8.9% in FY08 to 12.3% in FY11, implying an incremental MinMS of 15% over this period. During FY11, Idea captured about 17.9% incremental MinMS, which expanded its MinMS from 10.8% in FY10 to 12.3% in FY11. We expect the company to gain incremental MinMS of about 18% over FY11-14 led by gains from mobile number portability (MNP), consolidation of leadership in the old circles, and improvement in its market share in the new circles, including the Punjab and Karnataka circles acquired from Spice. We expect Idea to capture 14.3% MinMS by FY14, resulting in a CAGR of 21% over FY11-14 to 639bn minutes by FY14 (vs 362bn in FY11).

Chart 6 : MinMS improved to 12.3% in FY11; expect MinMS to improve to 14.3% by FY14...



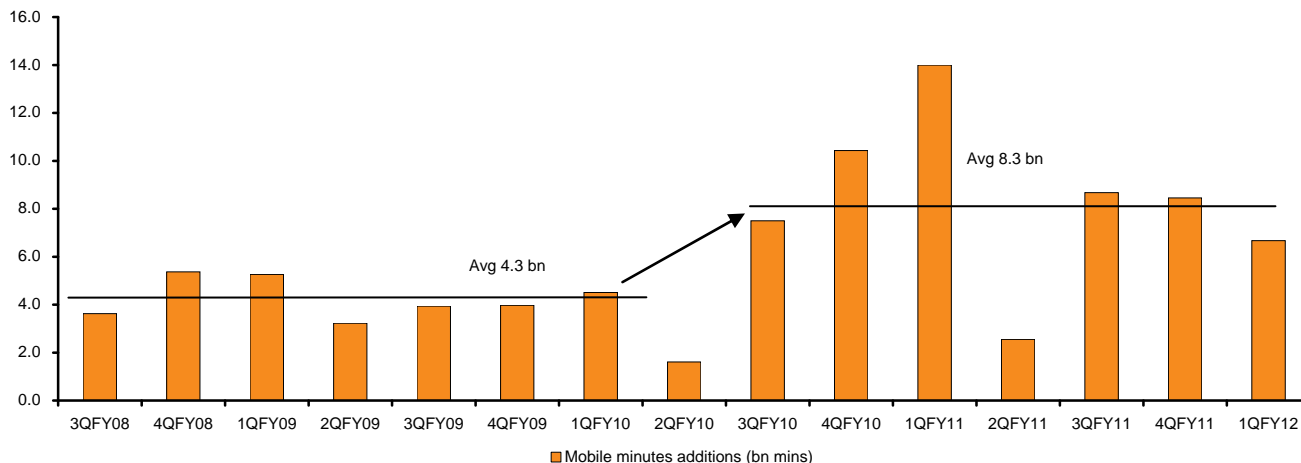
Source: Company data, TRAI, RBS forecasts

Chart 7 : ...leading to a minute CAGR of 21% over FY11-14



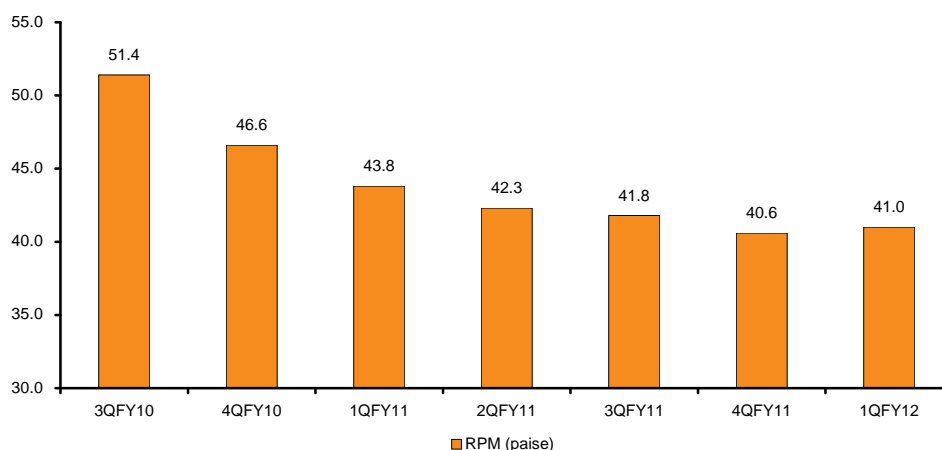
Source: Company data, RBS forecasts

**Chart 8 : Idea's minute addition trajectory improved since 3QFY10...**



Source: Company data

**Chart 9 : ...despite arrest in RPM over last few quarters displaying execution**



Source: Company data

### Improvement in RMS across the circles indicates robust execution

Idea's execution and brand resilience is exhibited by its performance in the old circles where it continues to gain revenue market share amid hyper-competition (see Table 4). Idea's revenue market share in the new circles (8.4% in Bihar and 5.5% in Mumbai) has improved remarkably within two years of launch (see Table 6).

The company also acquired the Punjab and Karnataka circles from Spice during 1HFY09; these circles have spectrum in 900MHz. Since the acquisition, Idea invested in building its network and distribution capabilities. The company witnessed significant improvement in these circles (see Table 5) over the past few quarters. Idea's RMS in the Karnataka circle improved from 6.4% in 3QFY09 to 7.7% in 1QFY12. Karnataka is a significantly large circle with industry revenue of Rs64bn (7.3% of industry revenue) during FY11; Idea's RMS is meager at about 7% (Rs4.4bn of its revenue) during FY11. Bharti is the largest RMS operator in Karnataka with 48% RMS as of 1QFY12. We expect Idea to capture higher RMS in Karnataka due to its network expansion, brand strength and its competitive advantage owing to spectrum in 900MHz.

**Table 4 : RMS improved across old circles amid hyper-competition**

(%)	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	Rank	RMS change from 3QFY09
M.P.	27.7	27.7	29.9	30.8	30.2	32.8	33.0	31.8	33.3	34.7	34.3	1	6.6
Kerala	29.0	31.3	31.0	31.5	34.5	33.6	31.3	33.4	32.3	33.6	33.7	1	4.7
Maharashtra	28.2	29.6	30.4	30.4	31.6	31.7	32.5	31.2	31.2	33.3	31.9	1	3.7
U.P.(W)	26.0	27.4	27.9	28.6	29.9	29.2	28.9	28.5	28.9	28.7	28.7	1	2.7
Haryana	18.8	19.7	20.6	19.9	19.3	20.7	19.9	19.6	19.8	20.3	21.3	2	2.5
Gujarat	16.5	17.2	17.8	17.9	18.7	17.7	17.6	17.0	17.6	18.6	18.3	2	1.9
A.P.	17.1	18.0	18.1	16.9	18.1	16.5	16.3	16.2	16.4	16.9	17.2	2	0.1
U.P.(E)	6.5	7.5	7.9	8.2	9.4	9.4	9.4	9.5	10.4	10.7	11.2	3	4.7
Rajasthan	5.3	5.0	5.2	5.4	6.4	6.5	6.4	6.7	7.8	8.1	8.9	3	3.5
Delhi	9.7	9.8	9.4	9.4	9.5	8.9	8.4	8.5	8.5	9.4	8.7	5	(1.0)
H.P.	4.0	4.1	4.9	5.1	3.5	3.8	4.4	4.3	4.5	4.2	4.4	6	0.5
<b>Old circles RMS</b>	<b>16.6</b>	<b>17.2</b>	<b>17.7</b>	<b>17.5</b>	<b>18.4</b>	<b>18.0</b>	<b>18.0</b>	<b>17.9</b>	<b>18.5</b>	<b>19.2</b>	<b>19.1</b>		

Source: TRAI

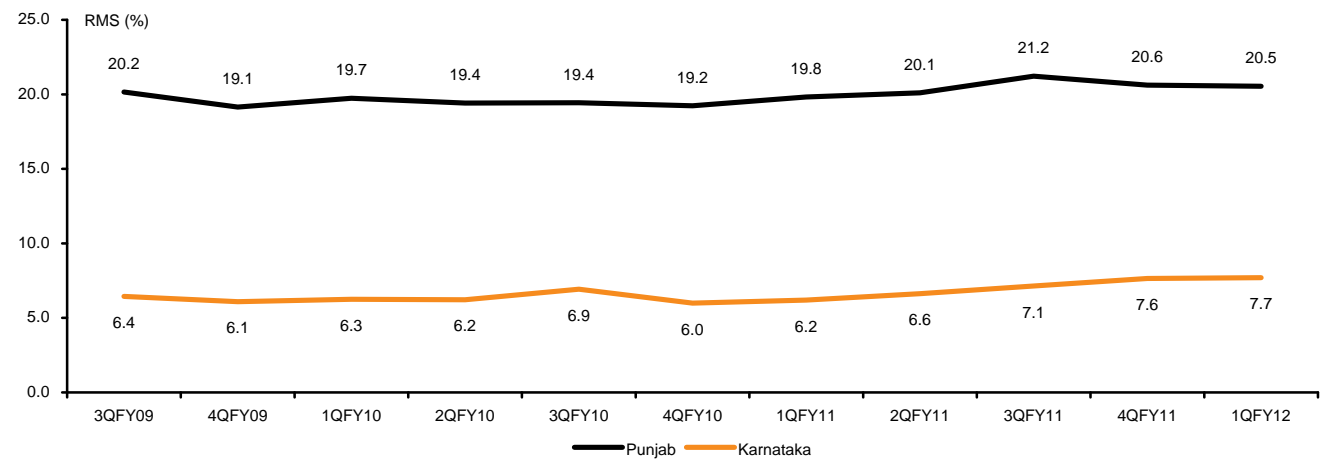
**Punjab and Karnataka circles, acquired from Spice in 1HFY09, have started to show robust growth**

**Table 5 : Punjab and Karnataka circles revenue performance showed improvement over last few quarters**

Rsm	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Punjab	1,702	1,603	1,607	1,562	1,558	1,513	1,654	1,651	1,756	1,671	1,798
qoq (%)		(5.8)	0.3	(2.8)	(0.2)	(2.9)	9.3	(0.2)	6.3	(4.8)	7.6
Highest RMS operator (Bharti)	3,293	3,252	3,180	3,136	3,095	3,107	3,210	2,948	3,013	3,124	3,276
Karnataka	973	917	946	928	1,004	924	993	1,034	1,157	1,257	1,346
qoq (%)		(5.7)	3.1	(1.8)	8.2	(8.0)	7.4	4.1	11.9	8.7	7.1
Highest RMS operator (Bharti)	8,283	8,257	8,194	8,024	7,702	8,062	8,459	7,897	8,001	8,170	8,415

Source: TRAI

**Chart 10 : RMS in Punjab and Karnataka - significant potential for improvement in Karnataka**



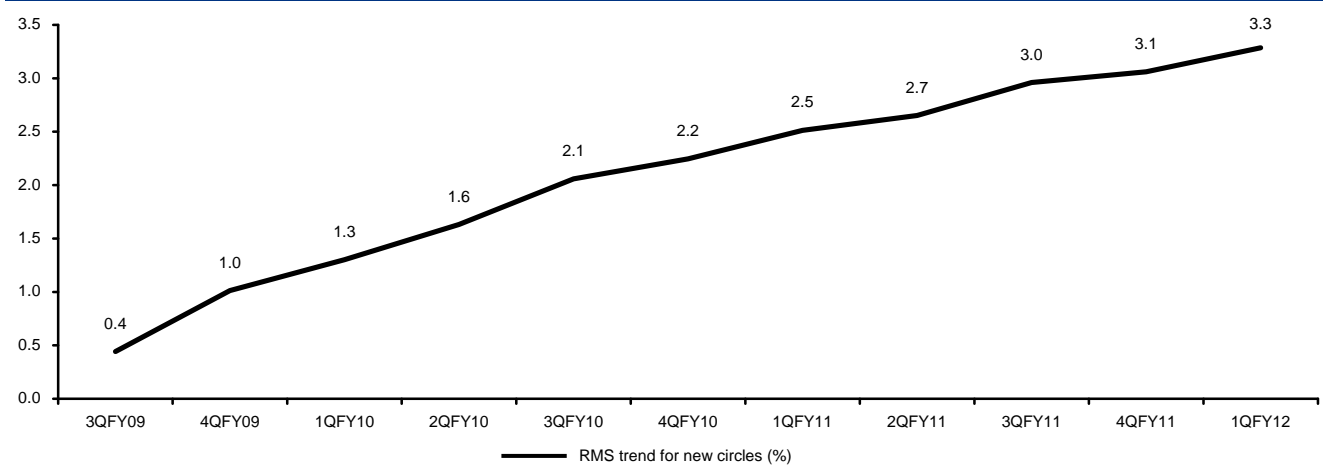
Source: TRAI

**Table 6 : RMS expanded in new circles - Bihar and Mumbai are focus circles which saw significant improvement**

%	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	Rank	RMS change since 3QFY09
<b>Bihar</b>	1.1	3.2	4.5	5.5	6.8	6.9	7.2	7.8	8.6	8.5	8.4	4	7.4
Mumbai	1.3	2.8	2.8	3.0	3.2	3.2	3.9	3.9	4.5	4.5	5.5	5	4.2
W.B.	-	-	-	-	0.3	1.0	1.4	1.7	2.2	1.9	2.4	7	2.4
Orissa	-	-	0.6	1.6	1.8	1.9	1.9	2.0	2.0	2.0	1.9	7	1.9
Kolkata	-	-	-	-	0.5	1.2	1.3	1.6	1.8	1.7	1.8	7	1.8
N.E.	-	-	-	-	-	0.1	0.5	0.7	1.0	1.5	1.7	7	1.7
Assam	-	-	-	-	0.0	0.5	0.8	1.0	1.2	1.4	1.4	7	1.4
J&K	-	-	-	-	0.2	0.4	0.7	0.9	1.0	1.3	1.2	7	1.2
T.N.	-	-	0.0	0.3	0.7	0.7	0.6	0.6	0.7	0.7	0.7	7	0.7
<b>Total</b>	0.4	1.0	1.3	1.6	2.1	2.2	2.5	2.7	3.0	3.1	3.3		

Source: TRAI

**Chart 11 : RMS performance (cumulative) across new circles**



Source: TRAI



## We expect EBITDA to be 2.2x in three years

**We expect Idea to be the biggest beneficiary of structural improvement among listed peers. We expect Idea's EBITDA to be 2.2x in three years driven by price stability, higher network utilization and reduction in churn rate.**

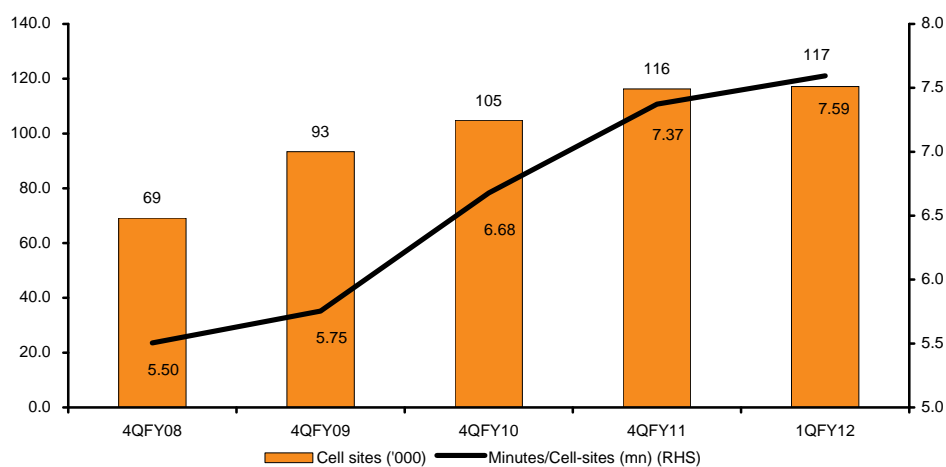
We expect Idea's EBITDA to grow at a CAGR of 29.6% over FY11-14. We expect the EBITDA margin to expand from 24.1% in FY11 (26.6% in 1Q12) to 29.7% in FY14 led by: 1) higher network utilisation (from 5.2m minutes/cell site in FY11 and 5.8m in 1Q12 to 6.7m by FY14); and 2) a reduction in churn rate (from 9.2% in FY11 to 5.4% in FY14). The EBITDA losses from new circles (Rs5.4bn loss vs. reported EBITDA profit of Rs37.3bn in FY11) could contract leaving headroom for margin expansion. There were initial signs of margin expansion during the past year as the EBITDA margin expanded to 26.6% in 1QFY12 (from 24.2% in 1Q11).

### Idea hits the sweet spot in network coverage; higher utilisation would result in margin expansion

#### Network utilisation to improve

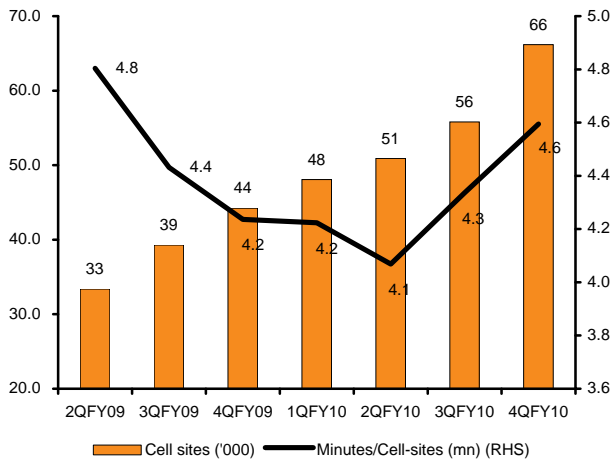
In FY08, Bharti reached population coverage of about 70% with around 69,000 cell sites. Over the past three years, Bharti added around 45,000 cell sites and 508bn minutes, implying 10.7m incremental minutes/cell site. This improved its network utilisation to 7.4m min/cell site in 4QFY11 (vs 5.5m in 4QFY08). We believe Idea has reached a similar sweet spot with around 74,000 cell sites in FY11. We expect an improvement in Idea's network utilisation from 5.2m minutes/cell site in FY11 (5.8m minutes/cell site in 1QFY12) to 6.7m by FY14. Higher utilisation is also driven by co-location of 3G cell sites.

**Chart 12 : Bharti's capacity utilisation improved since 4QFY08 when it reached 70% population coverage with 69,000 cell sites**



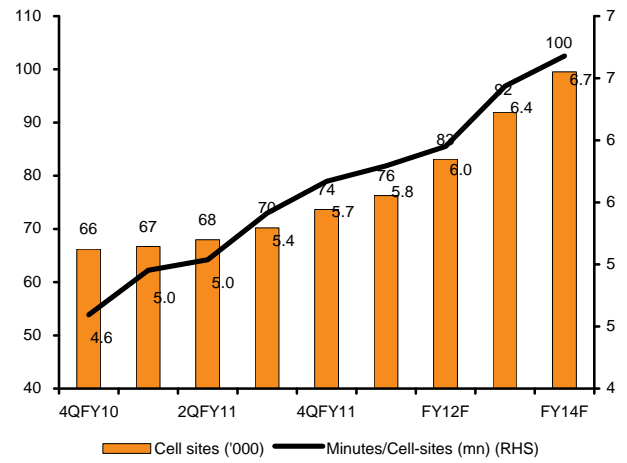
Source: Company data

**Chart 13 : Idea's utilisation dropped with new circle rollout**



Source: Company data

**Chart 14 : Idea's network utilisation is likely to improve**

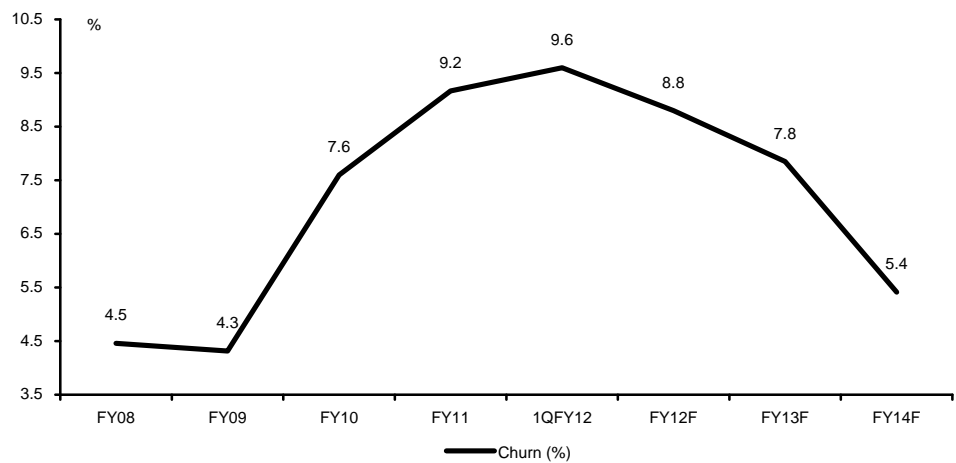


Source: Company data, RBS forecasts

**Churn rate to decline with lower competitive intensity**

We note the company's gross subscriber additions increased materially (5.5 times) from 20mn in FY08 to 110mn in FY11 due to high competitive intensity, while net additions over the same period expanded 2.57 times from about 10m in FY08 to about 26m in FY11 (see Chart 16). The churn rate during FY08-11 increased from 4.5% to 9.2% by FY11. We expect the churn rate to decline and expect gross subscriber additions to decline to 104mn by FY14, contributing to EBITDA margin expansion due to lower subscriber acquisition costs.

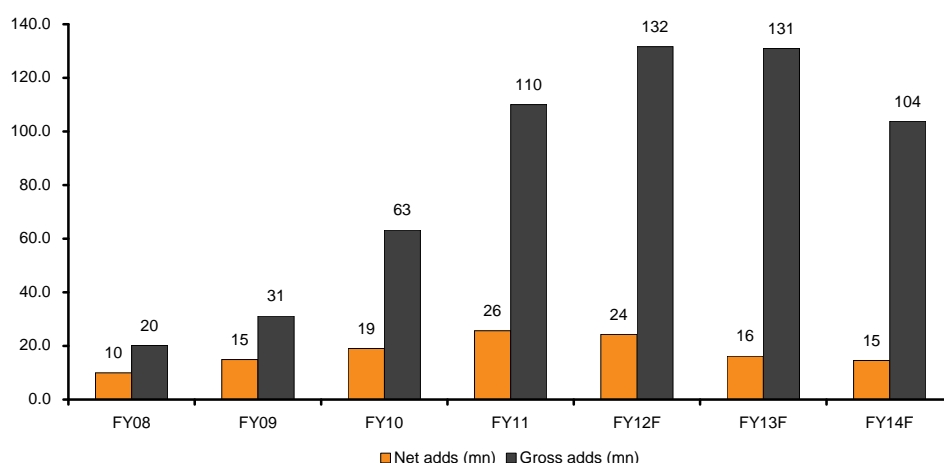
**Chart 15 : Churn rate likely to decline**



Source: Company data, RBS forecasts

Gross subscriber additions 4.2x net additions during FY11

**Chart 16 : Gross subscriber additions increased phenomenally and likely to decline**



Source: Company data, RBS forecasts

**Idea likely to be the biggest beneficiary of reduction in churn rate among listed peers**

We believe Idea is likely to be the biggest beneficiary of reduction in the churn rate among listed peers. Table 7 highlights a 1% reduction in churn rate is likely to increase Idea's EBITDA margin positively about 44bp. We believe Idea is likely to benefit since its reported churn is the highest among industry participants (9.6% per month) during 1QFY12.

**Table 7 : Impact on EBITDA owing to potential reduction in churn**

	Bharti	RCom	Idea
<b>1QFY12</b>			
Subs (m)	169	143	95
Churn (%)	6.4	4.0	9.6
Gross adds (m)	39	24	32
<b>FY11</b>			
Churn (%)	6.8	3.8	9.2
Gross adds (m)	153	87	110
Revenue (Rs bn)	464	206	154
EBITDA (Rs bn)	171	65	37
Potential reduction in gross adds (m) with 1% decline in churn	20	17	11
Potential cost savings with 1% decline in churn (Rs bn)	1.22	1.03	0.68
Impact on EBITDA (%)	0.7	1.6	1.8
<b>Impact on EBITDA margins (%)</b>	<b>0.26</b>	<b>0.50</b>	<b>0.44</b>

Source: Company data, RBS estimates

**EBITDA loss in the new circles could contract, leaving headroom for margin expansion**

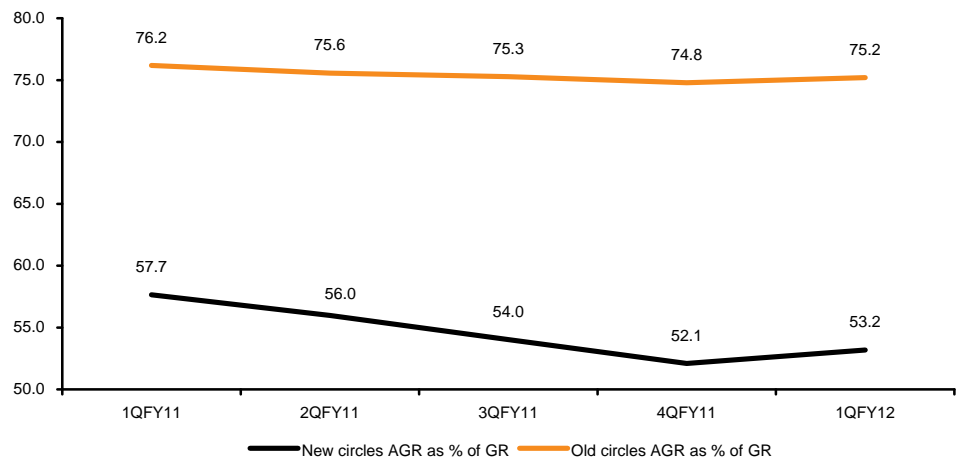
Idea's EBITDA losses from the new circles stood at Rs5.4bn in FY11 (vs Rs4.2bn in FY10). We believe the EBITDA losses in the new circles could contract led by higher RMS, price stability and improved utilisation. This leaves headroom for EBITDA margin expansion.

**Table 8 : New circles EBITDA losses to contract with price stability and improved utilisation**

Rs m	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Revenue	52	483	985	1,427	1,822	2,384	2,761	3,063	3,384	3,960	4,393	4,814
<b>EBITDA loss</b>	<b>(337)</b>	<b>(765)</b>	<b>(654)</b>	<b>(644)</b>	<b>(830)</b>	<b>(1,288)</b>	<b>(1,422)</b>	<b>(1,401)</b>	<b>(1,429)</b>	<b>(1,384)</b>	<b>(1,173)</b>	<b>(1,397)</b>
Reported total EBITDA	6,024	6,950	7,983	8,588	8,039	8,005	8,948	8,851	8,563	9,452	10,392	11,991
EBITDA without new circle losses	6,361	7,715	8,637	9,232	8,869	9,293	10,370	10,252	9,992	10,836	11,565	13,388

Source: Company data

**Chart 17 : New circles vs old circles (adjusted gross revenue as % of gross revenue) shows headroom for improvement**



Source: TRAI

### There are initial signs of EBITDA margin improvement

Idea's EBITDA margin expanded from 24.2% in 1QFY11 to 26.6% in 1QFY12. We would like to emphasise the incremental EBITDA margin performance over the past three quarters is driven by higher network utilisation and price stability. In particular, the 1QFY12 incremental EBITDA margin stood at about 50% driven by 1% qoq increase in RPM to 41.0p (vs 40.6p in 4QFY11).

**Table 9 : Initial signs of improvement witnessed with margin expansion**

	3QFY11	4QFY11	1QFY12
RPM (p/min)	41.8	40.6	41.0
Minutes (m minutes)	93,503	101,960	108,630
Revenue (Rs m)	39,526	41,987	45,158
EBITDA (Rs m)	9,452	10,392	11,991
EBITDA margin (%)	23.9	24.8	26.6
Incremental revenue (Rs m)	3,159	2,461	3,171
Incremental EBITDA (Rs m)	889	940	1,599
<b>Incremental EBITDA margin (%)</b>	<b>28.2</b>	<b>38.2</b>	<b>50.4</b>

Source: Company data, RBS estimates

Incremental EBITDA margin in 1QFY12 at about 50%, led by a 1% qoq increase in RPM

# TRAI recommendations, if implemented, could have a negative impact

Idea could be negatively affected if the regulators' recommendations on spectrum pricing are implemented in their current form. Though we don't expect them to be implemented entirely, we have factored a worst-case impact of Rs23/sh into our target price.

## Our target price factors in the worst-case impact

Our target price factors in the worst-case impact

Telecom Regulatory Authority of India (TRAI) recommendations on spectrum pricing, if implemented, could have a negative impact on Idea of Rs23/sh (see Table 10). As discussed earlier in the industry section of this report, we believe it would be difficult to implement the recommendations on spectrum charges in their current form because they would lead to an uneven playing field among new (ie, those who entered the market in 2008) and existing companies. In addition, to a certain extent, the impact analysis based on TRAI's recommendations may turn out to be academic. In a scenario where some licences get cancelled or licensees surrender spectrum, excess spectrum will be available. In such an event, TRAI may recommend auctioning spectrum in the 1800MHz band to determine the relevant spectrum price, which could be materially lower than TRAI's recommended spectrum price.

However, if TRAI's recommendations are implemented, Idea would need to pay the first tranche of spectrum renewal charges of Rs48bn during FY16 (see Table 11). Based on our estimates, Idea's net debt would decline to Rs79.3bn by FY14 (0.98x net debt/EBITDA) from Rs105.9bn (2.8x net debt/EBITDA) in FY11 and would continue to decline thereafter as well. This should enable the company to again leverage, if required, and meet such spectrum payouts during FY16 and FY17, in our opinion.

**Table 10 : Impact of TRAI recommendations on Idea (assuming no reduction in licence fees)**

Rs bn	FY13F
One-time spectrum charge above 6.2MHz	(15)
PV of Spectrum Renewal Charges (to be paid post-expiry of licence period)	(63)
Total	(78)
<b>Impact per share (Rs)</b>	<b>(23)</b>

Source: TRAI, RBS forecasts

**Table 11 : Idea - Spectrum renewal charges at time of licence expiry (based on recommendations)**

Year	Circles	No. of circles	Payouts (Rs m)	NPV (FY13) (Rs m)	Revenue dependence 1QFY12 (%)
FY16	Maha, Guj, AP, Kerala, UP(w), MP, Har	7	48,206	36,398	70.1
FY17	Punjab, Karnataka	2	14,208	10,374	9.4
FY18-21					
FY22	Delhi, UP (e), Raj, HP	4	24,877	10,239	13.0
FY23 -26					
FY27	Mumbai, Bihar	2	7,553	1,812	5.5
FY28	Kol, TN, WB, Orissa, Assam, NE, J&K	7	17,559	3,741	2.0
<b>Total</b>		<b>22</b>	<b>112,404</b>	<b>62,565</b>	<b>100</b>

Source: TRAI, RBS forecasts

## What if Idea surrenders part of its spectrum?

However, we believe that the impact of TRAI's recommendations may be academic because the companies may be well equipped with different strategies to minimise payouts. We note that Idea has acquired spectrum in the 2.1GHz band during the 3G auctions in all circles, except Karnataka, which will be due for licence renewal in FY16 and FY17 (see Table 11). In a scenario where a significant portion of Idea's voice traffic is migrated to the 2.1GHz band, the company may be well equipped to surrender some portion of spectrum. Hence, our assertion that the impact analysis based on TRAI's recommendations may turn out to be academic.

**Table 12 : What if Idea surrenders part of its spectrum?**

Circles	Spectrum (in MHz) with Idea		Revenue/ MHz (Rs m)			Spectrum charges (Idea) - (Rs m)		Idea licence expiry dates
	2G	3G	Idea	Bharti	Vodafone	One-time	PV of licence renewal charges	
<b>Metros</b>								
Delhi	8.0		1,405	4,014	2,911	2,587	4,324	Sep-21
Mumbai	4.4		1,458	1,834	2,839		1,204	Nov-26
Kolkata	4.4		219	1,113	991		553	Jan-28
<b>A' Circle</b>								
Maharashtra	9.8	5.0	3,072	2,553	3,914	5,327	8,001	Dec-15
Gujarat	6.2	5.0	2,116	2,198	3,090		6,949	Dec-15
A.P.	8.0	5.0	2,259	4,295	1,867	2,220	8,501	Dec-15
Karnataka	6.2		1,293	4,407	1,582		6,200	Apr-16
T.N.	4.4		503	5,398	3,515		2,095	Jan-28
<b>B' Circle</b>								
Kerala	8.0	5.0	2,167	1,532	1,966	1,189	4,094	Dec-15
Punjab	7.8	5.0	1,259	2,351	1,402	1,304	4,174	Apr-16
Haryana	6.2	5.0	925	790	1,252		672	Dec-15
U.P.(W)	8.0	5.0	1,974	1,626	2,212	1,293	3,327	Dec-15
U.P.(E)	6.2	5.0	1,563	3,250	2,943		3,395	Sep-21
Rajasthan	6.2		1,019	3,536	2,316		2,372	Sep-21
M.P.	8.0	5.0	2,373	2,144	741	1,303	4,854	Dec-15
W.B.	4.4		310	1,799	2,518		501	Jan-28
<b>C' Circle</b>								
H.P.	4.4	5.0	161	627	179		148	Sep-21
Bihar	4.4		1,400	3,149	1,645		608	Dec-26
Orissa	4.4		203	1,246	705		272	Jan-28
Assam	4.4		101	1,192	600		116	Jan-28
N.E.	4.4		81	829	326		119	Jan-28
J&K	4.4	5.0	63	879	251		85	Jan-28
<b>Total</b>						<b>15,223</b>	<b>62,565</b>	

Source: TRAI, RBS forecasts

# We initiate coverage with Buy

**We initiate on Idea with a Buy rating as we expect the company to be the biggest beneficiary of structural improvement in the sector with its industry-leading EBITDA growth (we expect EBITDA of 2.2x in three years).**

## Outperformance to be led by superior growth and ROE expansion

We initiate coverage on Idea with a Buy rating and 12-month target price of Rs121. We believe the valuation multiple for Idea will expand as the company outperforms its peers with minute market share gains (200bp over three years), an improvement in network utilisation and a reduction in churn rate. We believe Idea will outperform its peers driven by: 1) higher growth: revenue/EBITDA/EPS CAGRs of 21.0%/29.6%/41.0% over FY11-14E; and 2) ROE expansion to 15.8% by FY14 (from 7.6% in FY11).

Our target price is based on SOTP valuation; we discounted the SOTP-based fair value of March 2013 by six months to derive a 12-month target price (September 2012). Idea's mobile business is valued at 7.0x EV/EBITDA (a discount to our target of 7.5x EV/EBITDA for Bharti's mobile business) and the tower business (a 16% stake in Indus Towers) is valued at Rs5.0m EV/tower. We prefer to value India telco services stocks using EV/EBITDA rather than PE since depreciation policies differ across peers and the companies are at different stages of maturity. Our target price of Rs121 factors in the possible impact of TRAI's recommendations (potential downside of Rs23, in our view) on spectrum pricing; hence, it provides a significant margin of safety against our fair value of Rs144.

Our target price implies EV/EBITDA multiples of 7.2x FY13F and 5.9x FY14F. We note Idea's implied FY13F EV/EBITDA multiple is closer to its historical average of 7.4x one-year forward EV/EBITDA. In our opinion, Idea's consolidated business historical valuation multiple is comparable from November 2009, since the sector was de-rated due to hyper-competition.

**Significant upside if spectrum renewal charges are lower**

In our view, Idea offers significant upside risk if spectrum renewal charges are lower than proposed in TRAI's recommendations. In addition, Idea may offer more upside if pricing power improves for the sector. Based on our estimate, if Idea's ARPU is 2.5% higher than our estimate, the stock's fair value would increase by about 11%.

**Table 13 : Idea's SOTP-based valuation of Rs121**

<b>Business units</b>	
Equity Value	
Mobile business	132
Tower value - ABTL	21
<b>Total</b>	<b>152</b>
Possible impact of TRAI's recommendations	(23)
Idea's SOTP fair value (Mar-13)	129
<b>Idea's 12-month target price (Sep-12)</b>	<b>121</b>

Source: RBS forecasts

**Table 14 : Implied valuation at target price**

	<b>FY13F</b>	<b>FY14F</b>
Target price (Rs)	120.5	120.5
EPS (Rs)	5.4	7.6
<b>Implied PE (x)</b>	<b>22.5</b>	<b>15.9</b>
EV (Rs bn)	507	482
EBITDA (FY14F) (Rs bn)	70	81
<b>Implied EV/EBITDA (x)</b>	<b>7.2</b>	<b>5.9</b>

Source: RBS forecasts

**Table 15 : Idea's mobile business fair value**

	FY14E
EBITDA (mobile) - IDEA	71,890
EV/EBITDA multiple	7.0
EV (Rs m)	503,233
Less: Net Debt (Rs m)	67,176
Equity Value (Rs m)	436,056
<b>Value per share (Rs)</b>	<b>132</b>

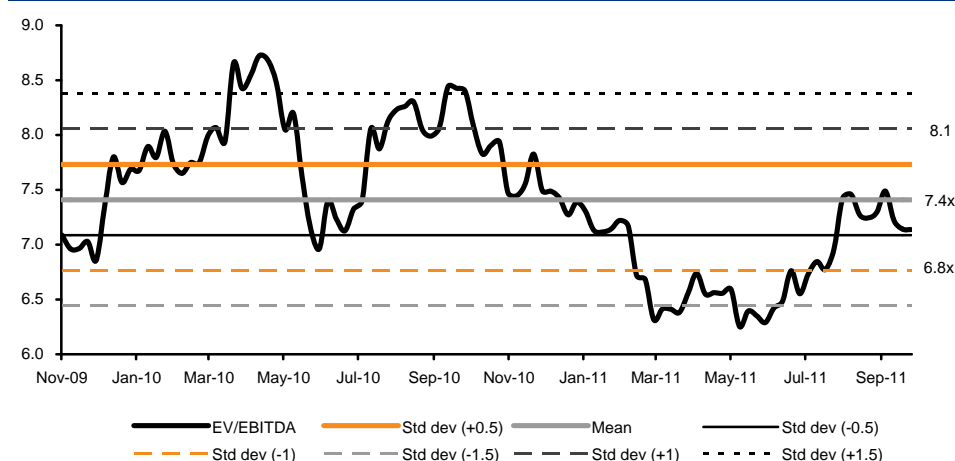
Source: RBS forecasts

**Table 16 : Idea's tower business fair value**

	FY14E
No. of Indus towers	120,722
EV/tower (Rs m)	5
Enterprise value (Rs bn)	604
Less: Debt (Rs bn)	95
Equity Value (Rs bn)	509
ABTL's stake in Indus	16%
Equity Value - ABTL (Rs bn)	81
Less: Providence equity stake -16.14% (Rs bn)	13
Total equity value attributable to IDEA (Rs bn)	68
<b>Value per share (Rs)</b>	<b>21</b>

Source: RBS forecasts

**Chart 18 : Idea - EV/EBITDA (one-year forward)**



Source: Company data, Bloomberg, RBS forecasts

**Table 17 : Sensitivity of valuation to ARPU and MoU**

		ARPU (% change from base case)				
		10.0	5.0	0.0	(5.0)	(10.0)
MoU (% change from base case)	10.0	204	175	145	116	86
	5.0	189	161	133	105	76
	0.0	175	148	<b>121</b>	93	66
	(5.0)	160	134	108	82	55
	(10.0)	145	121	96	71	45

Source: RBS forecasts

**Table 18 : Sensitivity of EBITDA (FY14F) to churn and voice RPM**

		Churn (% change from base case)				
		75.0	50.0	0.0	(25.0)	(50.0)
Voice RPM (% change from base case)	5.0	85,690	87,340	90,641	92,291	93,942
	2.5	80,956	82,606	85,907	87,557	89,208
	0.0	76,222	77,872	<b>81,173</b>	82,823	84,474
	(2.5)	71,488	73,138	76,439	78,089	79,740
	(5.0)	66,754	68,404	71,705	73,355	75,006

Source: RBS forecasts



# Management Team

**Table 19 : Key management team**

Name	Designation	Qualification and Experience
Kumar Mangalam Birla	Chairman	Chartered accountant and MBA from London Business School, Kumar Mangalam Birla is chairman of the Aditya Birla Group. He serves as director on the board of the group's international companies spanning Thailand, Indonesia, Malaysia, Philippines and Egypt. He holds several key positions on various regulatory and professional boards. He is a director of the central board of directors of the RBI and chairman of the staff sub-committee of the central board of the RBI.
Himanshu Kapania	Managing Director	Himanshu Kapania holds a BE from BIT, Ranchi and a PGDM from IIM Bangalore. He became managing director of Idea from April 1, 2011. Prior to this role, he had served Idea as deputy managing director and director, operations. Mr Kapania joined Idea in September 2006 with over 21 years of industry experience. His last assignment was with Reliance Infocomm as their CEO for northern operations. Mr Kapania serves as a director of Idea Cellular Limited.
Ambrish Jain	Deputy Managing Director	Ambrish Jain is an engineering graduate from IIT Delhi and a postgraduate from IIM, Ahmedabad. He joined Idea in October 2001 with over 22 years of industry experience. Prior to the current role, he was director, operations for the north and east circles. Prior to Idea, he worked with Aircel Digilink , RPG Cellcom, Escotel Mobile on various sales and marketing assignments.
Akshaya Moondra	Chief Financial Officer	Joined IDEA as CFO in 2008, after spending two decades in various Aditya Birla Group companies. He is a chartered accountant and a member of the Institute of Chartered Accountants of India. Also a member of the Institute of Company Secretaries of India.

Source: Company data

## Income statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	123979	154384	197447	243333	273609
Cost of sales	-90399	-117126	-146545	-173067	-192436
Operating costs	-19416	-22281	-24812	n/a	n/a
<b>EBITDA</b>	<b>33580</b>	<b>37258</b>	<b>50902</b>	<b>70266</b>	<b>81173</b>
DDA & Impairment (ex gw)	-20149	-23973	-28539	-33776	-36068
<b>EBITA</b>	<b>13430</b>	<b>13285</b>	<b>22363</b>	<b>36490</b>	<b>45105</b>
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
<b>EBIT</b>	<b>13430</b>	<b>13285</b>	<b>22363</b>	<b>36490</b>	<b>45105</b>
Net interest	-4005	-3965	-9775	-10278	-8222
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1328	648.2	0.00	0.00	0.00
<b>Reported PTP</b>	<b>10754</b>	<b>9969</b>	<b>12588</b>	<b>26212</b>	<b>36883</b>
Taxation	-1214	-981.5	-3725	-7997	-11212
Minority interests	n/a	0.00	0.00	-447.8	-494.0
Exceptionals (post-tax)	0.00	0.00	0.00	n/a	n/a
Other post-tax items	0.00	-0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>9539</b>	<b>8987</b>	<b>8863</b>	<b>17767</b>	<b>25177</b>
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
<b>Normalised net profit</b>	<b>9539</b>	<b>8987</b>	<b>8863</b>	<b>17767</b>	<b>25177</b>

Source: Company data, RBS forecasts

year to Mar

## Balance sheet

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	14204	14777	4299	10946	11498
Other current assets	33730	25980	32283	33424	34474
Tangible fixed assets	170945	212465	201491	215744	225215
Intang assets (incl gw)	16260	48912	70788	65874	60961
Oth non-curr assets	-0.00	-0.00	0.01	-0.01	0.00
<b>Total assets</b>	<b>235138</b>	<b>302135</b>	<b>308860</b>	<b>325989</b>	<b>332148</b>
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	38447	53555	49955	58322	63583
Long term debt (3)	78593	120705	125775	115775	90775
Oth non-current liab	4375	4876	4585	4930	5158
<b>Total liabilities</b>	<b>121415</b>	<b>179136</b>	<b>180314</b>	<b>179027</b>	<b>159515</b>
Total equity (incl min)	113724	122999	128546	146962	172632
<b>Total liab &amp; sh equity</b>	<b>235138</b>	<b>302135</b>	<b>308860</b>	<b>325989</b>	<b>332148</b>
Net debt	64389	105928	121476	104829	79277

Source: Company data, RBS forecasts

year ended Mar

## Cash flow statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	33580	37258	50902	70266	81173
Change in working capital	-7504	15536	-10194	7572	4439
Net interest (pd) / rec	-4005	-3965	-9775	-10278	-8222
Taxes paid	-1214	-981.5	-3725	-7997	-11212
Other oper cash items	-1627	-5228	0.00	0.00	0.00
<b>Cash flow from ops (1)</b>	<b>19229</b>	<b>42621</b>	<b>27208</b>	<b>59562</b>	<b>66178</b>
Capex (2)	-41580	-85473	-42957	-43116	-40626
Disposals/(acquisitions)	106.5	271.3	0.00	0.00	0.00
Other investing cash flow	10036	1576	10200	-1600	-1600
<b>Cash flow from invest (3)</b>	<b>-31438</b>	<b>-83625</b>	<b>-32757</b>	<b>-44716</b>	<b>-42226</b>
Incr / (decr) in equity	23.4	138.4	200.8	200.8	0.00
Incr / (decr) in debt	-15779	42543	5070	-10000	-25000
Ordinary dividend paid	0.00	0.00	0.00	n/a	n/a
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
<b>Cash flow from fin (5)</b>	<b>-15755</b>	<b>42681</b>	<b>5270</b>	<b>-9799</b>	<b>-25000</b>
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>-27964</b>	<b>1678</b>	<b>-278.7</b>	<b>5047</b>	<b>-1048</b>
Equity FCF (1+2+4)	-22351	-42852	-15749	16446	25552

Lines in bold can be derived from the immediately preceding lines.  
Source: Company data, RBS forecasts

year to Mar

<b>Standard ratios</b>	<b>Idea Cellular</b>					<b>Bharti Airtel</b>			<b>Reliance Comm</b>		
<b>Performance</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>
Sales growth (%)	22.4	24.5	27.9	23.2	12.4	20.3	13.9	9.78	4.02	9.24	5.97
EBITDA growth (%)	19.4	11.0	36.6	38.0	15.5	26.4	19.2	10.2	4.08	12.0	6.61
EBIT growth (%)	-4.79	-1.08	68.3	63.2	23.6	25.3	27.1	9.65	0.05	15.7	0.68
Normalised EPS growth (%)	1.66	-5.89	-1.55	100.1	41.7	-0.63	42.2	15.0	-49.9	11.2	10.9
EBITDA margin (%)	27.1	24.1	25.8	28.9	29.7	35.3	36.9	37.0	31.8	32.6	32.8
EBIT margin (%)	10.8	8.61	11.3	15.0	16.5	17.1	19.1	19.1	12.1	12.9	12.2
Net profit margin (%)	7.69	5.82	4.49	7.30	9.20	8.41	10.5	11.0	3.17	3.23	3.38
Return on avg assets (%)	5.25	4.68	5.15	7.99	9.54	5.61	6.91	7.20	2.26	2.72	2.78
Return on avg equity (%)	7.74	7.59	7.05	12.9	15.8	11.9	15.2	15.2	1.66	1.83	1.99
ROIC (%)	6.94	6.64	6.79	10.0	12.3	7.39	9.44	10.3	2.76	3.17	3.27
ROIC - WACC (%)	-3.50	-3.80	-3.66	-0.43	1.87	-3.32	-1.28	-0.41	-9.85	-9.43	-9.33
				year to Mar			year to Mar			year to Mar	
<b>Valuation</b>											
EV/sales (x)	3.14	2.79	2.26	1.77	1.48	2.82	2.40	2.07	2.26	1.96	1.69
EV/EBITDA (x)	11.6	11.6	8.78	6.12	4.99	7.99	6.51	5.60	7.12	6.02	5.14
EV/EBITDA @ tgt price (x)	13.8	13.6	10.2	7.18	5.90	9.45	7.73	6.71	6.97	5.89	5.02
EV/EBIT (x)	29.0	32.5	20.0	11.8	8.97	16.5	12.6	10.9	18.6	15.3	13.8
EV/invested capital (x)	2.16	1.86	1.77	1.69	1.59	1.78	1.69	1.61	0.64	0.62	0.59
Price/book value (x)	2.86	2.65	2.54	2.23	1.90	2.75	2.39	2.06	0.36	0.36	0.35
Equity FCF yield (%)	-6.88	-13.2	-4.83	5.04	7.83	1.69	4.42	7.42	0.75	17.3	27.5
Normalised PE (x)	34.07	36.20	36.78	18.38	12.97	23.89	16.80	14.61	21.85	19.64	17.71
Norm PE @tgt price (x)	41.9	44.5	45.2	22.6	15.9	30.0	21.1	18.4	20.4	18.3	16.5
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00	0.26	0.26	0.26	0.00	0.00	0.00
				year to Mar			year to Mar			year to Mar	
<b>Per share data</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>	<b>Solvency</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY14F</b>
Tot adj dil sh, ave (m)	3300	3303	3309	3315	3315	Net debt to equity (%)	56.6	86.1	94.5	71.3	45.9
Reported EPS (INR)	2.89	2.72	2.68	5.36	7.60	Net debt to tot ass (%)	27.4	35.1	39.3	32.2	23.9
Normalised EPS (INR)	2.89	2.72	2.68	5.36	7.60	Net debt to EBITDA	1.92	2.84	2.39	1.49	0.98
Dividend per share (INR)	0.00	0.00	0.00	0.00	0.00	Current ratio (x)	1.25	0.76	0.73	0.76	0.72
Equity FCF per share (INR)	-6.77	-13.0	-4.76	4.96	7.71	Operating CF int cov (x)	6.10	12.0	4.16	7.57	10.4
Book value per sh (INR)	34.5	37.2	38.8	44.2	51.8	Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
				year to Mar						year to Mar	

Priced as follows: IDEA.BO - Rs98.50  
Source: Company data, RBS forecasts

## Valuation methodology - SOTP valuations

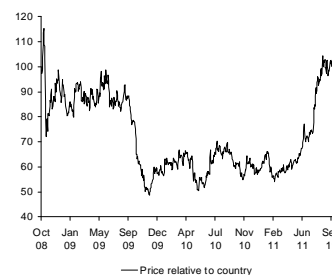
<b>Business units</b>	<b>Rs/sh</b>
Equity Value	
Mobile business	132
Tower value - ABTL	21
Total	152
Possible impact of TRAI's recommendations	(23)
Idea's SOTP fair value (Mar-13)	129
<b>Idea's 12-month target price (Sep-12)</b>	<b>121</b>

Source: RBS forecasts

## Company description

Idea Cellular is the third-largest mobile operator in India, with 90m subscribers. Its wireless subs market share is 11% and its wireless revenue market share is 13.3% as of FY11. Idea provides wireless and long-distance voice and Internet services to consumer and enterprise markets. Idea's holdings in towers were pooled into a 16% stake in Indus, a joint venture with Bharti Airtel and Vodafone-Essar. The company is promoted by the Aditya Birla group, whose companies (ABNL, Birla TMT Holdings, Hindalco and Grasim) collectively own the promoter's stake.

## Buy Price relative to country



## Strategic analysis

Average SWOT company score: **3**

## Shareholding pattern

### Strengths

Idea's network coverage significantly expanded to 74,000 cell sites, which creates a sustainable competitive edge for the company. Idea won 3G spectrum in 11 circles, which contributes 81% of Idea's revenue.

### Weaknesses

Late entry into nine circles (which form 32% of the India industry's revenue) places the company at a disadvantage against Pan-India incumbent operators. However, entry into new circles expands the addressable market and increases its long-term growth profile.

### Opportunities

Idea has a significant competitive advantage with its deep network coverage and wide distribution reach in the Indian market. Hence, it is better positioned to capture higher market share of the under-penetrated Indian telecom market (48% active subs penetration).

### Threats

Unfavourable changes in licensing conditions in India (over spectrum pricing and allocation, spectrum refarming, reduction in MTC charges) pose a threat. An increase in competitive intensity in the wireless broadband market with entry of new players poses a challenge.

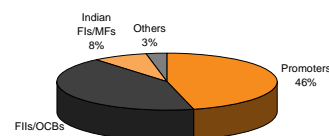
Scoring range is 1-5 (high score is good)

**4**

**3**

**4**

**2**



Source: Company data

## Market data

### Headquarters

Idea Cellular Limited, 'Windsor', 5th Floor, Off CST Road, Near Vidya Nagari, Kalina, Santacruz(E), Mumbai - 400098

### Website

www.ideacellular.com

### Shares in issue

3303.3m

### Freefloat

35%

### Majority shareholders

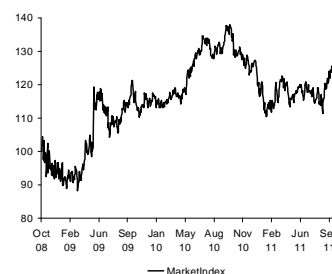
Promoter companies (46%), TMI group (19%), P5 Asia Investments Mauritius Ltd (5%)

## Country view: India

The compression of multiples typically characteristic of a market undergoing the transition from growth to value continued to pressure Indian equities in the 2Q. While the economic deceleration is well under way, we continue to view the country as a major potential loser from higher costs of capital in quarters and perhaps even years ahead. Still, given the significant short-term relative underperformance and the expected decline in commodities prices, clearly a bounce is possible. Yet, as valuations are broadly unattractive and returns declining, we continue to consider the risk-reward trade-off as unattractive.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

## Country rel to Asia Pacific



## Competitive position

Average competitive score: **4+**

## Broker recommendations

### Supplier power

The company's scale of operation expanded over the past few years, significantly improving its bargaining power with suppliers. A rise of Chinese players has intensified competition among suppliers.

### Barriers to entry

During 2008, new licences were rewarded, removing barriers to entry. However, significant capital investment is required to compete with incumbent operators, acting as a barrier to entry.

### Customer power

With 8-plus operators in most circles, tariffs in India are already among the lowest worldwide. However, operators with better network coverage and distribution command a premium on the tariffs.

### Substitute products

Mobile telephony tariffs in India are among the lowest in the world and eat into the share of fixed-line telephony. Internet-based telephony has not had an impact, as PC penetration is very low.

### Rivalry

We expect industry consolidation in FY13/FY14 as merger and acquisition guidelines, and spectrum sharing and spectrum trading guidelines are laid out in the upcoming National Telecom Policy 2011.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

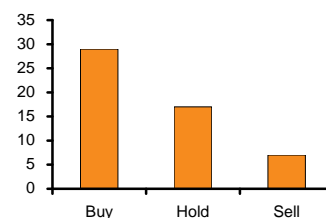
**4+**

**4+**

**3+**

**5+**

**3+**



Source: Bloomberg

## Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

### Long term recommendations (as at 03 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	853 (11)	553 (3)
Hold	408 (7)	224 (4)
Sell	87 (5)	48 (0)
Total (IB%)	1348 (9)	825 (3)

Source: RBS

### Trading recommendations (as at 03 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (100)	1 (100)
Trading Sell	1 (0)	1 (0)
Total (IB%)	2 (50)	2 (50)

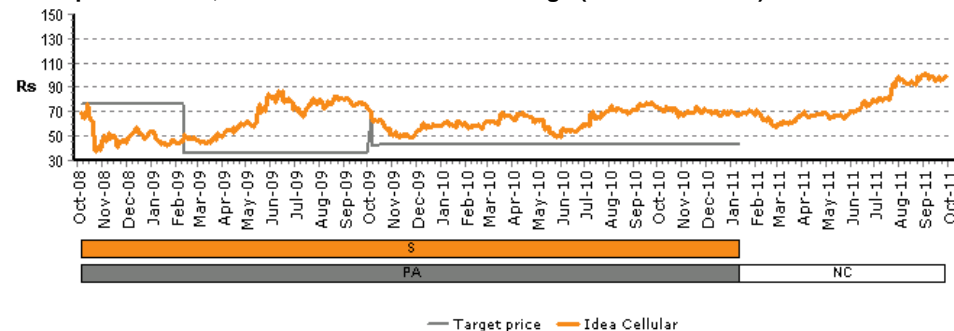
Source: RBS

## Valuation and risks to target price

Idea Cellular (RIC: IDEA.BO, Rec: Buy, CP: Rs98.50, TP: Rs121.00): Our target price is based on SOTP valuation methodology, comprising EV/EBITDA values for the core businesses. Idea's mobile business is valued at a slight discount to Bharti's India mobile business valuation multiple. Key downside risks: 1) a higher-than-expected impact from one-time spectrum fees and spectrum-renewal charges; 2) lower-than-expected tariffs; 3) lower-than-expected minute market share performance; and 4) higher-than-expected competitive intensity.

## Idea Cellular coverage data

### Stock performance, recommendations and coverage (as at 3 Oct 2011)



(B)uy (A)dd (H)old (R)educe (S)ell (PA) Previous Analyst (CA) Current Analyst (NC) Not Under Coverage

Piyush Choudhary started covering this stock on 3 Oct 11. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

### Trading recommendation history (as at 03 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: RBS

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