

### What is the worst case intrinsic value?

#### ■ Idea is worth Rs50 under our worst case scenario

Worst case scenario assumptions: 1) No pricing power i.e. Rev/min declines to Rs0.39/min by FY12 (vs. Rs0.51/min currently) and remains constant thereafter 2) MoU to decline to 360 by FY11 (vs. 375 currently) and stays constant thereafter 3) Mobile EBITDA margin declines to 21.5% by FY12 (vs. 25.3% currently), rises to 23.0% in FY13 as new circles reach steady state, and remains constant thereafter 4) Indus tower portfolio & tenancy remains at current levels and does not improve.

#### ■ Indonesia experience suggests worst may be priced in

The price war in Indonesia lasted 2 years, during which the mobile market leader Telkom lost 60% of its market cap on pricing concerns. However, Telkom stock recovered 51% from its stock price lows thereafter as tariff declines slowed. We believe that the current Idea stock price (down 43%) already prices in the worst.

#### ■ Near term catalysts are likely to be evenly balanced, in our view

Positive catalysts: 1) TRAI likely to allow spectrum trading and easy consolidation 2) Potential M&A leading to fewer operators 3) Quarterly results that indicate revenue growth. Negative catalysts: 1) Unitech & Etisalat launch at disruptive tariffs 2) MNP implementation 3) 3G auction.

#### ■ Attractive valuation; Rate Buy, lower SOTP-based PT to Rs80 (from Rs88)

Idea stock price has declined 43% and underperformed BSE Sensex by 49% since its recent peak in June2009. At current stock price, Idea is trading at 14.2x FY11e earnings ex-towers, at a 7% discount to BSE Sensex, assuming tower value at our base case scenario at Rs19/share.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	67,375	101,490	123,223	146,693	159,132
EBIT (UBS)	13,925	14,315	14,261	16,346	18,530
Net Income (UBS)	10,424	9,009	8,405	6,767	7,468
EPS (UBS, Rs)	3.96	2.91	2.55	2.05	2.26
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.29

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	16.0	14.1	11.6	11.1	11.6
ROIC (EBIT) %	14.3	9.8	6.1	6.0	6.4
EV/EBITDA (core) x	-	8.5	6.8	6.4	5.8
PE (UBS) x	-	24.7	19.4	24.1	21.8
Net dividend yield %	-	0.0	0.0	0.0	0.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs49.35 on 24 Nov 2009 23:38 HKT

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India

Wireless Communications

12-month rating **Buy**  
**Unchanged**

12m price target **Rs80.00/US\$1.73**  
**Prior: Rs88.00/US\$1.90**

Price **Rs49.35/US\$1.06**

RIC: IDEA.BO BBG: IDEA IB

25 November 2009

#### Trading data (local/US\$)

52-wk range	Rs87.10-42.05/US\$1.83-0.86
Market cap.	Rs153bn/US\$3.30bn
Shares o/s	3,100m (ORD)
Free float	12%
Avg. daily volume ('000)	2,266
Avg. daily value (Rsm)	143.6

#### Balance sheet data 03/10E

Shareholders' equity	Rs188bn
P/BV (UBS)	0.9x
Net Cash (debt)	(Rs75.3bn)

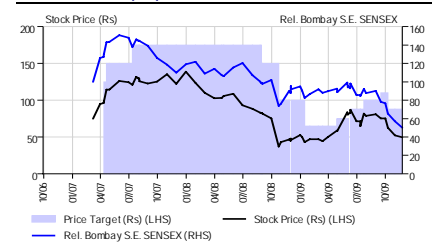
#### Forecast returns

Forecast price appreciation	+62.1%
Forecast dividend yield	0.0%
Forecast stock return	+62.1%
Market return assumption	12.2%
Forecast excess return	+49.9%

#### EPS (UBS, Rs)

	03/10E		Cons.	03/09
	From	To		Actual
Q1E	0.90	0.90	-	0.85
Q2E	0.66	0.67	-	0.46
Q3E	0.58	0.54	-	0.71
Q4E	0.53	0.44	-	0.88
03/10E	2.67	2.55	2.94	
03/11E	2.15	2.05	1.71	

#### Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

## What is the worst case for Idea?

Our worst case analysis gives a value of Rs50 per share.

- We assume pricing power will not come back post consolidation, i.e. voice rev/min to decline from Rs0.51/min in 2QFY10 to Rs0.39/min by FY12 and remain constant thereafter.
- We assume MoU to decline from 375 mins in 2QFY10 to 360 mins by FY12 and remain constant thereafter.
- We assume mobile EBITDA margin declines to 21.5% by FY12 (vs. 25.3% currently), and then increases to 23.0% in FY13 as we assume new circle operations reach steady state, and remains constant thereafter.
- We assume Indus Towers tenancy to remain constant at current levels, i.e. 1.61x with no new tower additions to the existing tower portfolio.

**Table 1: Worst case assumptions for Idea standalone**

YE 31 March (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Total mobile subscribers (m)	538	666	770	859	937	1,006	1,065	1,113	1,150
Idea mobile subscribers (m)	55	69	79	88	97	104	110	115	119
Subscriber market share	10.2%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Incremental subscriber market share	10.7%	10.6%	10.2%	10.2%	10.4%	10.4%	10.5%	10.6%	10.7%
Idea mobile revenue (Rs bn)	116,658	130,937	142,421	161,424	178,240	193,409	206,825	218,348	227,815
EBITDA margin	24.9%	20.4%	21.5%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Capex / Sales	42.9%	28.0%	24.0%	15.0%	12.0%	11.0%	10.0%	9.0%	8.0%
Blended ARPU (Rs/sub/month)	207	176	160	160	161	161	161	162	162
% change	-21.6%	-14.8%	-9.0%	0.0%	0.1%	0.3%	0.3%	0.3%	0.3%
Voice ARPU (Rs/sub/month)	184	154	139	139	139	139	139	139	139
Blended MOU (min/sub/month)	379	361	360	360	360	360	360	360	360
Voice revenue per min. realization	0.49	0.43	0.39	0.39	0.39	0.39	0.39	0.39	0.39
% change	-15.2%	-12.0%	-9.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: UBS estimates

**Table 2: Idea value per share based on worst case scenario**

Rs m	Enterprise value	Net (debt)/cash	Equity value	Idea's stake	Value per share (Rs)	WACC	Terminal growth
Idea including Spice	202,649	(72,594)	130,055	100.0%	40	12.3%	2.0%
Indus	38,411	(4,205)	34,206	13.4%	10	10.8%	2.0%
<b>Sum of parts</b>					<b>50</b>		

Source: UBS estimates

## Our base case assumptions

We believe the current level of competitive intensity and prevailing tariffs are not sustainable in the long term. We think consolidation is inevitable in the next 12-18 months and Idea is likely to emerge as a winner post the prevailing tariff war. We assume voice rev/min and mobile EBITDA margins to pick up post consolidation in FY12.

**Table 3: Base case assumptions for Idea standalone**

YE 31 March (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Total mobile subscribers (m)	538	666	770	859	937	1,006	1,065	1,113	1,150
Idea mobile subscribers (m)	55	69	79	88	97	104	110	115	119
Subscriber market share	10.2%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Incremental subscriber market share	10.7%	10.6%	10.2%	10.2%	10.4%	10.4%	10.5%	10.6%	10.7%
Idea mobile revenue (Rs bn)	116,658	132,983	145,403	173,464	198,262	220,768	240,163	257,914	273,723
EBITDA margin	25.1%	21.6%	21.8%	23.0%	23.9%	24.8%	25.6%	26.4%	27.1%
Capex / Sales	42.9%	28.0%	24.0%	15.0%	12.0%	11.0%	10.0%	9.0%	8.0%
Blended ARPU (Rs/sub/month)	207	179	164	172	179	184	187	191	195
% change	-21.6%	-13.4%	-8.5%	5.3%	3.7%	2.9%	2.0%	2.0%	2.0%
Voice ARPU (Rs/sub/month)	184	157	142	151	157	162	165	168	172
Blended MOU (min/sub/month)	379	368	369	373	376	380	384	388	392
Voice revenue per min. realization	0.49	0.43	0.39	0.40	0.42	0.43	0.43	0.43	0.44
% change	-15.2%	-12.0%	-9.7%	5.0%	3.0%	2.0%	1.0%	1.0%	1.0%

Source: UBS estimates

**Table 3: Idea SoTP valuation (based on base case scenario)**

Rs m	Enterprise value	Net (debt)/cash	Equity value	Idea's stake	Value per share (Rs)	WACC	Terminal growth
Idea including Spice	272,546	(71,519)	201,027	100.0%	61	12.3%	2.0%
Indus	70,258	(7,605)	62,652	13.4%	19	10.0%	2.0%
Sum of parts					80		

Source: UBS estimates

Table 4: Change in UBS estimates

YE 31st March (Rs m)	2010E	2011E	2012E
Revenues - Current	123,223	146,693	159,132
Revenues - Old	125,700	147,206	158,039
% change	-2.0%	-0.3%	0.7%
EBITDA - Current	33,586	37,313	42,099
EBITDA - Old	34,655	38,281	42,895
% change	-3.1%	-2.5%	-1.9%
Net Income - Current	8,405	6,767	7,468
Net Income - Old	8,800	7,089	7,516
% change	-4.5%	-4.5%	-0.6%
Capex - Current	60,933	41,965	36,034
Capex - Old	60,933	42,093	35,816
% change	0.0%	-0.3%	0.6%

Source: UBS estimates

## Sensitivity analysis to base case assumptions

Table 5: Sensitivity analysis: FY11 MoU &amp; voice rev/min

Idea (ex Indus) value per share (Rs)	FY11E voice revenue / minute				
	0.33	0.38	0.43	0.48	0.53
358	38	48	58	69	79
363	39	49	60	70	81
FY11E MoU 368	40	50	61	72	82
373	41	51	62	73	84
378	42	53	63	75	85

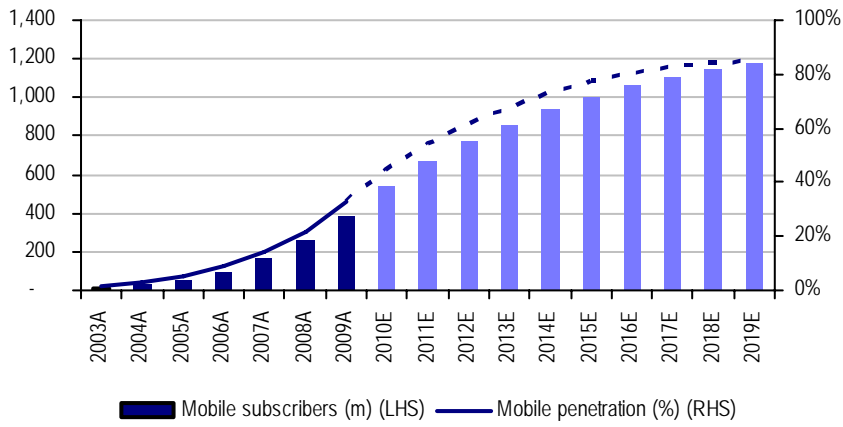
Source: UBS estimates

## India mobile market to continue to grow

UBS India economist, Philip Wyatt, believes Indian economy is entering a golden period of economic growth and expects real GDP growth of 8-9% pa for the next 10-20 years. We believe Indian economy is likely to witness a consumption boom, driven by strong economic growth, attractive demographics and low penetration across several product/service categories.

We believe the Indian mobile market is still under-penetrated and is likely to grow from current 40% mobile penetration to 85% by 2018 driven by affordable tariffs, aggressive coverage expansion by incumbents, increasing rural focus leading to deeper penetration and improving affordability of handsets.

Chart 1: India mobile penetration likely to continue to increase



Source: TRAI, UBS estimates

## Indonesia

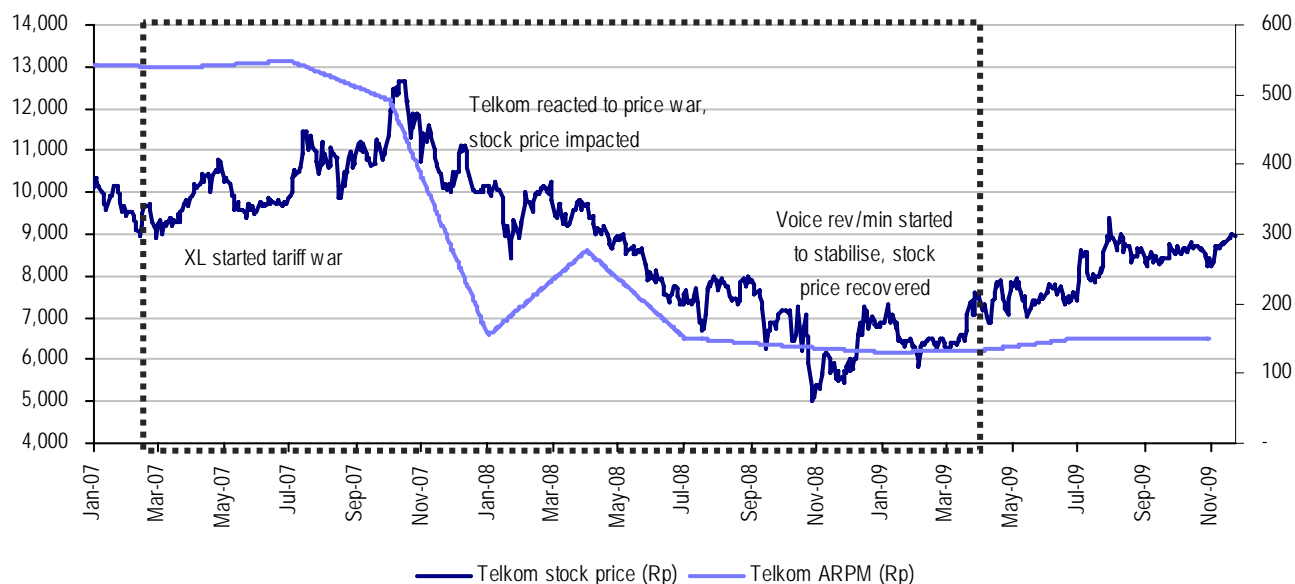
Price war in Indonesia started in 2Q07, when third largest player, Exelcomindo (XL), lowered tariffs to stimulate usage given its low capacity utilisation levels. Telkom Indonesia did not react initially, and this led to no impact on its stock price at that time, which continued to move up till Telkom reacted to pricing competition. Telkom reacted only in 1Q08 as it lost subscriber market share from 51.5% in 2Q07 to 45.1% in 1Q08. The price cut in 1Q08 led to significant pick up in usage, which helped EBITDA margins improve despite the price decline. The price war lasted almost two years and ended in 1Q09. Voice revenue per minute has recovered 15% from Rp130 in 1Q09 to 150 in 3Q09.

Table 6: Telkomsel KPIs

	Q107	Q207	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
Mobile revenue (Rp bn)	9,552	10,545	11,580	12,703	11,377	10,764	10,730	11,482	10,789	11,902	12,826
Non voice (%)	28.6%	29.5%	30.4%	31.3%	34.3%	31.7%	31.7%	30.5%	27.3%	28.8%	30.4%
Voice revenue (Rp bn)	6,823	7,436	8,062	8,733	7,471	7,347	7,332	7,978	7,843	8,474	8,933
Minutes on network (m)	12,600	13,767	14,700	17,733	48,300	26,600	48,545	57,091	60,182	63,636	59,455
% change		9.3%	6.8%	20.6%	172.4%	-44.9%	82.5%	17.6%	5.4%	5.7%	-6.6%
Voice rev/min (Rp)	541	540	548	492	155	276	151	140	130	133	150
% change		-0.3%	1.5%	-10.2%	-68.6%	78.6%	-45.3%	-7.5%	-6.7%	2.2%	12.8%

Source: Company data

Chart 2: Telkom Indonesia stock price performance during price war



Source: Company data, Bloomberg

## Valuation

Table 7: Idea SoTP valuation (based on base case scenario)

Rs m	Enterprise value	Net (debt)/cash	Equity value	Idea's stake	Value per share (Rs)	WACC	Terminal growth
Idea including Spice	272,546	(71,519)	201,027	100.0%	61	12.3%	2.0%
Indus	70,258	(7,605)	62,652	13.4%	19	10.0%	2.0%
<b>Sum of parts</b>					<b>80</b>		

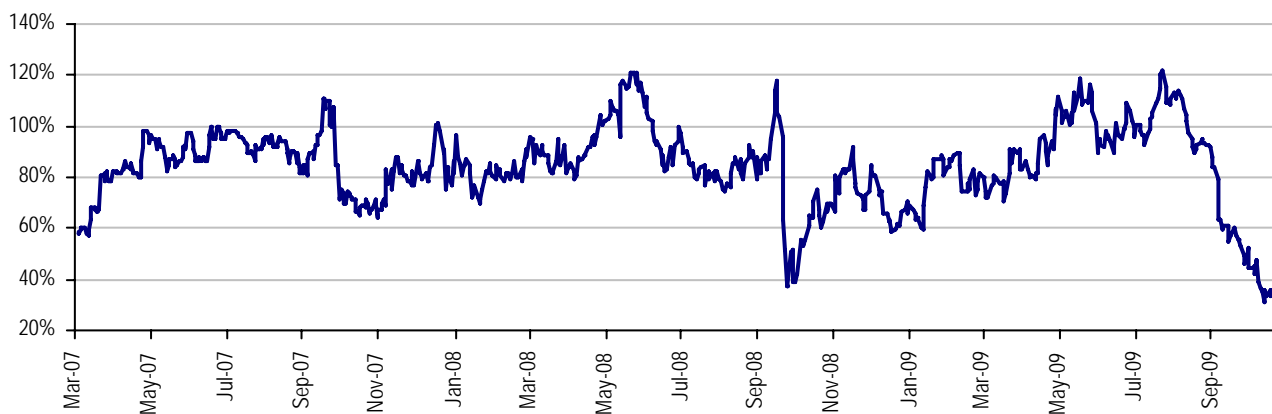
Source: UBS estimates

Chart 3: One year forward PE



Source: Company data, Bloomberg, UBS estimates

Chart 4: Premium/(discount) to BSE Sensex



Source: Company data, Bloomberg, UBS estimates

Table 8: Valuation comparison

	Rating	Market price	Target price	% upside	Market cap (m, USD)	Net debt (m, USD)	P/E		EPS growth		EV/EBITDA		EBITDA growth	
							FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Bharti	Buy	282	450	60%	23,087	534	12.1	12.8	3%	-6%	7.0	7.0	7%	0%
Idea	Buy	49	80	62%	3,512	1,443	19.4	24.1	-12%	-19%	6.8	6.2	18%	11%

Source: UBS estimates; Priced on close of Nov 24, 2009

Table 9: Idea valuation (ex towers)

Rs m	Mar'11E	Mar'12E
Market Cap	152,985	152,985
Net debt	86,757	92,982
Enterprise value - Including Indus	239,742	245,967
Idea share of Indus EV (UBS-e valuation)	70,258	70,258
EV – Idea excluding Indus	169,484	175,710
P/E	14.2	13.8
EV/EBITDA	5.4	5.0

Source: UBS estimate; Priced on close of Nov 24, 2009

Table 10: Catalysts timelines

Positive catalysts	Timelines
TRAI likely to allow spectrum trading and easy consolidation	1HCY09
Potential M&A leading to fewer operators	FY2011-12
Quarterly results that indicate revenue growth	Jan-10
Negative catalysts	Timelines
Unitech launch at disruptive tariffs	Dec-09
Etisalat launch at disruptive tariffs	Jan-10
MNP implementation	Mar-10
3G auction	Jan-10

Source: UBS estimates



## Private market valuation for Idea

- Idea management sold a 16.14% stake in Aditya Birla Telecom Limited (ABTL) to Providence for Rs21bn. The transaction values ABTL equity at Rs130b (US\$2.8b) indicating that Idea may be currently undervalued.
- Idea acquired Spice, funded by TMI through a preferential allotment of shares, and raised capital from TMI at Rs156.96 per share of Idea, at a significant premium to market price at the time of the acquisition.
- There have been multiple deals in the private market by the new operators, i.e. stake sales to foreign telcos by new operators who are yet to roll-out services.
  - NTT DoCoMo acquired 26% stake in Tata Teleservices, valuing the company at US\$10.4bn.
  - Etisalat acquired a 45% stake in Swan Telecom for US\$900m, valuing the new operator equity at US\$2bn.
  - Telenor acquired a 67% stake in Unitech Wireless for US\$1.3bn, valuing the new operator equity at US\$2bn.

These deals suggest Idea may be significantly undervalued at current EV of US\$4.6bn, given it has pan India presence with 900MHz spectrum in nine circles and mobile revenue market share of 11.7% (based on TRAI data).

**Table 11: Key foreign acquisition deals in Indian mobile sector**

Date	Acquirer	Target	Stake	Value US\$ m	100% Equity value US\$ m
May-08	Providence	Aditya Birla Telecom	16.14%	453	2,807
Aug-08	Telekom Malaysia International	Idea Cellular	14.99%	1,573	10,497
Oct-08	Etisalat	Swan Telecom	45.00%	900	2,000
Oct-08	Telenor	Unitech Wireless	67.00%	1,070	1,783
Nov-08	NTT DoCoMo	Tata Teleservices	26.00%	2,700	10,385

Source: Company data

## Takeaways from Idea management meeting

- Idea believes that the current tariff is not sustainable and will lead to consolidation.
- Given Idea has moved to per second pricing, Idea's customers who were using another SIM to arbitrage lower tariffs are likely to return to Idea network to make outgoing calls.
- Idea management expects margins to remain under pressure in the near term. However, as the new circles mature and reach steady state, there could be upside in margins.
- Idea management's focus is clearly to defend its revenue market share.

- Idea is focusing on increasing its NLD traffic on its own network to reduce costs. Idea currently has around 60% of its NLD traffic on own network (vs. 5% a year ago) and plans to increase it to 80% by FY10.
- Idea launched services in Assam this week and is now present in 21 service areas and plans to launch in North East service area by Dec 2010. Idea can now get scale benefits of being a pan India operator.

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	22,728	29,899	44,129	67,375	101,490	123,223	21.4	146,693	19.0	159,132	8.5
Operating expenses (ex deprecn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	8,381	10,918	15,102	22,693	28,354	33,586	18.5	37,313	11.1	42,099	12.8
Depreciation	(4,427)	(5,495)	(6,718)	(8,768)	(14,039)	(19,324)	37.6	(20,967)	8.5	(23,569)	12.4
Operating income (EBIT, UBS)	3,954	5,423	8,384	13,925	14,315	14,261	-0.4	16,346	14.6	18,530	13.4
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(3,189)	(3,225)	(3,291)	(2,776)	(4,943)	(4,704)	-4.8	(7,996)	70.0	(9,075)	13.5
Abnormal items (pre-tax)	(6)	0	0	0	0	0	-	0	-	0	-
Profit before tax	759	2,198	5,092	11,149	9,372	9,557	2.0	8,350	-12.6	9,455	13.2
Tax	0	(80)	(60)	(725)	(363)	(1,153)	217.9	(1,583)	37.3	(1,987)	25.5
Profit after tax	759	2,118	5,033	10,424	9,009	8,405	-6.7	6,767	-19.5	7,468	10.4
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	759	2,118	5,033	10,424	9,009	8,405	-6.7	6,767	-19.5	7,468	10.4
Net Income (UBS)	765	2,118	5,033	10,424	9,009	8,405	-6.7	6,767	-19.5	7,468	10.4
Tax rate (%)	0	4	1	7	4	12	211.7	19	57.2	21	10.9
Pre-abnormal tax rate (%)	0	4	1	7	4	12	211.7	19	57.2	21	10.9
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	0.34	0.94	1.94	3.96	2.91	2.55	-12.3	2.05	-19.5	2.26	10.4
EPS (UBS)	0.34	0.94	1.94	3.96	2.91	2.55	-12.3	2.05	-19.5	2.26	10.4
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.29	-
Cash EPS	2.30	3.37	4.52	7.28	7.43	8.40	13.0	8.41	0.0	9.41	11.9
BVPS	1.68	2.45	8.85	13.70	53.23	57.05	7.2	59.10	3.6	61.18	3.5
Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	35,975	38,769	62,248	107,163	193,205	212,862	10.2	233,860	9.9	246,325	5.3
Net intangible fixed assets	11,605	11,605	61	61	22,457	51,933	131.3	51,933	0.0	51,933	0.0
Net working capital (incl. other assets)	(3,222)	(7,819)	(15,070)	(16,497)	(11,846)	(196)	-98.3	(2,981)	1417.9	(2,339)	-21.5
Other liabilities	0	0	0	0	(917)	(1,061)	15.7	(1,061)	0.0	(1,061)	0.0
Operating invested capital	44,357	42,554	47,239	90,727	202,899	263,538	29.9	281,751	6.9	294,859	4.7
Investments	0	0	12	5,560	0	0	-	0	-	0	-
Total capital employed	44,357	42,554	47,251	96,287	202,899	263,538	29.9	281,751	6.9	294,859	4.7
Shareholders' equity	4,360	6,361	22,945	36,108	165,031	188,215	14.0	194,981	3.6	201,863	3.5
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	4,360	6,361	22,945	36,108	165,031	188,215	14.0	194,981	3.6	201,863	3.5
Net debt / (cash)	39,997	36,193	24,306	60,180	37,868	75,323	98.9	86,770	15.2	92,996	7.2
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	44,357	42,554	47,251	96,287	202,899	263,538	29.9	281,751	6.9	294,859	4.7
Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	3,954	5,423	8,384	13,925	14,315	14,261	-0.4	16,346	14.6	18,530	13.4
Depreciation	4,427	5,495	6,718	8,768	14,039	19,324	37.6	20,967	8.5	23,569	12.4
Net change in working capital	711	4,597	7,251	2,088	(9,050)	(850)	-90.6	2,784	-	(642)	-
Other (operating)	1,856	567	3,291	3,742	4,671	3,504	-25.0	7,140	103.8	8,208	15.0
Operating cash flow	10,947	16,082	25,644	28,524	23,975	36,240	51.2	47,238	30.3	49,665	5.1
Net interest received / (paid)	(3,189)	(3,225)	(3,291)	(2,776)	(4,671)	(3,504)	-25.0	(7,140)	103.8	(8,208)	15.0
Dividends paid	0	0	0	0	0	0	-	0	-	(587)	-
Tax paid	0	(80)	(60)	(725)	(363)	(1,153)	217.9	(1,583)	37.3	(1,987)	25.5
Capital expenditure	(5,327)	(5,258)	(17,167)	(55,404)	(62,205)	(60,933)	-2.0	(41,965)	-31.1	(36,034)	-14.1
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(2,701)	(340)	(12)	(5,942)	(24,774)	(12,359)	-50.1	(7,140)	-42.2	(8,208)	15.0
Share issues	0	0	22,706	3,225	93,812	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(270)	7,179	27,820	(33,100)	25,502	(42,908)	-	(11,447)	-73.3	(6,226)	-45.6
FX / non cash items	(12,144)	(3,375)	(15,932)	(2,774)	(3,191)	5,453	-	0	-100.0	0	-
Balance sheet (inc)/dec in net debt	(12,414)	3,804	11,888	(35,874)	22,312	(37,455)	-	(11,447)	-69.4	(6,226)	-45.6
Core EBITDA	8,381	10,918	15,102	22,693	28,354	33,586	18.5	37,313	11.1	42,099	12.8
Maintenance capital expenditure	(5,327)	(5,258)	(17,167)	(55,404)	(62,205)	(60,933)	-2.0	(41,965)	-31.1	(36,034)	-14.1
Maintenance net working capital	701	4,587	7,241	2,078	(9,060)	(860)	-90.5	2,774	-	(652)	-
Operating free cash flow, pre-tax	3,754	10,246	5,176	(30,633)	(42,911)	(28,207)	-34.3	(1,877)	-93.3	5,413	-

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

**Buy**

12m price target

**Rs80.00**

## Company profile

Idea Cellular is an Indian GSM mobile operator with a nationwide subscriber base of 43.0m (including Spice) for a market share of 11.1% as of March 2009. The company operates in 16 out of 22 service areas in India and has access to 900 MHz spectrum in nine out of 16 service areas. The company is part of the Aditya Birla group.

Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	30.5	24.7	19.4	24.1	21.8
P/E (UBS)	-	30.5	24.7	19.4	24.1	21.8
P/CEPS	-	16.6	9.7	5.9	5.9	5.2
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.6
P/BV	-	8.8	1.3	0.9	0.8	0.8
EV/revenue (core)	-	5.2	2.4	1.9	1.6	1.5
EV/EBITDA (core)	-	15.6	8.5	6.8	6.4	5.8
EV/EBIT (core)	-	25.4	16.9	16.0	14.7	13.1
EV/OpFCF (core)	-	NM	NM	NM	NM	NM
EV/op. invested capital	-	5.1	1.6	1.0	0.9	0.8

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	316,810	203,817	152,990	152,990	152,990
+ minority interests	0	0	0	0	0
+ average net debt (cash)	42,243	37,849	75,304	86,751	89,883
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(5,560)	0	0	0	0
Core enterprise value	353,493	241,666	228,294	239,741	242,873

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	50.5	52.7	50.6	21.4	19.0	8.5
EBITDA (UBS)	55.1	50.3	24.9	18.5	11.1	12.8
EBIT (UBS)	119.2	66.1	2.8	-0.4	14.6	13.4
EPS (UBS)	-	104.1	-26.5	-12.3	-19.5	10.4
Cash EPS	101.9	61.0	2.1	13.0	0.0	11.9
Net DPS	-	-	-	-	-	-
BVPS	76.2	54.8	NM	7.2	3.6	3.5

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	34.2	33.7	27.9	27.3	25.4	26.5
EBIT / revenue	16.0	20.7	14.1	11.6	11.1	11.6
Net profit (UBS) / revenue	3.9	15.5	8.9	6.8	4.6	4.7

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	14.3	20.2	9.8	6.1	6.0	6.4
ROIC post tax	-	18.9	9.4	5.4	4.9	5.1
Net ROE	15.5	35.3	9.0	4.8	3.5	3.8

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	2.1	5.0	2.9	3.0	2.0	2.0
Dividend cover (UBS EPS)	-	-	-	-	-	7.7
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	13.0
Net debt / EBITDA	3.1	2.7	1.3	2.2	2.3	2.2

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	0.8	1.0	0.7	0.5	0.5	0.6
Revenue / fixed assets	0.7	0.8	0.6	0.5	0.5	0.5
Revenue / net working capital	NM	NM	NM	NM	NM	NM

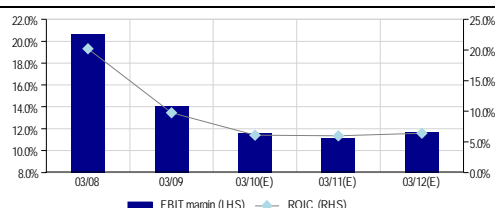
Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	NM	NM	NM	NM	NM	0.3
Capex / revenue (%)	NM	NM	NM	NM	28.6	22.6
Capex / depreciation	3.0	6.3	4.4	3.2	2.0	1.5

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	NM	NM	22.9	40.0	44.5	46.1
Net debt / (net debt + equity)	71.9	62.5	18.7	28.6	30.8	31.5
Net debt (core) / EV	-	12.0	15.7	33.0	36.2	37.0

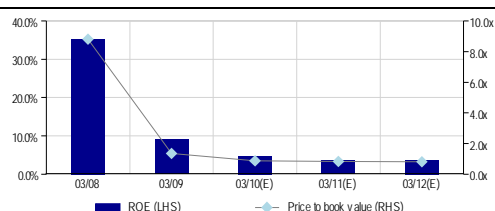
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs49.35 on 24 Nov 2009 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

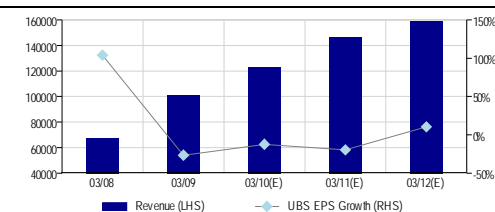
## Profitability



## ROE v Price to book value



## Growth (UBS EPS)



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## ■ Idea Cellular

Idea Cellular is an Indian GSM mobile operator with a nationwide subscriber base of 43.0m (including Spice) for a market share of 11.1% as of March 2009. The company operates in 16 out of 22 service areas in India and has access to 900 MHz spectrum in nine out of 16 service areas. The company is part of the Aditya Birla group.

## ■ Statement of Risk

Irrational competition among operators presents the biggest industry specific risk factor for Idea Cellular. In terms of company-specific risks, we identify the following: new circle strategies, and Idea's ability to scale up to meet burgeoning demand in the Indian mobile sector.

There is low visibility for capex associated with the new circles as it will depend on the amount of spectrum allocated as well as which circles are likely to be allocated spectrum.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	44%	39%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	15%	27%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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**Company Disclosures**

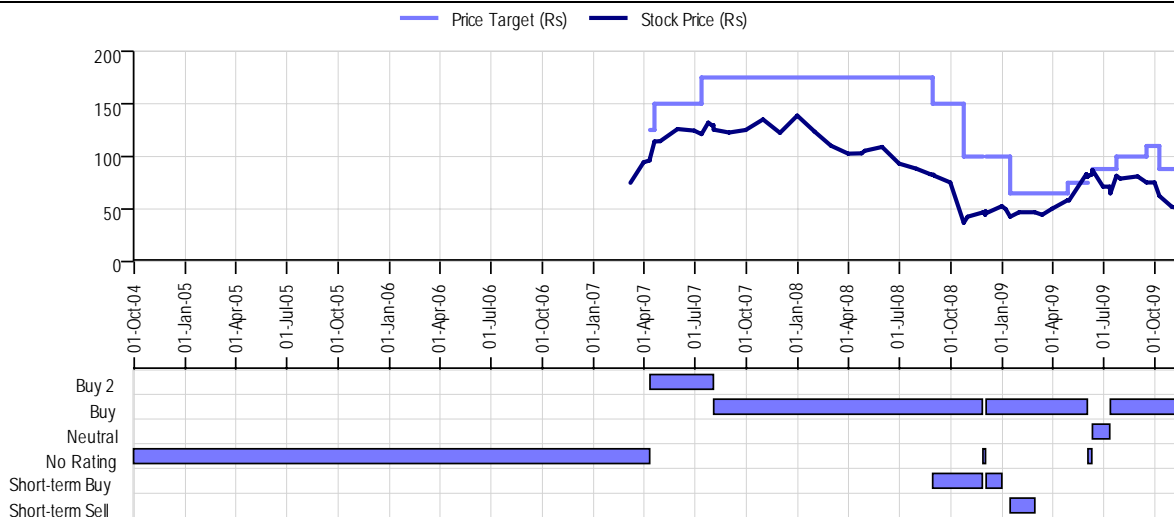
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Idea Cellular	IDEA.BO	Buy	N/A	Rs49.35	24 Nov 2009

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Idea Cellular (Rs)



Source: UBS; as of 24 Nov 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.



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