

**RESULTS REVIEW**
**Idea Cellular Limited**
**Hold**
**Share Data**

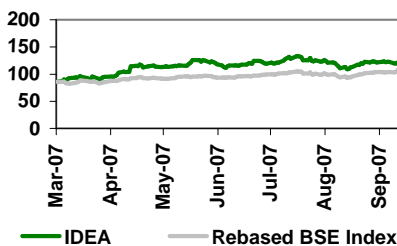
Market Cap	Rs. 321.38 bn
Price	Rs. 121.95
BSE Sensex	16,322.75
Reuters	IDEA.BO
Bloomberg	IDEA IN
Avg. Volume (52 Week)	2.81 mn
52-Week High/Low	Rs. 135.55/84.00
Shares Outstanding	2,635.4 mn

**Valuation Ratios (Consolidated)**

Year to 31 March	2008E	2009E
EPS (Rs.)	3.6	4.5
+/- (%)	84.3%	24.6%
PER (x)	34.1x	27.4x
EV/ Subscribers (Rs.)	19,122.9	14,049.5
EV/Sales (x)	5.1x	4.0x
EV/ EBITDA (x)	15.8x	12.5x

**Shareholding Pattern (%)**

Promoters	58
FIs	7
Institutions	2
Public & Others	34

**Relative Performance**

**'Ideal' hold**

Idea Cellular Ltd's (Idea) first quarter results were above expectations, with net sales increasing 64.1% yoy to Rs. 14,772.9 mn. The increase in sales as a result of enhanced number of subscribers and higher average revenues per user (ARPU) was partially offset by decline in average minutes of use per user. Idea reported 69.8% yoy increase in EBITDA to Rs. 5,127.6 mn and EBITDA margins improved by 116 bps to 34.7%. The improvement in margins was due to decline in employee remuneration and subscriber acquisition & servicing expenditures. Idea's net profit grew substantially to Rs. 3,085.2 mn driven by reduction in finance and treasury charges.

With an enhanced subscriber base and expected increase in the minutes of use, net sales are estimated to increase at a CAGR of 44.2%. However, launch of operations in 3 new circles will continue to put pressure on the margins. Moreover, on the P/E basis, Idea is currently trading at a premium to Bharti Airtel Ltd and Reliance Communications Ltd. At the current price of Rs. 121.95, we feel that the stock is fairly valued factoring in all the positives, and hence we give a **Hold** rating to the stock.

**Result Highlights**

The Company reported an increase of 64.1% yoy in net sales to Rs. 14,772.9 mn, driven by enhanced number of subscribers and higher average revenue per user (ARPU).

**Key Figures (Consolidated)**

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	9,002	13,084	14,773	64.1%	12.9%
EBITDA	3,020	4,363	5,128	69.8%	17.5%
EBITDA Margin	33.5%	33.3%	34.7%		
<b>Subscribers</b>	9	14	16	88.9%	15.1%
Average revenue per user (ARPU)	362	317	320	(11.6%)	0.9%
Average minutes of use per user	342	387	381	11.4%	(1.6%)
Average Realised Rate (ARR)	1.06	0.82	0.84	(20.7%)	2.5%
Blended Churn	5.2%	4.2%	4.2%		
<b>Per Share Data (Rs.)</b>					
Normalized EPS	0.4	0.7	1.2	207.9%	56.9%

*Increase in revenue led by enhanced subscriber base and higher ARPU*

Idea's subscribers rose by 88.9% yoy and 15.1% qoq to 16.1 mn as a result of the Company's Rs. 495 lifetime scheme, which accounted for more than one third of net additions. In addition, ARPU increased from Rs. 317 in the last quarter to Rs. 320 in the current quarter, as the Company booked the entire earnings under the lifetime scheme during the quarter. However, the Company's average minutes of use per user declined qoq from 387 in 4QFY07 to 381 in 1QFY08. According to the management, the reason for the loss of average minutes of use per user was the decline in the number of postpaid customers who enjoyed unlimited free calling at lower rates.

*Increased EBITDA margins due to reduction in employee and subscriber acquisition cost*

Idea's EBITDA increased 69.8% yoy to Rs. 5,127.6 mn and EBITDA margins improved 116 bps to 34.7%. The improvement in margins was driven by reduced employee remuneration and subscriber acquisition & servicing expenditures. The rise in margins was despite the fact that in the 3 newly established circles, the Company stated negative EBITDA margins.

*Higher net profit driven by reduction in D&A and finance and treasury charges*

The Company's net profit increased considerably to Rs. 3,085.2 mn on the back of reduction in depreciation & amortization and finance & treasury charges. In addition, income from surplus investments of Rs. 458 mn also contributed to the increase. The decline in finance and treasury charges was a result of change in accounting policy under which foreign gains/loss on import of capital equipments is set off against the former. Thus, finance & treasury charges reduced by Rs. 329 mn due to gain on import of capital equipments.

### Key Events

*Contracts with Nokia Siemens Networks and Ericsson for strengthening and expanding GSM networks*

- During the quarter, Idea signed a contract of approx. USD 500 mn with Nokia Siemens Networks and USD 350 mn contract with Ericsson to expand and strengthen its GSM networks in existing circles. These contracts will enable Idea to access 3G ready GSM equipment.
- Idea awarded a contract for USD 55 mn to IBM for the management of interactive voice response (IVR) system to increase and improve its operational efficiency.

*Talks with Spice Telecom  
came to an end*

- During the quarter, Idea's talks with Spice Telecom for a possible merger came to an end due to difference over prices.
- Idea exercised the Green Shoe Options and raised Rs. 3.2 bn on April 5, 2007. Part of the proceeds were used to pay off the loans.
- The Company's board approved the possible hive off its tower business into a wholly owned subsidiary.
- Idea plans to spend USD 2 bn (Rs. 9 bn) during the next two years to expand and enhance the existing network.

### Key Risks

- Launch of operations in Mumbai and Bihar can provide an upside to our rating.
- Decline in average minutes of use per user could negatively impact the estimated revenue growth and thus the rating.

## Outlook

*Increasing subscriber base fuels the Company's growth. However, a regular loss of earnings in the new circles continue to put pressure on margins*

The Company's revenues are estimated to grow at a CAGR of 44.2% for FY07-09E driven by enhanced subscriber base and estimated increase in the minutes of use. However, the launch of operations in 3 new circles will continue to put pressure on the Company's margin. Though the hive off of the tower business will add value to the Company, still the Company has just 8,662 self owned towers which are far less as compared to Bharti Airtel Ltd and Reliance Communications Ltd. Moreover, on a P/E basis, Idea is currently trading at a premium to Bharti and Reliance.

At the current price of Rs. 121.95, the stock trades at a forward PE of 34.1x FY08E and 27.4x FY09E. Based upon our estimates and valuation, we feel that the stock is fairly valued factoring in all the positives. Hence, we give a **Hold** rating to the stock.

### Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	22,557	29,655	43,664	70,308	90,758	44.2%
EBITDA	8,210	10,674	14,637	22,886	28,998	40.8%
EBITDA Margin	36.4%	36.0%	33.5%	32.6%	32.0%	
<b>Subscribers</b>	5	7	14	19	26	35.5%
% increase in subscribers	85.5%	45.3%	90.2%	34.9%	36.1%	
Average revenue per user (ARPU)	414	391	332	315	300	
Average minutes of use per user	248	289	364	480	675	
Average Realised Rate (ARR)	1.67	1.35	0.91	0.66	0.44	
Blended Churn	7.4%	6.4%	4.3%	4.0%	3.7%	
<b>Per Share Data (Rs.)</b>						
Normalized EPS	0.3	0.9	1.9	3.6	4.5	51.6%
PER (x)	360.0x	130.1x	62.8x	34.1x	27.4x	

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