

Reliance Communications

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,657	RCOM IN
	REUTERS CODE
S&P CNX: 4,414	RLCM.BO

1 August 2008

Buy

Previous Recommendation: Buy

Rs436

Equity Shares (m)	2,045.0
52-Week Range (Rs)	845/380
1,6,12 Rel. Perf. (%)	-3/-11/-17
M.Cap. (Rs b)	891.6
M.Cap. (US\$ b)	21.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	144,684	4,813	15.6	563.6	27.9	4.4	19.9	11.1	6.3	15.9
3/08A	190,679	55,095	26.7	71.0	16.3	3.2	22.7	12.0	5.2	12.1
3/09E	243,503	63,267	30.7	14.8	14.2	2.8	21.2	10.7	4.5	10.5
3/10E	306,866	74,259	36.0	17.4	12.1	2.4	21.6	12.0	3.4	7.6

- 1QFY09 operating performance significantly below estimates:** RCOM's 1QFY09 EBITDA grew 24% YoY but declined 2.9% QoQ to Rs22.5b (10% lower v/s est.). Revenues were 8% lower v/s est., dragged by sharp wireless ARPU decline of 11% QoQ to Rs282. MOU declined 1.4% QoQ despite a steep 9.8% tariff decline, exhibiting lack of elasticity. EBITDA margin declined ~130bp QoQ, impacted by integration costs for the recent acquisitions in the Global segment. Reported earnings were supported by net finance income of Rs2.34b and tax write-back. Change in accounting treatment for impact of forex fluctuations resulted in capitalisation of Rs1.09b realised and Rs9.5b unrealised loss. Further, Rs4b, pertaining to increased liability for the outstanding FCCBs, has also not been recognised.
- Expansion plans on track:** 1QFY09 capex stood at Rs69.7b - capex/sales of 131%. Management reiterated capex plans of US\$10-11b for FY07-09 of which ~US\$7b has already been incurred over the last five quarters. GSM launch is expected to start by year-end and completed by mid-CY09.
- Downgrading estimates and target on disappointing 1Q:** We are downgrading our EBITDA estimates by 8.3% and 6.7% respectively. We are cutting FY10 PAT estimate by 5.8% but keeping our FY09 estimate largely unchanged based on higher net finance income and lower tax rates. The stock trades at an EV/EBITDA of 10.5x and P/E of 14.2x FY09. We downgrade our price target to Rs520 (Rs750 earlier) led by EBITDA downgrade, higher WACC on increase in risk-free rate assumption to 9% from 8%, and lower tower valuation. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

Y/E MARCH	(RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	43,037	45,785	48,742	53,114	53,222	57,258	63,227	69,797	190,679	243,503
YoY Growth (%)	32.4	29.8	29.8	34.9	23.7	25.1	29.7	31.4	31.8	27.7
QoQ Growth (%)	9.3	6.4	6.5	9.0	0.2	7.6	10.4	10.4		
Total Operating Expenses	24,895	26,166	27,677	29,950	30,722	32,977	36,381	40,231	108,692	140,310
EBITDA	18,142	19,618	21,065	23,164	22,501	24,280	26,847	29,567	81,987	103,193
QoQ Growth (%)	10.9	8.1	7.4	10.0	-2.9	7.9	10.6	10.1		
Margin (%)	42.2	42.8	43.2	43.6	42.3	42.4	42.5	42.4	43.0	42.4
Net Finance Costs	-1,274	-1,125	-1,518	-81	-2,340	-281	-318	-360	-3,998	-3,298
Depreciation & Amortisation	6,192	6,754	7,252	7,856	8,638	9,588	11,105	13,131	28,054	42,462
Profit before Tax	13,224	13,989	15,331	15,389	16,203	14,973	16,059	16,796	57,931	64,030
Income Tax Expense / (Income)	1,031	698	1,379	-272	-194	299	321	336	2,836	763
Adjusted Net Profit / (Loss)	12,193	13,291	13,952	15,661	16,397	14,673	15,738	16,460	55,095	63,267
QoQ Growth (%)	19.3	9.0	5.0	12.3	4.7	-10.5	7.3	4.6		
Margin (%)	28.3	29.0	28.6	29.5	30.8	25.6	24.9	23.6	28.9	26.0
Extraordinary Exp/Minority Interest	-15	245	223	629	1275	640	686	718	1082	3319
Reported Net Profit / (Loss)	12,208	13,046	13,729	15,032	15,122	14,033	15,051	15,742	54,013	59,948

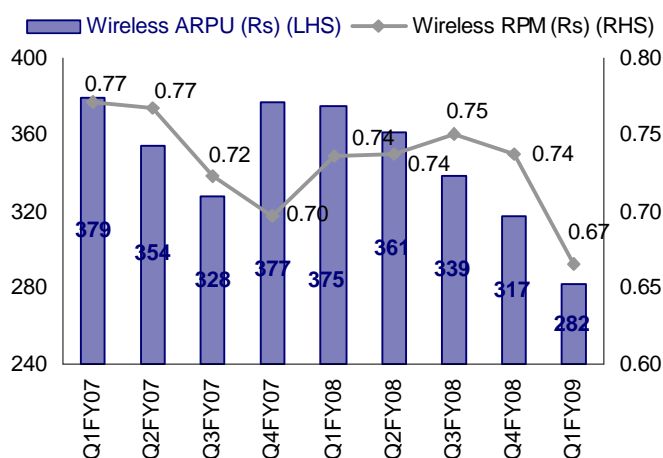
E: MOST Estimates

Operational performance significantly below estimates

Reliance Communications' 1QFY09 EBITDA grew 24% YoY but declined 2.9% QoQ to Rs22.5b (10% lower than estimates). Revenues grew 23.7% YoY and 0.2% QoQ to Rs53.2b (8% lower than estimates), dragged by sharp wireless ARPU decline of 24.8% YoY and 11% QoQ (2% QoQ decline for Bharti) to Rs282. MOU declined 1.4% QoQ (v/s 5.3% increase for Bharti) despite a steep 9.8% tariff decline (v/s 6.9% for Bharti) implying complete lack of demand elasticity. EBITDA margin declined ~130bp QoQ (v/s 7bp for Bharti), primarily impacted by integration costs for the recent acquisitions made in the Global segment. Reported PAT of Rs15.1b grew 24% YoY and 0.6% QoQ, 3.4% higher than our estimates. Higher reported earnings were supported by net finance income of Rs2.34b and tax write-back.

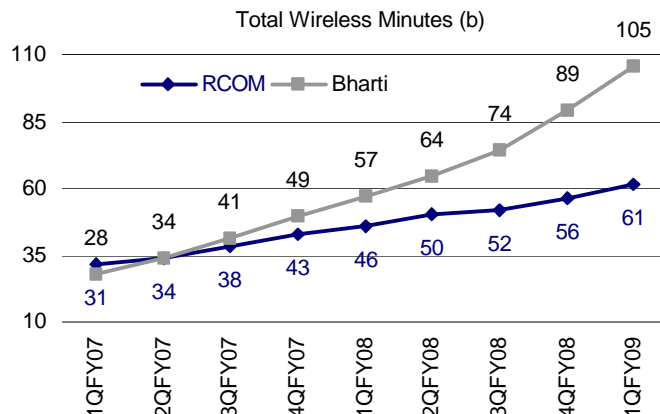
RCOM changed accounting treatment for impact of forex fluctuations relating to forex denominated liabilities and borrowings, which will result in capitalization of Rs1.09b realized and Rs9.5b unrealized loss attributed to forex fluctuations. The company earlier followed a policy of recognizing these items in the P&L statement. RCOM has also not recognised the notional loss of Rs4b pertaining to increased liability for the outstanding FCCBs.

SIGNIFICANT TARIFF DECLINE DRAGS ARPU - MOU ELASTICITY ABSENT



Source: Company/Motilal Oswal Securities

TRAFFIC GROWTH CONTINUES TO LAG BHARTI



Source: Company/Motilal Oswal Securities

Muted revenues in wireless, margin pressure in global segment

Wireless revenue grew 22.1% YoY but declined 1% QoQ to Rs41.2b. Wireless traffic growth of 9.8% QoQ was offset by the sharp 9.8% decline in RPM induced by decline in NLD tariffs. RCOM attributed the lack of demand elasticity to higher mix of PCO revenues. The company is planning to increase the PCOs in rural areas to counter the low volume growth in this segment. Global segment EBITDA declined 0.5% YoY and 21.2% QoQ to Rs3.2b. EBITDA margin declined sharply by 370bp YoY and 570bp QoQ to 21.1% due to integration costs incurred for the two recent acquisitions - Vanco and eWaveworld. Broadband revenue and EBITDA grew ~9-10% QoQ, in line with estimates.

Expansion plans on track, GSM to start by year end

Consolidated capex for 1QFY09 was Rs69.7b - capex/sales of 131%. ~82% of the capex was in the wireless segment, which also includes tower capex. Management reiterated capex plans of US\$10-11b for FY07-09 of which ~US\$7b has already been incurred over the last five quarters. GSM launch is expected to start by year-end and completed by mid-CY09.

Gross debt Rs208b; net debt Rs130b

Net debt increased by Rs30b to Rs130b. Net debt has increased by Rs96b over the past four quarters led by aggressive capex (capex intensity of >100%). Gross debt currently stands at Rs208b of which ~70% is denominated in foreign currencies. CWIP increased by Rs30b QoQ to Rs178b.

Downgrading target price to Rs520 (from Rs750 earlier)

We are downgrading our target price to reflect (1) ~7-8% EBITDA downgrade post disappointing 1Q performance; (2) higher WACC (12.3% v/s 11.9% earlier) on increase in risk-free rate assumption to 9% from 8% earlier; and (3) lower valuation and a 30% discount for the tower business given no significant progress in tying up external tenancy (assume external tenancy at ~33% of total slots occupied v/s ~50% earlier).

We are downgrading our revenue estimates for FY09 by 8.3% and for FY10 by 8.8% and EBITDA estimates by 8.3% and 6.7% respectively. We are downgrading our FY10 PAT estimate by 5.8% but keep FY09 estimate largely unchanged based on higher net finance income and lower tax rates. We now expect PAT (before minority interest

and exceptionals) to be Rs63.3b (EPS of Rs30.7) in FY09 and Rs74.3b (EPS of Rs36) in FY10. The stock trades at an EV/EBITDA of 10.5x FY09, 7.6x FY10 and P/E of 14.2x FY09, 12.1x FY10. Maintain **Buy** on upside to KPIs and market share post GSM scale-up, and strong growth visibility from aggressive expansion currently underway. Key risks stem from pushback in the rollout plans, significant cost increase led by aggressive expansion, and downward pressure on wireless RPM.

SUMMARY OF ESTIMATE CHANGE (RS M)

	FY09E	FY10E
Revenue		
Old	265,488	336,478
New	243,503	306,866
Change (%)	-8.3	-8.8
EBITDA		
Old	112,551	146,763
New	103,193	136,905
Change (%)	-8.3	-6.7
Net Profit		
Old	62,891	78,851
New	63,267	74,259
Change (%)	0.6	-5.8
EPS (Rs)		
Old	30.5	38.2
New	30.7	36.0
Change (%)	0.6	-5.8

Source: Motilal Oswal Securities

RCOM: SOTP VALUATION (RS)

	METHODOLOGY	FAIR VALUE	IMPLIED EV/EBITDA (FY10E)	IMPLIED P/E (FY10E)
Core Business (ex-towers)	DCF	400	7.9	
Reliance Infratel	30% discount to DCF	120	11.5	
Total Value		520	8.9	14.4
CMP		436		
Upside (%)		19		

Source: Motilal Oswal Securities

RCOM - SEGMENT TRENDS

Y/E MARCH	FY08				FY09			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
SEGMENTAL REVENUE GROWTH (%)								
Wireless	13.6	10.4	6.3	5.2	-1.0	9.4	13.5	13.3
Global	0.7	1.0	1.0	14.7	0.0	2.9	3.4	3.4
Broadband	16.2	14.0	4.4	11.7	9.9	8.0	7.4	6.4
SEGMENTAL EBITDA MARGIN (%)								
Wireless	39.7	39.9	40.0	40.3	40.4	39.9	39.2	38.5
Global	24.9	24.9	25.8	26.8	21.1	22.0	22.9	23.7
Broadband	47.9	48.1	48.7	48.9	48.4	48.4	48.4	48.4

KEY METRICS - RCOM

Y/E MARCH	FY08				FY09			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
Wireless Subs (m)	32	36	41	46	51	56	62	68
QoQ Growth (%)	13.8	13.9	12.8	11.8	10.9	10.3	10.3	9.9
Wireless ARPU (Rs/month)	375	361	339	317	282	279	287	296
QoQ Growth (%)	-0.5	-3.7	-6.2	-6.4	-11.0	-1.0	3.0	3.0
Total Minutes of Use (b)	46	50	52	56	61	69	79	90
QoQ Growth (%)	7.7	9.4	3.8	7.5	9.8	11.7	14.7	14.5
Minutes of Use/Sub/Month	510	490	449	430	424	428	445	463
QoQ Growth (%)	-5.7	-3.9	-8.4	-4.2	-1.4	1.0	4.0	4.0
Effective Wireless Rev. per Min.(Rs)	0.74	0.74	0.75	0.74	0.67	0.65	0.65	0.64
QoQ Growth (%)	5.5	0.2	1.8	-1.7	-9.8	-2.0	-1.0	-1.0
NLD Minutes (m)	5,639	5,853	5,795	5,964	6,641	7,172	7,746	8,366
QoQ Growth (%)	15.7	3.8	-1.0	2.9	11.4	8.0	8.0	8.0
ILD Minutes (m)	1,590	1,688	1,747	1,769	1,726	1,778	1,867	1,960
QoQ Growth (%)	5.8	6.2	3.5	1.3	-2.4	3.0	5.0	5.0
Consolidated EBITDA Margin (%)	42.2	42.8	43.2	43.6	42.3	42.4	42.5	42.4
Consolidated Capex (Rsb)	18	53	88	53	70	57	61	64
Consolidated Capex/Sales (%)	41.7	116.2	180.6	99.3	130.9	100.1	96.9	91.3

KEY METRICS - BHARTI

Y/E MARCH	FY08				FY09			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
Wireless Subs (m)	43	49	55	62	69	77	83	90
QoQ Growth (%)	15.0	14.5	12.9	12.4	11.9	10.6	8.7	8.4
Wireless ARPU (Rs/month)	390	366	358	357	350	340	331	322
QoQ Growth (%)	-3.9	-6.2	-2.2	-0.3	-2.0	-2.8	-2.8	-2.7
Total Minutes of Use (b)	57	64	74	89	105	118	131	143
QoQ Growth (%)	16.3	12.5	14.8	20.4	18.1	12.3	10.7	9.6
Minutes of Use/Sub/Month	478	469	474	507	534	539	545	550
QoQ Growth (%)	0.6	-1.9	1.1	7.0	5.3	1.0	1.0	1.0
Effective Mobile Rev. per Min.(Rs)	0.82	0.78	0.76	0.70	0.66	0.63	0.61	0.58
QoQ Growth (%)	-4.5	-4.4	-3.2	-6.8	-6.9	-3.8	-3.7	-3.7
NLD Minutes (m)	5,856	6,774	7,898	9,398	10,322			
QoQ Growth (%)	17.0	15.7	16.6	19.0	9.8			
ILD Minutes (m)	1,243	1,345	1,591	1,850	2,048			
QoQ Growth (%)	4.1	8.2	18.3	16.3	10.7			
Consolidated EBITDA Margin (%)	41.4	42.8	42.6	41.6	41.5	41.2	41.5	41.8
Consolidated Capex (Rsb)	37	40	33	28	41	37	36	37
Consolidated Capex/Sales (%)	63.0	62.8	47.8	36.1	47.9	40.2	36.7	35.8

RELiance COMMUNICATIONS 1QFY09: SEGMENTWISE SUMMARY (RS M)

	1QFY08	4QFY08	1QFY09	YoY%	QoQ%	1QFY09E	VS EST. (%)
Revenue							
Wireless	33,730	41,608	41,187	22.1	-1.0	45,354	-9.2
Global	13,033	15,257	15,260	17.1	0.0	16,626	-8.2
Broadband	3,833	5,100	5,603	46.2	9.9	5,630	-0.5
Others	990	683	1,437	45.1	110.5	700	105.3
Total Revenue	51,586	62,649	63,487	23.1	1.3	68,311	-7.1
Others/Eliminations	-8,549	-9,534	-10,265	20.1	7.7	-10,396	-1.3
Consolidated Revenue	43,037	53,114	53,222	23.7	0.2	57,915	-8.1
EBITDA							
Wireless	13,392	16,763	16,623	24.1	-0.8	17,974	-7.5
<i>EBITDA Margin (%)</i>	39.7	40.3	40.4	66bps	7bps	39.6	73bps
Global	3,239	4,089	3,222	-0.5	-21.2	4,721	-31.8
<i>EBITDA Margin (%)</i>	24.9	26.8	21.1	-374bps	-569bps	28.4	-728bps
Broadband	1,836	2,492	2,714	47.8	8.9	2,602	4.3
<i>EBITDA Margin (%)</i>	47.9	48.9	48.4	54bps	-41bps	46.2	222bps
Total EBITDA	18,467	23,344	22,559	22.2	-3.4	25,298	-10.8
Others/Eliminations	-325	-180	-59	-81.8	-67.2	-200.0	
Consolidated EBITDA	18,142	23,164	22,501	24.0	-2.9	25,098	-10.3
<i>Consolidated EBITDA (%)</i>	42.2	43.6	42.3	12bps	-133bps	43.3	-106bps
Depreciation	6,192	7,856	8,638	39.5	10.0	8,493	1.7
Net Interest	-1,274	-81	-2,340	83.7	2788.9	219.6	-1165%
Profit Before Taxes	13,224	15,389	16,203	22.5	5.3	16,385	-1.1
Tax	1,031	-272	-194	-118.8	-28.8	1,147	-116.9
<i>Tax Rate</i>	7.8	-1.8	-1.2	-899bps	57bps	7.0	-820bps
PAT before minority/extraordinaries	12,193	15,661	16,397	34.5	4.7	15,238	7.6
Extraordinary Expenses + Minority Interest	-15	629	1,275	-8600.0	102.7	612	108.3
Reported PAT	12,208	15,032	15,123	23.9	0.6	14,626	3.4
Revenue Drivers							
Mobile							
Wireless Subs (m)	32	46	51	59.3	10.9	51	0.0
Wireless ARPU (Rs/month)	375	317	282	-24.8	-11.0	311	-9.2
Total Minutes of Use (b)	46	56	61	34.1	9.8	62	-1.4
Minutes of Use/Sub/Month	510	430	424	-16.9	-1.4	430	-1.4
Effective Mobile Rev. per Min.(Rs)	0.74	0.74	0.67	-9.5	-9.8	0.7	-7.9
Global							
NLD Minutes (m)	5,639	5,964	6,641	17.8	11.4	6,680	-0.6
ILD Minutes (m)	1,590	1,769	1,726	8.6	-2.4	1,822	-5.3
Capex							
Wireless	14,973	46,442	56,926	280.2	22.6		
<i>Capex/Sales (%)</i>	33	153	112				
Global	744	1,682	9,643	1,196.1	473.3		
<i>Capex/Sales (%)</i>	26	168	11				
Broadband	2,176	4,605	3,030	39.2	-34.2		
<i>Capex/Sales (%)</i>	68	110	90				
Other	33	27	87				
Consolidated Capex	17,926	52,756	69,686	288.7	32.1	56,397	23.6
<i>Consolidated Capex/Sales (%)</i>	41.7	99.3	130.9				

Reliance Communication: an investment profile

Company description

Integrated telecom operator with presence in wireless (CDMA+GSM), long-distance (wholesale voice and data), and broadband segments. Wireless segment comprises CDMA-based telecom services in 21 out of 23 circles and GSM-based services in 8 out of 23 circles; second largest wireless operator with ~18% subscriber share and a pan-India presence. The 'Global' segment includes wholesale voice services - national long distance (NLD) and international long distance (ILD), retail ILD calling cards, national and international network infrastructure-based services on IRU, leased, and managed services basis. The company owns and operates submarine cable systems FLAG and FALCON. The broadband segment caters to voice, data, video, internet, and IT infrastructure service requirements of enterprises. Enterprise segment is currently operational in 42 cities in India with ~0.8m buildings directly connected to its network and ~1m access lines.

Key investment arguments

- ✍ Strong wireless growth visibility led by massive scale expansion.
- ✍ GSM expansion to accelerate subscriber momentum.
- ✍ Value unlocking opportunities in the tower business, FLAG and BPO segments.
- ✍ Strong financial performance with FY08-10E CAGR of 27%, 29% and 16% respectively.

COMPARATIVE VALUATIONS

		RCOM	BHARTI	IDEA
P/E (x)	FY09E	14.2	17.1	18.8
	FY10E	12.1	14.4	13.3
EV/EBITDA (x)	FY09E	10.5	10.3	9.4
	FY10E	7.6	8.2	7.1
EV/Sales (x)	FY09E	4.5	4.3	3.0
	FY10E	3.4	3.5	2.4
P/BV (x)	FY09E	2.8	5.2	4.9
	FY10E	2.4	4.0	3.8

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	66.2	66.2	66.9
Domestic Inst	8.9	9.0	7.2
Foreign	13.2	13.1	14.8
Others	11.8	11.7	11.1

Key investment risks

- ✍ Likely tariff pressures due to new rollouts by competitors and implementation of Mobile Number Portability.
- ✍ Pushback in rollout plans and pressure on operating margin post the rollout.

Recent developments

- ✍ RCOM received start-up GSM spectrum across 14 circles in January 2008 and would be commercially launching GSM based services in these circles during H1CY09
- ✍ RCOM completed the acquisition of VANCO and eWaveworld in the Global business segment.

Valuation and view

- ✍ The stock trades at an EV/EBITDA of 10.5x FY09E, 7.6x FY10E and P/E of 14.2x FY09E, 12.1x FY10E. Maintain **Buy** on upside to KPIs and market share post GSM scale up, and strong growth visibility from aggressive expansion currently underway. Key risks stem from pushback in the rollout plans, significant cost increase led by aggressive expansion, and downward pressure on wireless RPM.

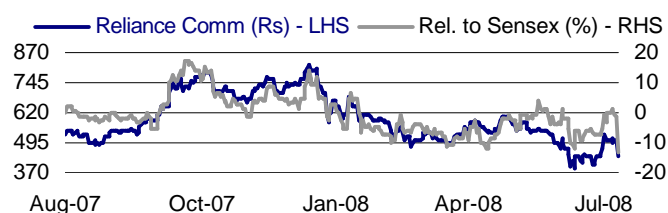
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	30.7	30.2	1.6
FY10	36.0	37.3	-3.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
436	520	19.3	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Revenues	107,665	144,684	190,679	243,503	306,866
Change (%)	NA	34.4	31.8	27.7	26.0
Total Expenses	-82,313	-87,479	-108,692	-140,310	-169,961
EBITDA	25,352	57,205	81,987	103,193	136,905
% of Gross Sales	23.5	39.5	43.0	42.4	44.6
Depn. & Amortisation	16,987	24,653	28,054	42,462	57,008
EBIT	8,365	32,552	53,933	60,732	79,898
Net Interest and others	-3,215	-4	3,998	3,298	-1,730
PBT	5,150	32,548	57,931	64,030	78,167
Tax	337	611	2,836	763	3,908
Rate (%)	6.5	1.9	4.9	12	5.0
Adjusted PAT	4,813	31,937	55,095	63,267	74,259
Change (%)	NA	563.6	72.5	14.8	17.4
PAT after EO	4,439	31,634	54,013	59,948	70,276

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	10,223	10,220	10,320	10,320	10,320
Additional Paid up Capit	90,306	90,306	90,306	90,306	90,306
Reserves	16,986	103,402	155,801	196,408	252,629
Net Worth	117,515	203,928	256,427	297,034	353,255
Loans	92,976	155,438	215,681	270,587	230,785
Minority Interest	0	59	24,311	18,707	18,707
Capital Employed	210,491	359,425	496,419	586,328	602,747
Gross Block	261,836	386,363	611,967	864,731	956,802
Less : Depreciation	47,573	55,940	89,814	135,874	192,881
Net Block	214,262	330,423	522,153	728,857	763,921
Investments	121	11,925	2,797	1,533	1,533
Curr. Assets	105,355	196,263	213,156	226,089	264,713
Inventories	4,076	4,821	4,059	5,678	7,156
Debtors	16,808	18,316	27,224	34,906	43,989
Cash & Bank Balance	60,038	137,200	115,981	77,654	77,654
Other Current Assets	24,433	35,926	65,892	107,850	135,914
Curr. Liab. & Prov.	109,247	179,186	241,687	370,151	427,420
Net Curr. Assets	-3,892	17,077	-28,531	-144,062	-162,706
Appl. of Funds	210,491	359,425	496,419	586,328	602,747

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	2.4	15.6	26.7	30.7	36.0
Cash EPS	10.7	27.7	40.3	51.3	63.6
Book Value	57.5	99.7	136.1	153.0	180.3
DPS	0.0	0.0	0.0	5.8	6.8
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	20.0	20.0
Valuation (x)					
P/E		27.9	16.3	14.2	12.1
Cash P/E		15.8	10.8	8.5	6.9
EV/EBITDA		15.9	12.1	10.5	7.6
EV/Sales		6.3	5.2	4.5	3.4
Price/Book Value		4.4	3.2	2.8	2.4
Dividend Yield (%)		0.0	0.0	1.3	1.6
Profitability Ratios (%)					
RoE	8.2	19.9	22.7	21.2	21.6
RoCE	6.2	11.1	12.0	10.7	12.0
Turnover Ratios					
Debtors (Days)	57	46	52	52	52
Asset Turnover (x)	0.95	0.80	0.65	0.55	0.60
Leverage Ratio					
Debt/Equity Ratio(x)	0.8	0.8	0.8	0.9	0.6
CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2007	2008	2009E	2010E	
Op.Profit/(Loss) bef Tax	57,205	81,987	103,193	136,905	
Other Income	0	0	0	0	
Interest Paid	-4	3,998	3,298	-1,730	
Direct Taxes Paid	-611	-2,836	-763	-3,908	
(Inc)/Dec in Wkg. Cap.	47,882	22,775	69,853	18,645	
CF from Op.Activity	104,472	105,924	175,582	149,911	
(inc)/Dec in FA +CWIP	-77,720	-219,784	-249,166	-92,072	
(Pur)/Sale of Investments	-11,804	9,128	1,264	0	
CF from Inv.Activity	-89,524	-210,656	-247,902	-92,072	
Issue of Shares	-3	100	0	0	
Inc/(Dec) in Debt	62,462	60,243	54,906	-39,801	
Other Financing Activities	-244	23,170	-20,913	-18,038	
CF from Fin.Activity	62,215	83,513	33,994	-57,837	
Inc/(Dec) in Cash	77,162	-21,219	-38,327	0	
Add: Opening Balance	60,038	137,200	115,981	77,654	
Closing Balance	137,200	115,981	77,654	77,654	



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Reliance Communications

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.