October 18, 2007

Telecom | Company Report

Reliance Communication

Outperformer | **Rs 737** | **Sensex: 18,716**

Jaspreet Singh
(9122) **6632 2217**
JaspreetSingh@PLIndia.com

Nishna Biyani
(9122) **6632 2259**
NishnaBiyani@PLIndia.com

Spreading its Wings

We initiate coverage on Reliance Communication (Rcom) with an Overweight rating and a price target of Rs856, which is 21x FY10 earnings of the company. We expect Rcom to report an EPS CAGR of 37.7% over FY07-10. Over the next few quarters, we expect the company to unlock value in its consolidated global data and voice business. Moreover, we expect the company to throw up a surprise in the wireless segment by cornering a higher incremental market share over the next two years.

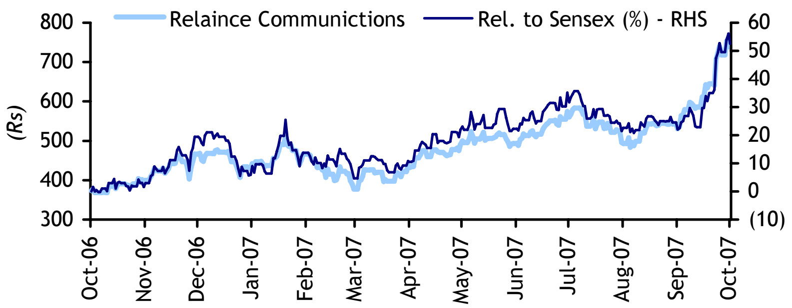
Highlights

- Market share of wireless subscribers is expected to improve by 190bps to 19.7% over the next three years. Introduction of sub-US$20 handsets with multiple features and increase in coverage from 54% to 90% by FY10, is likely to trigger a growth in the company's market share.

- Although we are assuming the global segment to contribute flat 15-17% overall EBITDA over the next two to three years, but the market could be in for a positive surprise, as the company has been aggressive in setting a robust, cost efficient integrated data and voice infrastructure through new capacities and acquisition.

- At the CMP of Rs737, the stock trades at a PER of 18.1x, EV/Sub of US$459 and at an EV/E of 11.5x FY10E earnings. The valuation gap between its nearest peer has narrowed down substantially with Bharti Airtel trading at 20.4x PER and EV/E of 12.2x FY10E.

Stock price performance



Key Figures (Rs m)

Y/e Mar	'07	'08E	'09E	'10E
Net Sales	144,683	192,692	259,636	328,853
EBITDA	57,210	80,586	110,472	143,709
PAT	31,639	49,463	64,650	87,970
PAT Gr. (%)	*442.6*	*56.3*	*30.7*	*36.1*
EPS (Rs)	*15.5*	*22.9*	*30.0*	*40.8*

Key Ratios (%)

Y/e Mar	'07	'08E	'09E	'10E
EBITDA Mar.	*39.5*	*41.8*	*42.5*	*43.7*
RoCE	*10.4*	*12.3*	*14.7*	*18.2*
RoE	*18.3*	*18.7*	*18.8*	*20.4*

Valuations (x)

Y/e Mar	'07	'08E	'09E	'10E
PER	47.7	32.2	24.6	18.1
EV / Sales	10.6	8.6	6.4	5.0
EV / EBITDA	26.8	20.5	15.0	11.5
MCap / Sales	10.4	8.3	6.1	4.8

Key Data

Bloomberg Code	:	RCOM@IN
Reuters Code	:	RLCM.BO

Shareholding Pattern *(%)*

Promoters	:	66.8
Foreign	:	13.6
Inst./non-Promoters	:	10.1
Public & Others	:	9.5

Price Relative to Sensex *(%)*

1 month	:	15.8
3 months	:	9.1
12 months	:	52.5

Shares Outstanding	:	2,045m
Market Cap	:	Rs 1,507,597m $ 37,975m
Average Volume (3 months)	:	8.2m shares

(Price as on October 17, 2007)

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Investment Highlights

Increased geographic reach to trigger subscriber growth

Rcom plans to increase its population coverage to about 90% by FY10 from its current level of 52-54%. The company is aggressively focusing to enter towns with population of about 20,000 and more. It currently covers 10,000 towns and has identified 12,000 others towns and plans to extend coverage to these as well by FY08.

The company is also aggressively expanding operations in eight GSM circles by setting up around 17 million lines at a cost of US$740m. This is likely to increase its coverage of 800 towns to over 6,000 towns by FY08. Although GSM spectrum allocation in remaining 16 circles is likely to be a major driver, we have not entirely factored this into our estimation of subscriber growth. We expect Rcom to improve its wireless subscriber market share by 190bps to 19.7% over the next three years on the back of increased coverage and aggressive bundling plans.

Improvement in wireless market share by 190bps to 19.7% by FY10E

Table 1: Improvement in market share by 190bps *(Subscribers in M)*

	FY07	FY08E	FY09E	FY10E
Bharti Airtel	37	61	87	113
% Market Share	*22.9*	*24.1*	*24.4*	*24.7*
Rcom	29	47	69	90
% Market Share	*17.8*	*18.5*	*19.3*	*19.7*
IDEA	14	24	34	45
% Market Share	*8.6*	*9.4*	*9.6*	*9.8*
Tata Teleservices	16	24	33	42
% Market Share	*9.9*	*9.5*	*9.3*	*9.2*
Hutch + BPL	28	47	68	87
% Market Share	*17.0*	*18.4*	*18.9*	*19.0*
BSNL	27	34	42	51
% Market Share	*16.9*	*13.4*	*11.9*	*11.1*
Total Wireless Subscribers (M)	162	255	357	459
Total Population (M)	1,123	1,168	1,215	1,263
Penetration (%)	*14.5*	*21.8*	*29.4*	*36.3*

Source: Company Data, PL Research

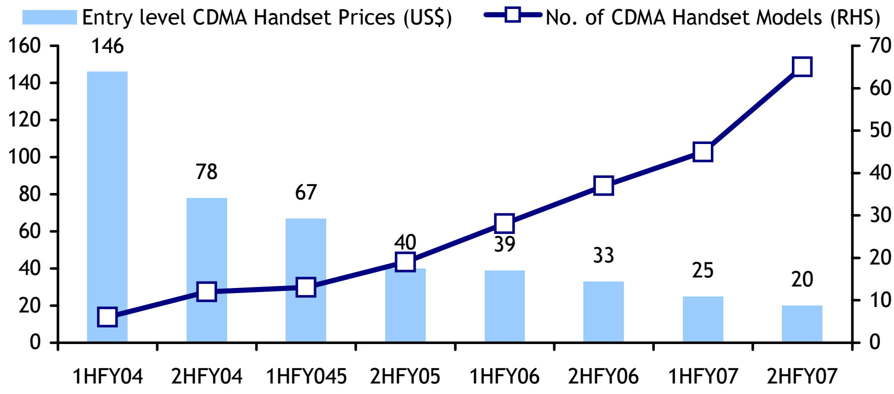
Attracting cost sensitive subscribers by offering feature rich handsets at Rs999

Sub-US$20-25 handsets to corner cost sensitive subscribers

Rcom currently offers *Classic* handsets at a price point as low as Rs777. The company is now focusing on introducing more sub-US$20 handsets to corner a larger share of rural subscribers, who are relatively more cost sensitive than their urban counterparts. The company has sold over 10 million *Classic* handsets and has recently launched a colour handset for Rs999, which is the lowest price point at which a colour mobile handset is currently available.

Entry level handsets are available for as low as US$20

Chart 1: Judicious pricing and a range of options drive CDMA growth



Source: Company Data, PL Research

Only Indian player to successfully operate CDMA / GSM

Rcom has been successful in the six circles where it offers both CDMA and GSM services. We believe the company should see a smooth transition over the next few years to the preferred GSM technology, if it gets additional spectrum beyond the current eight circles. It has invited bids from international players like Ericsson, Huawaei & ZTE for about 75 million GSM lines in the remaining 15 circles. Leveraging on its existing CDMA infrastructure and streamlining its operational cost for dual network offering shall help Rcom to easily rollout operations in new circles.

Sucessfully operating dual networks (both CDMA & GSM) in 6 circles

Table 2: Market share where Rcom operates CDMA & GSM services *(Subs. in M)*

CIRCLES	Rcom	Bharti	BSNL	Tata	Total
Calcutta	1.49	1.33	0.76	0.98	6.09
Market share (%)	*24.5*	*21.8*	*12.5*	*16.1*	
West Bengal	1.42	1.30	1.09	0.46	6.52
Market share (%)	*21.7*	*20.0*	*16.7*	*7.1*	
MP	2.85	2.00	1.39	0.59	8.93
Market share (%)	*31.9*	*22.4*	*15.6*	*6.6*	
Himachal Pradesh	0.34	0.68	0.50	0.09	1.67
Market share (%)	*20.5*	*40.6*	*29.7*	*5.6*	
Orissa	0.87	1.26	0.81	0.32	3.62
Market share (%)	*24.0*	*34.8*	*22.3*	*8.7*	
Bihar	3.20	3.11	1.24	0.68	7.80
Market share (%)	*41.0*	*39.9*	*16.0*	*8.8*	
Total Subscribers	10.17	9.68	5.79	3.13	34.64
Total Mkt Share (%)	*29.4*	*28.0*	*16.7*	*9.0*	

Source : TRAI, AUSPI, Company Data, PL Research *Figures as on End August '07*

Value unlocking over coming months

Future triggers include global listing of Flag Telecom, development of its 45 acre Infocom City as a SEZ & scaling of its BPO business by external client servicing

Listing of global data and voice entity

Rcom is in the process of divesting a small stake in Flag Telecom (Flag), wholly-owned subsidiary, in the current fiscal to PE investors or venture capitalists. This will be followed by global listing of Flag Telecom. Funds raised through this divestment will be deployed for the expansion of Next Generation Network (NGN).

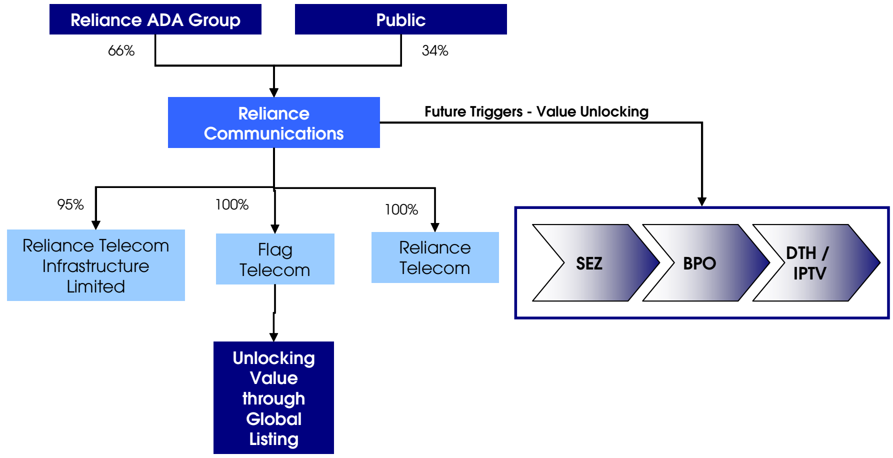
Development of SEZ at DAKC

Rcom has received approval from the Maharashtra Industrial Development Corporation (MIDC) for the development of its proposed 45-acre SEZ, which is part of the larger 135-acre campus at Dhirubhai Ambani Knowledge City (DAKC). This facility is expected to host around 30-40 IT and business process outsourcing (BPO) companies.

BPO Business

Rcom currently operates a BPO at the DAKC campus, which caters to all ADAG Group companies (Rcom, Reliance Energy, Reliance Capital, etc). It has a headcount of 8,000 employees (working in two shifts), which is one of the largest in India at a single location. The company has a similar facility at Chennai (with over 300 employees) and is exploring ways to expand its BPO business by external client servicing. Future value unlocking by demerging this business seems likely.

Chart 2: Future Triggers



Source: Company Data, PL Research

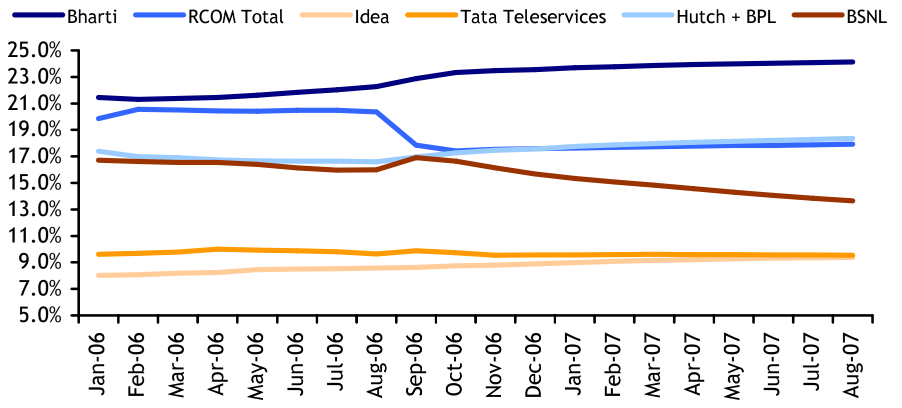
Investment Risks

Lower than expected gain in incremental market share

The wireless segment is quite competitive with around 6-8 operators in every circle. Any aggressive stance by an operator can substantially lower estimated incremental market share of subscriber addition. To match the competitor's price point, another player could reduce its prices till it becomes a vicious circle. Rcom is also susceptible to any such development, which may increase its subscriber acquisition cost.

Aggressive tariffs by competitors can lead to lower than expected incremental market share

Chart 3: Wirless Market Share of Key Operators



Source: TRAI, AUSPI, PL Research

Cost inefficiencies in operating dual network (GSM & CDMA)

Rcom will be operating dual networks, post spectrum allocation, in other circles. This shall require additional resources to operate the alternate technology. Any cost ineffectiveness may result in higher operating costs, thus hitting margins directly. Subsidy to existing subscribers to shift to GSM cannot be ruled out.

Key challenges include setting up of effective distribution channel & after sales service

Effective distribution model & after sales service

With Rcom's expansion in coverage of small towns and cities underway, a proper distribution model is essential. Not only handsets, the company also has to plan for effective collection points and improve after sales service. Any inefficiency on these fronts could result in higher costs and a subsequent decline in margin going forward.

Valuation & Outlook

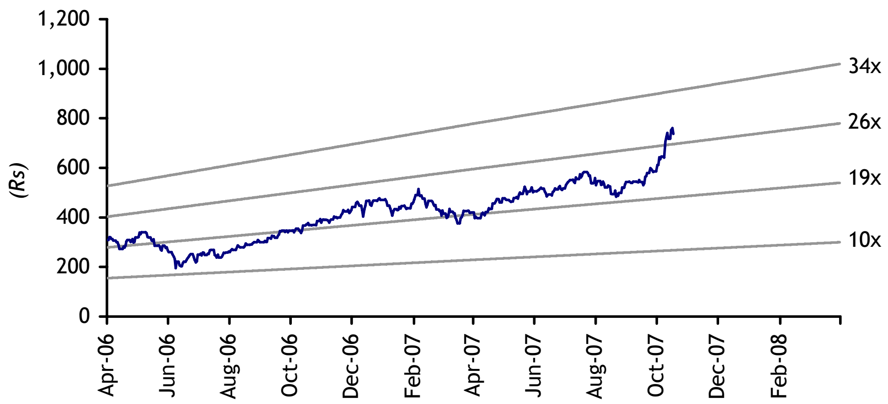
We believe Rcom is poised to emerge as a key beneficiary in the Indian wireless story. With a projected subscriber base of 90.4m in FY10, we expect an EPS growth of 39% CAGR and revenue growth of 31% CAGR over FY07-10. At the CMP of Rs737, the stock trades at a PER of 18.1x, EV/Sub of US$459 and at an EV/E of 11.5x FY10E earnings, while Bharti Airtel trades at 20.4x PER, EV/Sub of US$500 and EV/E of 12.2x FY10E. We initiate coverage on Rcom with an Overweight rating and a target price of Rs856, which is 21x FY10 earnings.

Table 3: Rcom vs Bharti's key performing matrix

	Reliance Communication					Bharti Airtel				
	FY07	FY08E	FY09E	FY10E	*CAGR (%)*	FY07	FY08E	FY09E	FY10E	*CAGR (%)*
Revenues (Mn)	144,683	192,692	259,636	328,853	*31.1*	184,202	268,350	345,143	415,426	*30.8*
EBIDTA (Mn)	57,210	80,586	110,472	143,709	*35.5*	74,407	108,529	140,089	175,184	*32.7*
opm (in %)	*39.5*	*41.8*	*42.5*	*43.7*		*40.4*	*40.4*	*40.6*	*42.2*	
PAT (Mn)	31,639	49,463	64,650	87,970	*40.1*	40,621	64,663	83,571	102,731	
EPS (Rs)	15.5	22.9	30.0	40.8	*37.7*	21.4	34.1	44.1	54.2	*35.8*
EV/EBIDTA (x)	26.8	20.5	15.0	11.5		28.7	20.0	15.5	12.2	
PER (x)	47.7	32.2	24.6	18.1		51.5	32.4	25.0	20.4	
EV/Sub (US$)	1,323	877	602	459		1,423	893	661	500	
\Wireless Subs (Mn)	29	47	69	90	*45.6*	37	61	87	113	*44.2*
ARPU (Rs)	359	343	322	300	*(5.8)*	428	371	330	302	*(10.9)*
MOU (Mins)	487	494	520	530	*2.8*	458	470	478	491	*2.3*

Rcom can throw up a surprise on its global network, as it has been aggressively setting up a robust, cost efficient integrated data and voice infrastructure through capacity additions and acquisition. Hiving off its tower business into a new company is likely to further help it in streamlining infrastructure sharing space with enhanced tenancy ratio. Further, value unlocking by venturing into the BPO space (for external clients) and development of an SEZ park (for IT & BPO players) could act as other triggers in the coming few months.

Chart 4: 1yr forward PE Band Chart



Source: MetaStock, PL Research

Business Segments

Wireless

Bundling of handsets working good with overall sales of classic handsets well over 10 million units

Cheap handsets - Luring the cost conscious

With handset prices falling to an average of Rs1,400 to Rs1,800, we expect at least 200 million mobile phones and subscribers coming from tier 2 & 3 towns in the next three years. Attractive schemes introduced by Rcom (which bundles handset with a wireless connection) at prices as low as Rs777, has been a key success factor in increasing subscription. It is due to these efforts and the introduction of innovative schemes since 2002 that has enabled the company to sell 10 million handsets so far.

Table 4: Current available low cost handsets

Segment	Features	Cost
Youth Segment	FM Radio capable phone	Rs 1888
Medium Segment	Colour handset	Rs 999 & Rs 1234
Economy segment	Entry level handset	Rs 777, Rs 888 & Rs 999

Source: Company Data, PL Research

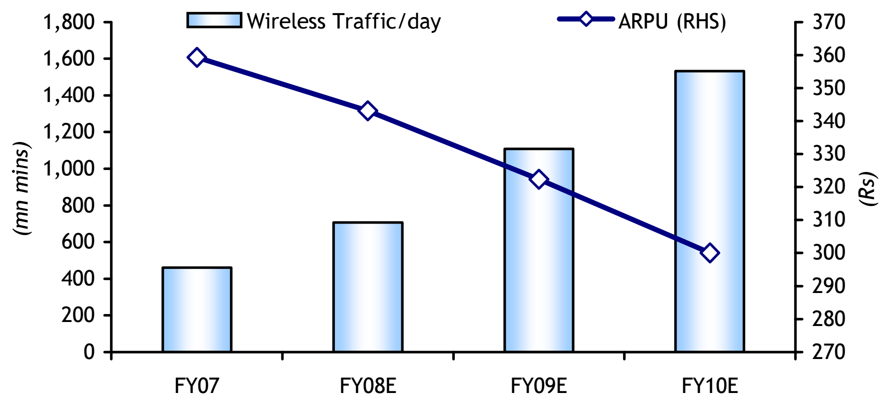
Leading handset manufacturers setting up their shop floors in India to further bring down handset costs

Leading manufacturers like Nokia and Motorola are setting up plants in India with capacities of a million handsets every month. Relatively new manufacturers like Samsung and LG are also setting up similar plants in Gurgaon and Pune respectively. With such large handset manufacturing capacities coming up in India, with a focus on low cost handsets, we expect handset prices to come down below the US$20 levels and thus attract cost conscious subscribers.

High MOU to maintain revenue growth & absorb fall in tariffs

Revenue growth is expected to be robust with additional subscribers compensating for dilution in average revenue per user (ARPU). We believe that ARPU is likely to decline due to marginal decline in subscribers. High minutes of use (MOU) and increased usage are likely to absorb the fall in tariff.

Chart 5: Wireless traffic/day (M mins)



Source: Company Data, PL Research

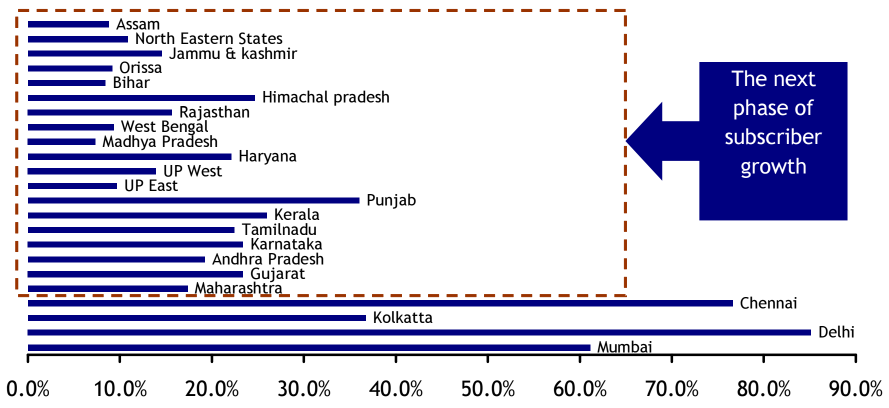
Low penetration in rural India - The next phase of growth

The overall wireless penetration in India is around 19%, which is amongst one of the lowest wireless penetration in all developing economies. With major operators looking to expand their coverage in the next 20,000 key tier 2 & 3 towns, an increase in India's rural tele-density to 5% from the current 2% may not be far off the mark. The government, through the Universal Service Obligation (USO) fund, is also working on various subsidy models for rolling out telecom towers and broadband services in rural India.

New town rollouts to improve wireless penetration from 19% to 36% over the next 3 years

Rcom is aggressively focusing to enter towns with population in excess of 20,000. The company has identified 12,000 such towns and plans to expand from the current 10,000 towns it covers to around 22,000 towns by FY08. It is also expanding operations in eight GSM circles from its current coverage of 800 towns to over 6,000 towns by FY08.

Chart 6: Low penetration in rural India to throw up huge growth opportunity



Source: TRAI, AUSPI, Company Data, PL Research

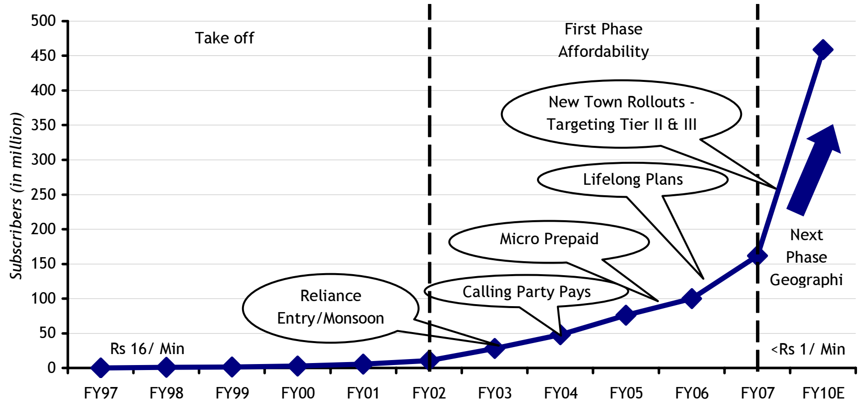
Rural India needs are focussed towards low connection charges, cheaper tariffs & wider coverage

The biggest challenge for wireless penetration in rural India is setting up of a distribution channel, which is used for selling handsets and as an appropriate collection center, to improve after sales services. Uninterrupted power supply is another major hindrance, as power cuts are frequent. Availability of diesel is yet another problem where gensets need to be up and running to ensure continuity in coverage. Rural India's needs are focused on a handset with connection, availability of easy payment options, low connection charges, cheap incoming and outgoing rates, better voice clarity, range of services and wide coverage.

The first phase of subscriber growth was affordability driven. The current phase focuses more on geographical reach and visibility.

Increased coverage would result in 8 million plus subscriber growth rate for the next 3 years

Chart 7: Increased coverage to drive net subscriber additions



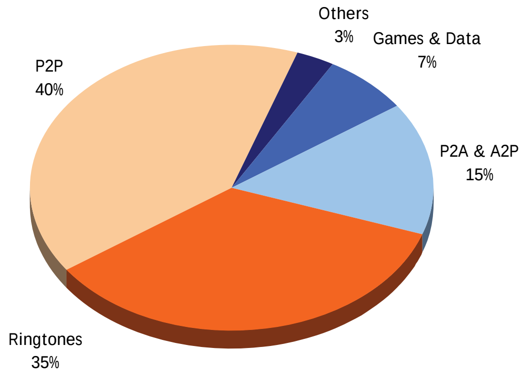
Source: DOT, PL Research

Value-added services likely to grow at 45% CAGR

Share of value-added services (VAS) in total ARPU is around 5-7% for Rcom. The mobile music market in India consists of polyphonic ring tones, ring back tones and full track mobile downloads. The mobile music market in India recorded 50% YoY growth on the back of more than 190 million subscribers. The overall VAS market is around Rs30bn and is expected to grow at a CAGR of 45% over the next three years to Rs90bn. We expect the share of VAS to rise to 8-10% of ARPU in the next three years.

VAS contribution to overall ARPU expected to increase from 5-7% currently to 8-10% by FY10E

Chart 8: Composition of VAS revenue



P2P	Person To Person SMS
RingTones	Mono, Poly, True Tones & inclusive of caller Ring back tones
P2A & A2P	Person to application & Application to person, inclusive of contests, news & updates
Games	Game downloads, wallpaper & logos
Others	MMS & other subscriptions

Source: ISMAI, PL Research

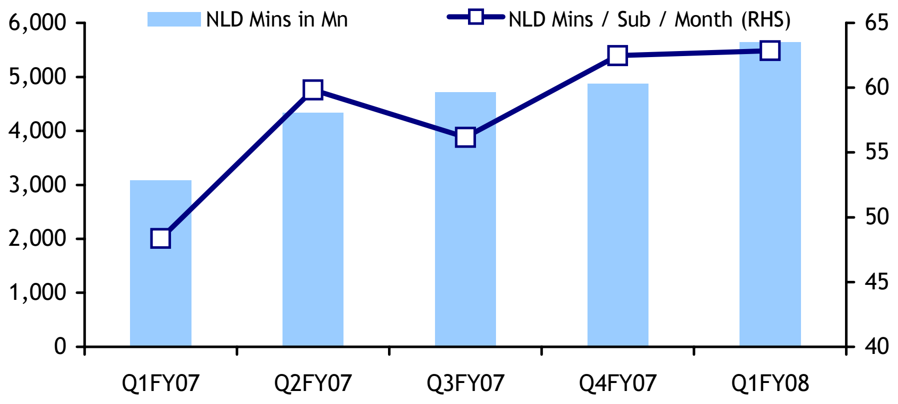
Global Segment

Global segment environment quite competitive

Rcom's global business margin is lower as compared to Bharti or VSNL due to its high revenue comprising of voice segment, which is currently quite competitive. The carrier market has been shrinking in the last two years, though volumes have picked up substantially. This reflects the competitive environment in this space. The key driver for increasing volume is to have wide network coverage in both wireline and wireless segments.

Wider network coverage resulting in higher use of NLD / Subscriber

Chart 9: Volume in NLD showing mins per subscriber



Source: Company Data, PL Research

Launch of calling cards in other high-density NRI markets

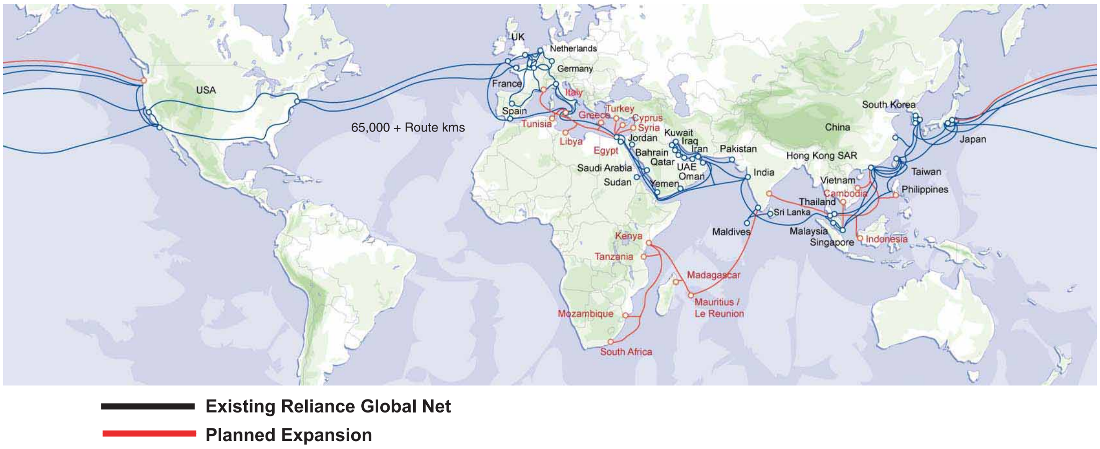
While majority of the calls are made to and from the US/Canada and gulf regions, where tariffs were reduced substantially; calls to other high-density NRI markets are also on the increase. Rcom is further looking to launch *Reliance Passport* (global calling card) in other untapped high-density NRI markets in the next two years. Currently, it has a customer base of 1.2 million as on June 2007, which has grown by 100% YoY. This segment will primarily cater to markets where tariffs are competitive and backhaul connectivity holds the key to increasing customer base.

Increasing coverage to 90% of world population

Flag: unlocking value through overseas listing

Rcom is increasing its global connectivity through NGN that connects 12 countries in the Middle-East, East Africa and the Mediterranean to the rest of the world through Flag Telecom. This would require a capital outlay of US$1.5bn over the next three years. This project would make Flag the largest fully undersea cable system operator, reaching 90% of the world's population.

Chart 10: Expanding FLAG's global network



Source: Company Data

US$1.5bn expansion planned for Falcon Network

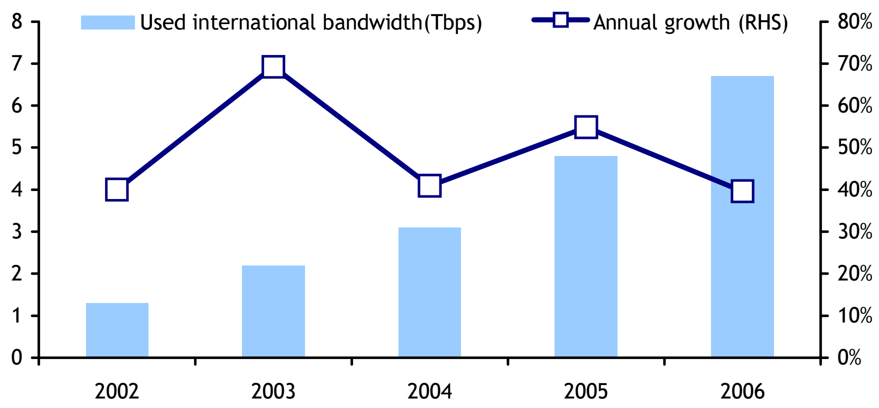
Flag Telecom can be seen as a "Global Carrier's Carrier". Its target customer base is the international wholesale broadband market comprising of established carriers or major incumbents. Its revenues are either from short-term leases or indefeasible rights of use (IRU). Currently, Flag is focusing more on IRUs to part finance its US$1.5bn NGN. Revenue from IRU deals are normally spread across the span of the contract with about 20% upfront payment as pre-built commitments.

Further, surprises could come in the form of some aggressive pre-sale agreements of NGN capacity. Flag has a total undersea cable line of 65,000km as on date and an additional 55,000km NGN is under construction. Following the expansion, Flag would be able to cater to 50 of the largest telecom markets from the current 30.

The company's current capacity for carriage and data transfer is roughly 3.2 tera bytes. The growing presence of broadband access has enabled the development of new and high bandwidth applications, particularly video. Video is now the primary driver of internet traffic growth, including YouTube, iTunes online store, and especially, video delivered via peer-to-peer applications such as BitTorrent. As broadband penetration continues to increase, and new bandwidth intensive applications emerge, wholesale network demand will remain strong.

Use of international bandwidth growing since 2002

Chart 11: International bandwidth growing at 50% CAGR



Source: Telegeography, PL Research

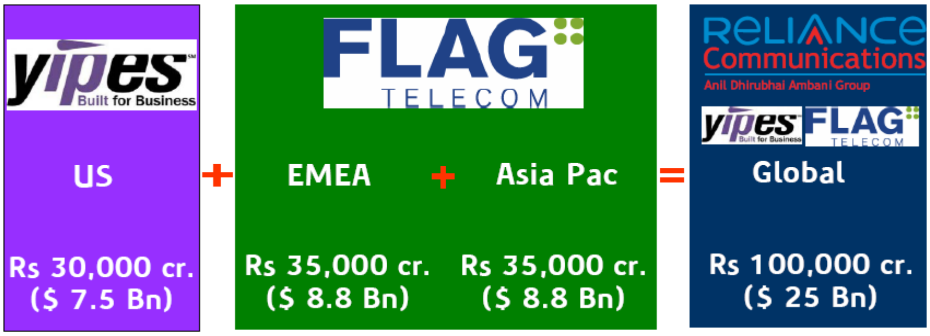
Flag plans to list in overseas market after diluting a minority stake. While it is very early to arrive at a valuation, we expect it to report US$280m-300m revenue in CY08.

Rcom to leverage the acquisition of Yipes by rolling its products & services in other markets

Yipes acquisition to leverage Flag's global assets going forward

Rcom acquired Yipes Communication (Yipes), an Ethernet service provider in 14 advanced metros of the US, in an all cash deal of US$300m in Q2FY08. Yipes currently caters to the high growth Ethernet market of the US through its 22,000km optic fibre network. Its products range across financial, legal, healthcare & government verticals. Rcom is planning to rollout Yipes' products and services in Europe, Middle-East, Asia and India on Flag's global network. This is likely to help address the approximately US$25bn global Ethernet market by 2010. Yipes had a turnover of approximately US$100m, with about 50% gross operating margin for FY07.

Chart 12: Global Ethernet data market by 2010



Source: Company Data

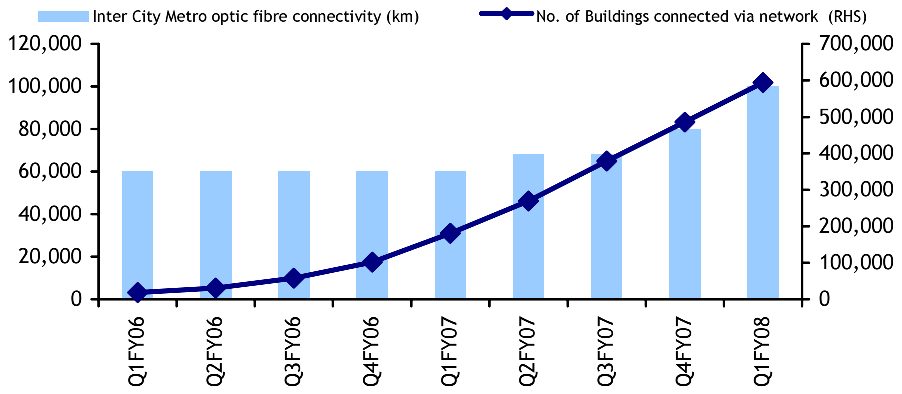
Broadband

Still in a nascent stage

Ramping up buildings connected via network at a brisk pace

Rcom is ramping up its broadband and wireline business at a brisk pace. It has continuously been increasing its network coverage, which stands at around 1,00,000km at the end of June 2007, and continues to further ramp-up wiring of new buildings. Data services is expected to grow exponentially in both enterprise and consumer segments. Rcom has been targeting enterprise data services segment and trying to leverage on its first mover advantage in the top 30 metros, where it has over 20,000 route km of optic fibre.

Chart 13: Growth in buildings covered at 53% CQGR over last 8 quarters



Source: Company Data, PL Research

Overall broadband growth in India has been dismal. The government is focusing on increasing broadband coverage throughout India by providing subsidies through the USO Fund.

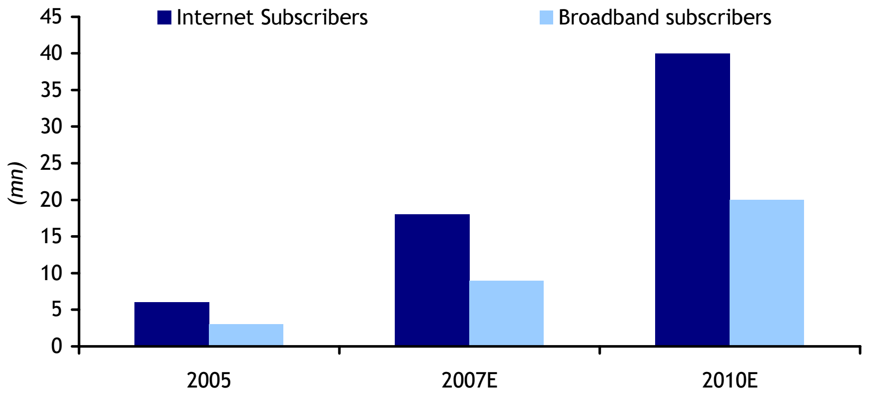
Table 5: Actual Internet & Broadband subscriber base

Subscribers (in m)	Mar-05	Mar-06	Mar-07
Internet	5.55	6.94	9.27
Broadband	0.18	1.35	2.34
Wireless Internet(through mobile handsets)	0	0	31.3
Total	**5.73**	**8.29**	**42.91**

Source : TRAI, PL Research

Actual broadband subscriber growth not meeting the set targets by TRAI

Chart 14: Projected Internet subscriber base by TRAI



Source: TRAI, PL Research

Tower Business

Tower entity listing at arms length

Reliance Telecom Infrastructure (RTIL) currently has 14,000 towers, which it plans to scale up to 37,000 by FY08. Of these, 2,500 towers are incapable of infrastructure sharing. In addition to these 14,000 towers, Rcom has secured 8,982 sites under the USO tendering process. The company doesn't have to pay rent for these sites for five years and also enjoys subsidy on radio frequency instruments. Collectively, Rcom would have access to over 45,000 towers and a total of 50,000 BTS by FY08.

Earlier in July 2007, Rcom had sold 5% equity stake in RTIL to institutional investors for a consideration of US$337m (Rs14bn) after having arrived at an equity value of US$6.75bn for its tower business. Going forward, Rcom plans to divest a minority stake (about 20-24%) and list RTIL as an independent company.

Infrastructure sharing a boon - Increased coverage at minimum rollout time

Infrastructure sharing to result in increased coverage at minimum rollout time

Inactive infrastructure constitutes around 60% of the overall tower capex. Sharing towers help operators in not only reducing capital investment but also help facilitate faster network rollouts. It becomes all the more attractive when prospective target subscribers are from tier 2 & 3 towns, which are relatively low on ARPU.

Capex plans

Rcom has maintained its capex guidance of around US$4.5bn for FY08E. The table below illustrates segment-wise guided capex.

Table 6: Capex plans

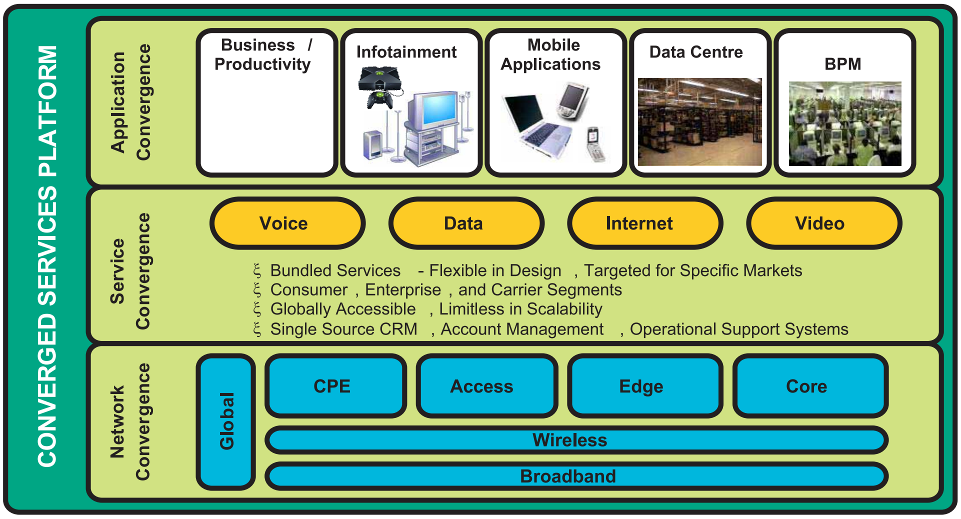
Wireless	US$2.5bn	Includes GSM Network Expansion of US$740m & laying 30000 km of optic Fibre intracity connectivity
Tower	US$1.5bn	Planned 23000 tower-base expansion
Global expansion	US$400m	Includes Next generation network
Yipes Acquisition	US$300m	Offers Ethernet services in US
less RTIL 5% stake sale Proceeds	US$ 337m	Stake sale to 7 Institutional investors
Total Net Capex	**US$4.36bn**	

Company Background

Reliance Communications Ltd. is the flagship company of Anil Dhirubhai Ambani Group (ADAG). It is involved in telecom services covering mobile and fixed line telephony. Other non-voice businesses include broadband, national and international long distance services and data services, along with an exhaustive range of value-added services and applications.

Rcom has a pan-India integrated (wireless and wireline) network that covers over 10,000 towns and 3,00,000 villages. It owns and operates one of the largest next generation IP-enabled connectivity infrastructure, comprising over 1,65,000km of fibre optic cable systems in India, the US, Europe, Middle-East and Asia-Pacific regions. Its subsidiary, FLAG Telecom owns the world's largest private undersea cable system, spanning 65,000km, and connects top business center's in developed and emerging markets across six continents.

Chart 15: Leveraging the fully integrated service platform



Source: Company Data

Financials

Key Assumptions

Y/e March	FY07	FY08E	FY09E	FY10E
Wireless Division				
1. Subscriber addition trends				
Monthly Net additions (in m)	0.73	1.51	1.80	1.80
Total Subscribers End of period (in m)	28.96	47.12	68.77	90.37
% Market Share of net Additions	*13.24*	*19.60*	*21.24*	*21.09*
2. Avg. Rev. per user (ARPU in Rs)	359	343	322	300
3. Minutes of use per subscriber (MOU)	487	469	437	445
Broadband Segment				
Average Wireline Subscribers (in mn)	0.40	0.73	1.04	1.44
Average Revenue per Line (in Rs)	2,375	1,915	1,805	1,627
Global Segment				
NLD Traffic Carried (in Mn mins)	17,012	25,567	35,015	43,768
ILD Traffic Carried (in Mn mins)	5,550	6,719	8,093	9,308

Segmental Breakup & Income Statement *(Rs m)*

Improvement in margins on back of operating economies kicking in

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Revenue					
Wireless	73,640	107,276	156,639	224,118	286,452
Global	51,860	51,771	53,390	60,533	75,342
Broadband	5,130	11,442	16,850	22,470	28,088
Others	3,200	3,872	4,090	4,090	4,295
Less: Inter-segmental	(26,167)	(29,677)	(38,277)	(51,575)	(65,324)
Net Revenue	**107,664**	**144,683**	**192,692**	**259,636**	**328,853**
Expenditure					
Access charges & License fee	40,404	37,823	44,377	58,418	72,348
Network Opns cost	15,346	16,738	20,320	28,257	36,174
Employee cost	8,394	9,080	10,676	13,937	17,429
SG&A expenses	18,167	23,833	36,733	48,552	59,193
Total Operational Expenses	82,311	87,473	112,107	149,164	185,144
EBITDA	**25,353**	**57,210**	**80,586**	**110,472**	**143,709**
EBIDTA Margin (%)	*23.5*	*39.5*	*41.8*	*42.5*	*43.7*
Other Income	1,391	-	-	-	-
Net interest	3,215	7	(555)	3,881	(4,438)
Depreciation & Amortisation	16,987	24,654	28,616	37,625	47,031
EBIT	**9,757**	**32,557**	**51,970**	**72,847**	**96,677**
PBT	**6,542**	**32,549**	**54,014**	**68,966**	**101,115**
Excep. & non-recurring items	374	303	-	-	-
Total Tax	337	609	4,567	8,400	13,145
Effective Tax Rate (%)	*5.2*	*1.9*	*8.5*	*12.2*	*13.0*
PAT	**5,831**	**31,639**	**49,463**	**64,650**	**87,970**
EBIDTA Margin Segmentwise (%)					
Wireless	*30.6*	*37.1*	*39.3*	*39.3*	*39.6*
Global	*12.4*	*24.6*	*25.0*	*25.5*	*27.0*
Broadband	*15.0*	*45.4*	*47.0*	*48.0*	*50.0*

Balance Sheet

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Sources of Funds					
Share capital	10,223	10,223	10,454	10,788	10,788
Reserves and surplus	107,196	219,083	288,074	378,762	461,805
Total shareholder's fund	117,419	229,306	298,528	389,550	472,592
Minority interest	96	56	91	126	176
Total loan funds	103,332	174,383	144,383	104,383	144,383
Total	**220,863**	**403,772**	**443,003**	**494,059**	**617,152**
Application of Funds					
Fixed Assets					
Gross Block	228,295	349,442	506,348	661,148	801,148
Less: Dep & impairment	47,573	55,926	84,542	122,167	169,198
Net Block	180,722	293,516	421,806	538,981	631,950
CWIP	31,305	36,907	54,800	40,000	40,000
Goodwill	2,237	26,588	-	-	-
Investments	22,163	77,114	38,557	25,062	50,124
Current Assets					
Inventories	4,075	4,821	5,062	5,315	5,581
Debtors	16,808	18,316	26,013	28,560	39,462
Other current assets	765	13,884	14,855	15,895	17,008
Cash & cash equivalents	37,995	72,006	43,256	13,457	25,617
Loans & advances	23,668	22,103	20,998	19,948	22,940
Total current assets	83,310	131,130	110,185	83,176	110,609
Current Liabilties & Provisions					
Current liabilties	79,584	114,334	125,767	132,055	145,261
Provisions	19,291	47,149	56,579	61,105	70,271
Total current liabilties & prov	98,874	161,482	182,346	193,160	215,531
Net current assets	(15,564)	(30,352)	(72,161)	(109,984)	(104,923)
Total	**220,862**	**403,772**	**443,003**	**494,059**	**617,152**

Cash Flow

(Rs m)

Y/e March	FY07	FY08E	FY09E	FY10E
Net cash flow from Operations	71,087	119,316	139,895	125,502
Net cash flow from Investing	(206,916)	(112,119)	(130,201)	(169,990)
Net cash flow from Financing	172,077	(35,948)	(39,456)	55,218
Net (Dec)/Inc in cash	36,248	(28,751)	(29,762)	10,730
Opening cash equivalents	37,995	72,006	43,256	13,457
Closing cash equivalents	72,006	43,256	13,457	25,617

Key Ratios

Y/e March	FY07	FY08E	FY09E	FY10E
Return Ratios (%)				
RoCE	*10.4*	*12.3*	*14.7*	*18.2*
RoE	*18.3*	*18.7*	*18.8*	*20.4*
Growth (%)				
Sales	*34.4*	*33.2*	*34.7*	*26.7*
EBITDA	*125.7*	*40.9*	*37.1*	*30.1*
PAT	*442.6*	*56.3*	*30.7*	*36.1*
EPS	*442.6*	*48.2*	*30.7*	*36.1*
Liquidity				
Current ratio	0.81	0.60	0.43	0.51
Acid test ratio	0.78	0.58	0.40	0.49
Per Share Ratios (Rs)				
EPS	15.5	22.9	30.0	40.8
BV	112.2	138.4	180.6	219.0
CEPS	27.5	36.2	47.4	62.6
DPS	0.5	1.0	1.5	2.0
FCPS	(5.3)	(44.8)	(17.5)	(2.3)
Margins (%)				
EBITDA	*39.5*	*41.8*	*42.5*	*43.7*
PAT	*21.9*	*25.7*	*24.9*	*26.8*
Tax Rate	*1.9*	*8.5*	*12.2*	*13.0*
Valuations (x)				
PER	47.7	32.2	24.6	18.1
P/CEPS	26.8	20.4	15.6	11.8
P/BV	6.6	5.3	4.1	3.4
EV/EBITDA	26.8	20.5	15.0	11.5
EV/Sales	10.6	8.6	6.4	5.0
Market Cap/Sales	10.4	8.3	6.1	4.8
Others (as a % of net sales)				
Access charges & license fees	*26.1*	*23.0*	*22.5*	*22.0*
Network operation cost	*11.6*	*10.5*	*10.9*	*11.0*
Employee cost	*6.3*	*5.5*	*5.4*	*5.3*
SG&A expenses	*16.5*	*19.1*	*18.7*	*18.0*

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.
Tel: (91 22) **6632 2222** Fax: (91 22) 6632 2209

PL's Recommendation Scale

BUY	: > 15% Outperformance to BSE Sensex	**Outperformer**	: 5 to 15% Outperformance to Sensex
Market Performer	: -5 to 5% of Sensex Movement	**Underperformer**	: -5 to -15% of Underperformace to Sensex
Sell	: <-15% Relative to Sensex		