The Royal Bank of Scotland

3 October 2011

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

Reliance Communications

No visible turnaround

We expect RCom's share of minutes to fall to 10.9% by FY14 from 12.7% in FY11 due to low brand visibility, limited network expansion and likely loss of CDMA subs. This would restrict the company's EBITDA CAGR to 7.5% in FY11-14. High financial leverage (net debt/EBITDA of 5.2x in FY11) poses a risk. Hold.

Initiation of coverage

Hold

Target price
Rs67.00

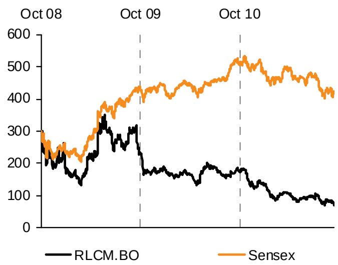
Price
Rs71.75

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	79.55	95.70	168.5
Absolute (%)	-9.8	-25.0	-57.4
Rel market (%)	-8.6	-14.1	-48.1
Rel sector (%)	-9.8	-25.0	-57.4



Market capitalisation
Rs148.09bn (US$3.01bn)

Average (12M) daily turnover
Rs1003.22m (US$22.18m)

Sector: BSE Tech
RIC: RLCM.BO, RCOM IN
Priced Rs71.75 at close 30 Sep 2011.
Source: Bloomberg

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (Rsm)	221,323	205,626	213,891	233,655	247,609
EBITDA (Rsm)	78,205	65,366	68,036	76,180	81,216
Reported net profit (Rsm)	46,550	13,457	4,254	7,539	8,363
Normalised net profit (Rsm)[1]	46,925	13,526	6,778	7,539	8,363
Normalised EPS (Rs)	22.73	6.55	3.28	3.65	4.05
Dividend per share (Rs)	0.85	0.50	0.00	0.00	0.00
Dividend yield (%)	1.18	0.70	0.00	0.00	0.00
Normalised PE (x)	3.16	10.95	21.85	19.64	17.71
EV/EBITDA (x)	5.07	7.43	7.12	6.02	5.14
Price/book value (x)	0.34	0.37	0.36	0.36	0.35
ROIC (%)	5.24	3.74	2.76	3.17	3.27

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

year to Mar, fully diluted

Minute CAGR restricted to 9.1% over FY11-14F owing to decline in MinMS

RCom’s revenue market share (RMS) declined to 7.8% in 1Q12 despite its GSM foray (in 4Q09) and the reduction in competitive intensity over last few quarters. The company’s minute market share (MinMS) dropped from 15.9% in FY09 to 12.7% in FY11, implying incremental MinMS of 8.2%. We expect RCom to capture 7.4% incremental MinMS over FY11-14, leading to a restricted minute CAGR of 9.1% to 487bn minutes, due to low brand visibility, limited network rollout, limited 3G footprint and likely loss of CDMA market share owing to mobile number portability (MNP). Hence, we expect RCom’s MinMS to decline to 10.9% by FY14.

Low capex intensity; potential increase in coverage gap against peers

RCom’s high financial leverage (net debt/EBITDA of 5.2x in FY11) has left little scope for aggressive network expansion. RCom’s capex guidance stands at Rs15bn for FY12, significantly lower than listed peers. Lower capex intensity poses a risk of market share loss, as its network coverage gap against its peers could widen. Also, 3G footprint, restricted to 13 circles (46% of industry revenue), poses further risk of market share loss.

High financial leverage poses risk

RCom’s high financial leverage remains a concern. Its net debt stood at Rs337bn and net debt/EBITDA at 5.2x in FY11. Debt repayment of US$1.7bn is scheduled over CY12. This includes FCCB repayment of US$1.18bn, maturing in February 2012. In our view, regulatory uncertainty has reduced the likelihood of equity dilution.

We initiate at Hold

We initiate at Hold with a 12-month target price of Rs67. Our fair value estimate for RCom is based on 5.6x EV/EBITDA (implying a 25% discount to Bharti’s target India valuation multiple). We believe a discount to Bharti is justified owing to RCom’s lower return profile.

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

Analyst

Piyush Choudhary
India
+91 22 6715 5394
piyush.choudhary@rbs.com

83/84 Sakhar Bhawan, Nariman Point,
Mumbai 400 021, India

http://research.rbsm.com

The basics

Versus consensus

EPS (Rs)	RBS	Cons	% diff
2012F	3.3	5.4	-39%
2013F	3.7	7.9	-54%
2014F	4.1	10.7	-62%

Source: Bloomberg, RBS forecasts

Forced ranking*

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

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

Key events

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

Source: Company data, Industry

Catalysts for share price performance

We see no near-term operational catalyst for share price performance and no visible turnaround in RCom's mobile business (accounting for around 81% of the company's revenue during FY11). We expect the mobile business to continue losing market share due to low brand visibility, limited network expansion, limited 3G footprint and likely loss of CDMA market share owing to MNP.

Earnings momentum

We forecast RCom's financial performance will lag behind its peers as it continues losing MinMS. Our forecast implies an FY11-14 CAGR of 7.5% for EBITDA. However, we expect EPS to decline by around 38% over this period owing to higher interest obligations.

Valuation and target price

We initiate on RCom with Hold rating and a 12-month target price of Rs67. We have discounted our fair value estimate for March 2013 by six months to derive a 12-month target price (September 2012). Our fair value estimate for RCom is based on 5.6x FY14F EV/EBITDA (implying a 25% discount to Bharti's mobile business). Our target price implies EV/EBITDA multiples of 6.0x FY13F and 5.2x FY14F. We factor in a possible negative Rs14 impact from one-time spectrum fees and spectrum renewal charges into our target price.

How we differ from consensus

Our revenue and EBITDA forecasts are around 6% lower than Bloomberg consensus estimates. Our EPS estimates are around 50% below Bloomberg consensus estimates. We believe our estimates are significantly lower as we factor in interest payments going forward on the current non-interest bearing loan, which is scheduled for repayment (FCCB obligation of US$1.18bn in February 2012.

Risks to central scenario

Key risks to our target price and rating are:

- If the company is able to de-leverage significantly by raising equity at a higher-than-estimated fair value of the assets.
- Higher-than-expected MinMS performance.
- Higher-than-expected tariffs could lead to significant change in operating profits.

Key assumptions and sensitivities

Table 1 : Key assumptions

	FY12F	FY13F	FY14F
MinMS (%)	11.5	11.0	10.9
Minutes (bn)	404	447	487
Blended RPM (p/min)	44.2	45.2	44.6
3G subs (m)	3	5	7
Churn rate (%)	4.0	4.0	3.8
Capex intensity (% of revenue)	9.5	9.3	8.9

Source: RBS forecasts

Table 2 : Sensitivity analysis

	Change	Target price Rs/sh	Change in TP	EBITDA Rsbn	Change in EBITDA
Base case		**67**		**81.2**	
Change in Voice RPM	+2.5%	75	13%	83.9	3%
	-2.5%	59	-13%	78.5	-3%
Change in MoU	+2.5%	71	6%	82.6	2%
	-2.5%	63	-6%	79.9	-2%

Source: RBS forecasts

Table 3 : Our forecasts are below consensus estimates

Rsm	FY12F			FY13F			FY14F		
	RBS	Consensus	Difference (%)	RBS	Consensus	Difference (%)	RBS	Consensus	Difference (%)
Revenue	213,891	225,127	**(5.0)**	233,655	248,536	**(6.0)**	247,609	264,156	**(6.3)**
EBITDA	68,036	72,191	**(5.8)**	76,180	81,283	**(6.3)**	81,216	88,828	**(8.6)**
PAT	6,778	11,182	**(39.4)**	7,539	16,261	**(53.6)**	8,363	21,995	**(62.0)**

Source: Bloomberg, RBS forecasts

Minute CAGR restricted to 9% over FY11-14

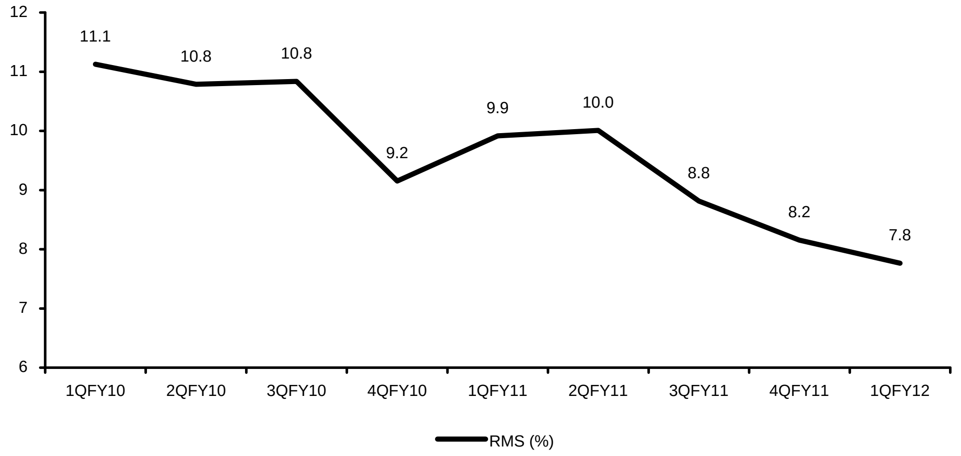
We expect RCom to lose minute market share due to low brand visibility, limited network rollout, limited 3G footprint and likely loss of CDMA market share owing to MNP.

RMS continues to decline....

RMS continues to decline despite GSM foray

RCom's revenue market share (RMS) decline has not been arrested despite its GSM foray and reduction in competitive intensity over last few quarters. As per TRAI, the company's RMS has dropped further to 7.8% in 1Q12.

Chart 1 : RMS declines to 7.8% in 1Q12



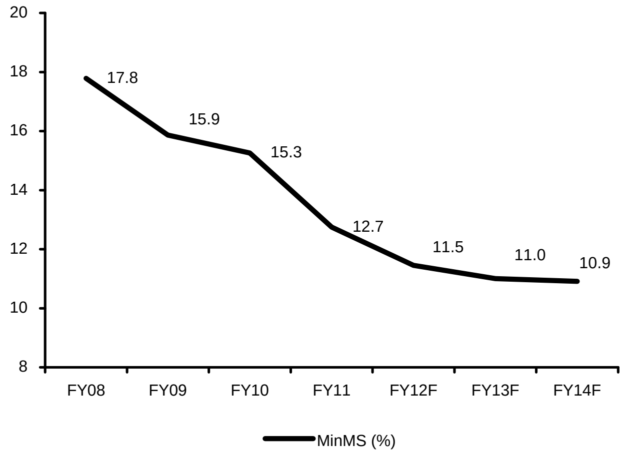
Source: TRAI

....led by decline in MinMS

Minute CAGR restricted to 9.1% due to MinMS share loss

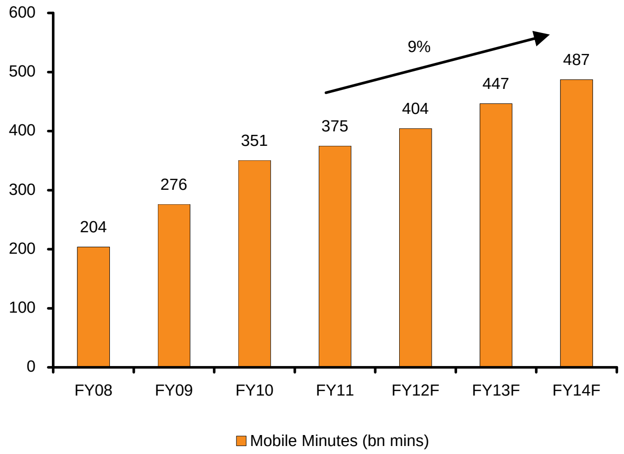
Since its GSM foray (in 4Q09), RCom's RMS and MinMS continued to decline. RCom's MinMS dropped from 15.9% in FY09 to 12.7% in FY11, implying incremental MinMS of 8.2% over FY09-11. We expect RCom to capture 7.4% incremental MinMS over FY11-14, leading to minute CAGR of 9.1% to 487bn minutes. This is led by low brand visibility, limited network rollout, limited 3G footprint and likely loss of CDMA market share due to MNP. Hence, we expect RCom's MinMS to decline to 10.9% by FY14.

Chart 2 : RCom expected to lose MinMS to 10.9% by FY14



Source: Company data, TRAI, RBS forecasts

Chart 3 : Minute CAGR restricted to around 9% over FY11-14



Source: Company data, RBS forecasts

Low capex intensity – potential increase in coverage gap against peers

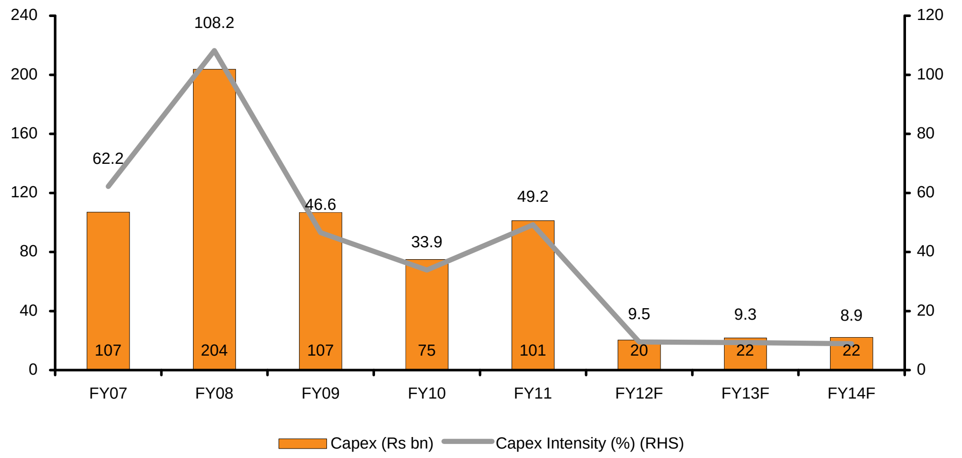
RCom's capex guidance stands at Rs15bn for FY12, significantly lower than listed peers. In our view, lower capex intensity poses a risk of market share loss, as the company's network coverage gap against peers could widen.

Capex intensity significantly lower than peers

RCom's high financial leverage (net debt/EBITDA of 5.2x in FY11) and weak operational performance leave little scope for aggressive network expansion. The company's capex guidance stands at Rs15bn for FY12, significantly lower than listed peers (Idea's capex guidance is Rs40bn for stand-alone business and Bharti's capex guidance is Rs68bn for India stand-alone business). This indicates the company's lower capex intensity poses further risk of market share loss, as its network coverage gap could increase against peers, in our opinion.

In addition, RCom won 3G spectrum in 13 circles (46% of industry revenue). The company has not entered into any intra-circle roaming (ICR) arrangement with another operator to provide 3G services in its non-footprint circles. This would potentially lower its addressable market size in the wireless broadband market. In our view, sporadic 3G network coverage and lack of roaming facility on 3G (pan-India) would be a potential bottleneck to attract high ARPU customers. This poses further risk of market share loss in the wireless broadband market. In addition, we believe failure to get 3G service (coupled with launch of MNP) could potentially lead to loss of current subs base.

Chart 4 : Capex intensity drops to 9-9.5% of revenue



Source: Company data, RBS forecasts

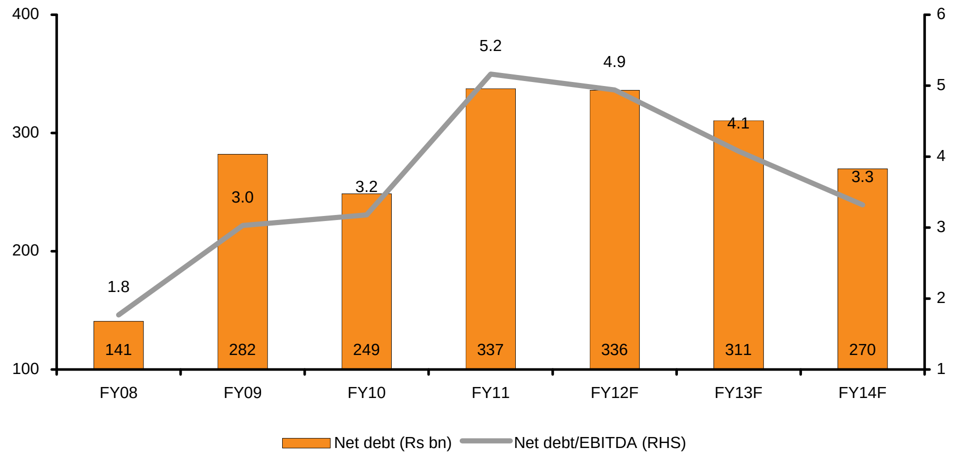
High financial leverage poses risk

RCom's high financial leverage (net debt/EBITDA at 5.2x) remains a concern to us. In our view, regulatory uncertainty has reduced the likelihood of equity dilution.

RCom's high financial leverage remains a concern to us. Its net debt stood at Rs337bn and net debt/EBITDA at 5.2x in FY11. Debt repayment of US$1.7bn is scheduled over CY12. This includes FCCB repayment maturing in February 2012, amounting to US$1.18bn. In addition, we believe regulatory uncertainty has reduced the likelihood of equity dilution, which RCom expected to reduce the company's financial leverage.

FCCB repayment of US$1.18bn due in February 2012

Chart 5 : High net debt and Net debt/EBITDA



Source: Company data, RBS forecasts

Table 4 : Debt re-payment of USD1.7bn by December 2012

Issue date	Type	Maturity date	Amount ($m)	Redemption premium (%)	Amount payable ($m)
Feb-07	FCCB	Feb-12	925	28	1,182
Mar-07	ECB	May-12	250		250
Mar-07	ECB	Dec-12	250		250
Total					**1,682**

Source: RBI, Company data

Initiate at Hold – no visible turnaround

We see no near-term operational catalyst and no visible turnaround in RCom's mobile business. We initiate at Hold.

We initiate on RCom with Hold rating and a 12-month target price of Rs67. We discounted our fair value estimate of March 2013 by six months to derive a 12-month target price (September 2012). Our fair value estimate for RCom is based on 5.6x FY14F EV/EBITDA (implying a 25% discount to Bharti's target India mobile business valuation multiple). We prefer to value India telco services stocks using EV/EBITDA rather than PE since depreciation policies differ across peers and the companies are at different stages of maturity. Our target price implies EV/EBITDA multiples of 6.0x FY13F and 5.2x FY14F.

Weak operational performance limits upside

We believe the discount to Bharti is justified, given RCom's lower return profile, its performance lags behind its peers, it continues to lose MinMS, inherent risk of dual network and weaker financial performance (EBITDA CAGR 7.5% over FY11-14E). In addition, RCom's high financial leverage poses additional risk. We believe re-rating for RCom could happen if it is able to raise fresh equity (at a parent level or in its tower subsidiary) at higher than its fair value. However, regulatory uncertainty has reduced the likelihood of equity dilution, in our view.

Table 5 : RCom's 12-month target price

EBITDA (Rsm)	81,216
EV/EBITDA (x)	5.6
Enterprise Value (Rsm)	458,869
Less: Net Debt & minority interest (Rsm)	281,666
Equity Value (Rsm)	**177,204**
No. of shares (m)	2,064
Equity value per share (Rs)	86
Less: Impact of spectrum charges (Rs/share)	14
RCom's fair value (Mar-13)	71
Our RCom 12-month target price (Sep-12)	**67**

Source: RBS forecasts

Table 6 : Implied valuation at target price

	FY13F	FY14F
Target price (Rs)	67	67
EPS (Rsm)	3.7	4.1
Implied PE (x)	**18**	**17**
EV (Rsbn)	461	420
EBITDA (Rsm)	76	81
Implied EV/EBITDA (x)	**6.0**	**5.2**

Source: RBS forecasts

Management team

Table 7 : Management team

Name	Designation	Qualification & experience
Anil D. Ambani	Chairman	He holds BSc from Bombay University and MBA from Wharton School. He joined Reliance in 1983 as Co-CEO. He is the chairman of Reliance Capital, Reliance Infra & Reliance Power Limited. He is also on the board of Reliance Infratel Limited and Reliance Anil D. Ambani Group Limited.
Syed Safawi	President, Wireless Business	He holds MBA from Wharton School, USA and he brings in 22 years of experience across the FMCG and telecoms space. Before joining RCom he was executive director at Bharti Airtel. Mr Safawi had been handling Bharti Airtel's international operations and its eastern and western circles. Prior to Airtel, he spent 11 years at Coca-Cola Co.

Source: Company data

Income statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	221323	205626	213891	233655	247609
Cost of sales	-143118	-140261	-145855	-157475	-166393
Operating costs	-182063	-207436	n/a	n/a	n/a
EBITDA	**78205**	**65366**	**68036**	**76180**	**81216**
DDA & Impairment (ex gw)	-37465	-39398	-42055	-46129	-50961
EBITA	**40740**	**25967**	**25981**	**30051**	**30255**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**40740**	**25967**	**25981**	**30051**	**30255**
Net interest	-14587	-9558	-14224	-17136	-16136
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	26450	-1164	n/a	n/a	n/a
Exceptionals (pre-tax)	-374.7	-69.0	-2524	0.00	0.00
Other pre-tax items	0.00	-0.00	0.00	0.00	0.00
Reported PTP	**52228**	**15176**	**9233**	**12916**	**14120**
Taxation	-4454	-117.9	-2351	-2583	-2824
Minority interests	-1224	-1602	-2628	-2793	-2933
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-0.00	0.00	0.00	0.00	0.00
Reported net profit	**46550**	**13457**	**4254**	**7539**	**8363**
Normalised Items Excl. GW	-374.7	-69.0	-2524	0.00	0.00
Normalised net profit	**46925**	**13526**	**6778**	**7539**	**8363**

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	48585	53272	16606	22173	42961
Other current assets	113388	115984	118576	120481	121187
Tangible fixed assets	712539	729409	707730	683388	654570
Intang assets (incl gw)	49976	47473	47473	47473	47473
Oth non-curr assets	1199	1089	1089	1089	1089
Total assets	**925686**	**947227**	**891474**	**874605**	**867281**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	147085	106018	83339	78245	81859
Long term debt (3)	297154	390714	352714	332714	312714
Oth non-current liab	41257	37259	37931	38616	39315
Total liabilities	**485496**	**533990**	**473983**	**449575**	**433887**
Total equity (incl min)	440190	413237	417491	425030	433393
Total liab & sh equity	**925686**	**947227**	**891474**	**874605**	**867281**
Net debt	248569	337442	336108	310541	269753

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	78205	65366	68036	76180	81216
Change in working capital	25293	-35020	-24599	-6314	3607
Net interest (pd) / rec	-14408	-13624	-16978	-17136	-16136
Taxes paid	-4454	-117.9	-2351	-2583	-2824
Other oper cash items	-3084	-5878	-2628	-2793	-2933
Cash flow from ops (1)	**81552**	**10726**	**21479**	**47354**	**62930**
Capex (2)	-74960	-103273	-20376	-21787	-22143
Disposals/(acquisitions)	1.30	2064	0.00	0.00	0.00
Other investing cash flow	56572	36630	4839	0.00	0.00
Cash flow from invest (3)	**-18387**	**-64579**	**-15537**	**-21787**	**-22143**
Incr / (decr) in equity	0.00	0.00	n/a	n/a	n/a
Incr / (decr) in debt	-69898	96356	-38000	-20000	-20000
Ordinary dividend paid	-1911	-2025	0.00	0.00	0.00
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**-71809**	**94331**	**-38000**	**-20000**	**-20000**
Forex & disc ops (6)	0.00	0.00	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-8644**	**40478**	**-32058**	**5567**	**20788**
Equity FCF (1+2+4)	6592	-92547	1103	25567	40788

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

Standard ratios

Performance	Reliance Comm FY10A	FY11A	FY12F	FY13F	FY14F	Bharti Airtel FY12F	FY13F	FY14F	Idea Cellular FY12F	FY13F	FY14F
Sales growth (%)	-3.56	-7.09	4.02	9.24	5.97	20.3	13.9	9.78	27.9	23.2	12.4
EBITDA growth (%)	-16.0	-16.4	4.08	12.0	6.61	26.4	19.2	10.2	36.6	38.0	15.5
EBIT growth (%)	-28.5	-36.3	0.05	15.7	0.68	25.3	27.1	9.65	68.3	63.2	23.6
Normalised EPS growth (%)	-22.5	-71.2	-49.9	11.2	10.9	-0.63	42.2	15.0	-1.55	100.1	41.7
EBITDA margin (%)	35.3	31.8	31.8	32.6	32.8	35.3	36.9	37.0	25.8	28.9	29.7
EBIT margin (%)	18.4	12.6	12.1	12.9	12.2	17.1	19.1	19.1	11.3	15.0	16.5
Net profit margin (%)	21.2	6.58	3.17	3.23	3.38	8.41	10.5	11.0	4.49	7.30	9.20
Return on avg assets (%)	6.32	2.63	2.26	2.72	2.78	5.61	6.91	7.20	5.15	7.99	9.54
Return on avg equity (%)	11.0	3.23	1.66	1.83	1.99	11.9	15.2	15.2	7.05	12.9	15.8
ROIC (%)	5.24	3.74	2.76	3.17	3.27	7.39	9.44	10.3	6.79	10.0	12.3
ROIC - WACC (%)	-7.36	-8.87	-9.85	-9.43	-9.33	-3.32	-1.28	-0.41	-3.66	-0.43	1.87
					year to Mar			year to Mar			year to Mar
Valuation											
EV/sales (x)	1.79	2.36	2.26	1.96	1.69	2.82	2.40	2.07	2.26	1.77	1.48
EV/EBITDA (x)	5.07	7.43	7.12	6.02	5.14	7.99	6.51	5.60	8.78	6.12	4.99
EV/EBITDA @ tgt price (x)	4.95	7.28	6.97	5.89	5.02	9.45	7.73	6.71	10.2	7.18	5.90
EV/EBIT (x)	9.74	18.7	18.6	15.3	13.8	16.5	12.6	10.9	20.0	11.8	8.97
EV/invested capital (x)	0.58	0.64	0.64	0.62	0.59	1.78	1.69	1.61	1.77	1.69	1.59
Price/book value (x)	0.34	0.37	0.36	0.36	0.35	2.75	2.39	2.06	2.54	2.23	1.90
Equity FCF yield (%)	4.45	-62.5	0.75	17.3	27.5	1.69	4.42	7.42	-4.83	5.04	7.83
Normalised PE (x)	3.16	10.95	21.85	19.64	17.71	23.89	16.80	14.61	36.78	18.38	12.97
Norm PE @tgt price (x)	2.95	10.2	20.4	18.3	16.5	30.0	21.1	18.4	45.2	22.6	15.9
Dividend yield (%)	1.18	0.70	0.00	0.00	0.00	0.26	0.26	0.26	0.00	0.00	0.00
					year to Mar			year to Mar			year to Mar

Per share data	FY10A	FY11A	FY12F	FY13F	FY14F
Tot adj dil sh, ave (m)	2064	2064	2064	2064	2064
Reported EPS (INR)	22.6	6.52	2.06	3.65	4.05
Normalised EPS (INR)	22.73	6.55	3.28	3.65	4.05
Dividend per share (INR)	0.85	0.50	0.00	0.00	0.00
Equity FCF per share (INR)	3.19	-44.8	0.53	12.4	19.8
Book value per sh (INR)	210.1	196.2	198.3	201.9	206.0
					year to Mar

Solvency	FY10A	FY11A	FY12F	FY13F	FY14F
Net debt to equity (%)	56.5	81.7	80.5	73.1	62.2
Net debt to tot ass (%)	26.9	35.6	37.7	35.5	31.1
Net debt to EBITDA	3.18	5.16	4.94	4.08	3.32
Current ratio (x)	1.10	1.60	1.62	1.82	2.01
Operating CF int cov (x)	6.97	1.80	2.40	3.91	5.08
Dividend cover (x)	24.6	6.68	0.00	0.00	0.00
					year to Mar

Priced as follows: RLCM.BO - Rs71.75
Source: Company data, RBS forecasts

Valuation methodology – EV/EBITDA valuations

EBITDA (Rsm)	81,216
EV/EBITDA (x)	5.6
Enterprise Value (Rsm)	458,869
Less: Net Debt & minority interest (Rsm)	281,666
Equity Value (Rsm)	**177,204**
No. of shares (m)	2,064
Equity value per share (Rs)	86
Less: Impact of spectrum charges (Rs/share)	14
RCom's fair value (Mar-13)	71
RCom's 12-month target price (Sep-12)	**67**

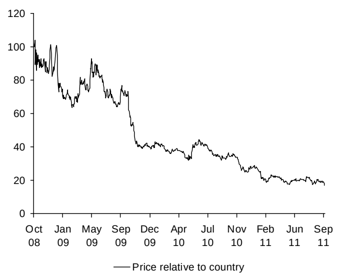
Source: RBS estimates

Company description

Hold

Reliance Communications is a leading integrated telecom service provider in India, with 136m wireless subs as of FY11. Its wireless subs market share is 17% and its wireless revenue market share is 9.2%. It serves consumer, enterprise and carrier customers. It provides a full spectrum of wireless (both GSM and CDMA services), wire line, long-distance voice and data, video and Internet communication services. It also offers direct-to-home (DTH) TV. Subsidiary Reliance Infratel had a tower portfolio of 50,000 as of Mar-11. The company is part of the Anil Dhirubhai Ambani group.

Price relative to country



Strategic analysis

Average SWOT company score: 3

Strengths 3

The company has a Pan-India network coverage with 50,000 cell sites and offers mobile services across both technologies (GSM and CDMA).

Weaknesses 1

Due to the company's late entry into GSM services (preferred technology in India), its quality of subs base is weaker compared with incumbent GSM operators, reflected by its revenue market share of 9.2% as of FY11 (versus subs market share of 16.7%).

Opportunities 4

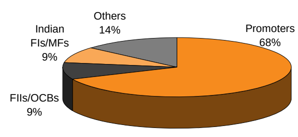
The company operates in India's telecom market, which remains under-penetrated with 48% active subs penetration. India’s fixed wireless penetration is less than 1%, and wireless broadband (with launch of 3G services) offers significant growth opportunity for the company.

Threats 2

Loss of CDMA mobile revenue owing to MNP and low barriers for subscribers to shift across technology. Unfavourable changes in licensing conditions (over spectrum pricing and allocation, spectrum re-farming, rollout obligation). Increase in competitive intensity in wireless broadband market.

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

Shareholding pattern



Source: BSE

Market data

Headquarters
H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai 400 071

Website
www.rcom.com

Shares in issue
2064.0m

Freefloat
32%

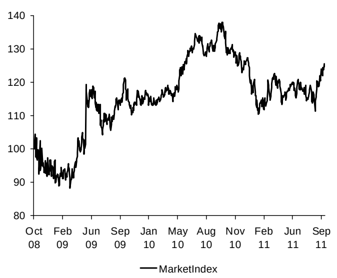
Majority shareholders
Promoter group (68%), LIC (7%), Ontario Teachers Pension Plan Board (2%)

Country view: India

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

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

Country rel to Asia Pacific



Competitive position

Average competitive score: 3+

Supplier power 4+

2G equipment is largely commoditised, given the maturity of the technology. The rise of Chinese players intensified price competition and greatly reduced the pricing power of European suppliers.

Barriers to entry 4+

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

Customer power 2-

With 8-plus operators in most circles, tariffs in India are low. However, MNP has enabled CDMA subs base to shift across technologies with no barriers to shift.

Substitute products 4+

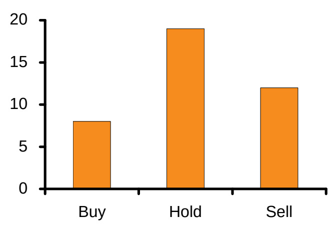
Mobile telephony tariffs in India are among the lowest worldwide and eat into the share of fixed-line telephony. Internet-based telephony has not had an impact, as PC penetration is very low.

Rivalry 3+

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

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

Broker recommendations



Source: Bloomberg

Recommendation structure

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

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

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

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

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

Distribution of recommendations

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

Long term recommendations (as at 03 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	851 (11)	552 (3)
Hold	409 (7)	224 (4)
Sell	87 (5)	48 (0)
Total (IB%)	1347 (9)	824 (3)

Source: RBS

Trading recommendations (as at 03 Oct 2011)

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

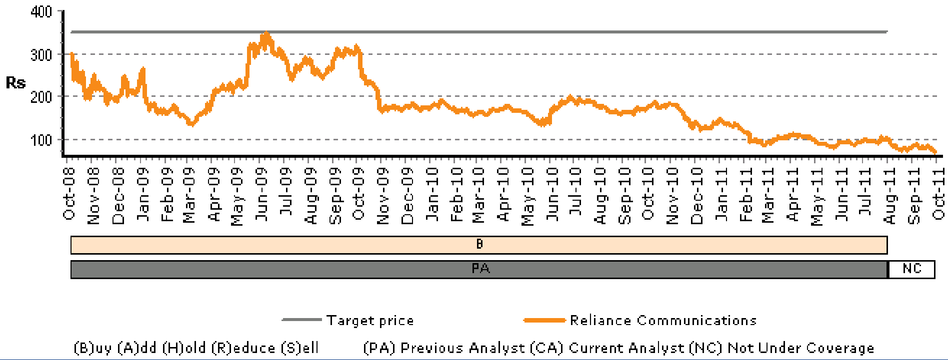
Source: RBS

Valuation and risks to target price

Reliance Communications (RIC: RLCM.BO, Rec: Hold, CP: Rs71.75, TP: Rs67.00): Our fair value estimate is based on a 25% discount to Bharti's India mobile business EV/EBITDA target valuation multiple. Key upside risks to our target price include: 1) if the company is able to de-leverage significantly by raising equity at higher-than-estimated fair value of the assets; 2) a higher-than-expected minute market share performance; and 3) higher-than-expected tariffs. Key downside risks: 1) lower-than-expected tariffs; and 2) lower-than-expected minute market share.

Reliance Communications coverage data

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



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

Trading recommendation history (as at 03 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: RBS

Regulatory disclosures

Global disclaimer

This Material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this Material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this Material. This Material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS' prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this Material is intended solely for distribution to professional and institutional investors.

THIS MATERIAL IS CLASSIFIED AS INVESTMENT RESEARCH AS DEFINED BY THE FINANCIAL SERVICES AUTHORITY.

Australia: This Material is issued in Australia by The Royal Bank of Scotland plc (ABN 30 101 464 528), 88 Phillip Street, Sydney NSW 2000, Australia which is authorised and regulated in Australia by the Australian Securities and Investments Commission (AFS License No. 241114) and the Australian Prudential Regulation Authority.

Canada: The securities mentioned in this Material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This Material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the Material. Any recommendations contained in this Material must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this Material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Netherlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: Material in connection only with equity securities is distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong. All other material is distributed in Hong Kong by The Royal Bank of Scotland plc (Hong Kong branch), 30/F AIA Central, 1 Connaught Road Central, Hong Kong, which is regulated by the Hong Kong Monetary Authority.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this Material wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons receiving this Material in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This Material is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than 'qualified investors" as this term is defined in the Federal Law "On the Securities Market".

Singapore: Material in connection only with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M) under MICA (P) 155/08/2011. All other material is distributed in Singapore by The Royal Bank of Scotland plc (Singapore branch) ("RBS plc Singapore") under MICA (P) 158/06/2011. Both entities are regulated by the Monetary Authority of Singapore. Singapore recipients should contact RBS Asia Securities or RBS plc Singapore at +65 6518 8888 for additional information. This material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are accredited investors, expert investors and institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA")). Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors, RBS Asia Securities and RBS plc Singapore are exempted by Regulation 35 of the Financial Advisers Regulations from the requirements in Section 36 of the Financial Advisers Act (Cap.110) of Singapore ("FAA") mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who are not accredited investors, expert investors or institutional investors should seek the advice of their independent financial advisors prior to making any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This Material is produced by The Royal Bank of Scotland N.V and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Material has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This Material is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these Materials by its acceptance hereof represents and agrees that it shall not distribute or provide these Materials to any other person. Any U.S. recipient of these Materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this Material, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website. Please use research.rbsm.com for Equity Research and http://strategy.rbsm.com/disclosures for FICC Research.

Our policy on managing research conflicts of interest can be found at https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2.

Should you require additional information please contact the relevant research team or the author(s) of this Material.