

June 15, 2010

Rating	Trading BUY
Price	Rs179
Target Price	Rs195
Implied Upside	8.9%
Sensex	17,338

(Prices as on June 14, 2009)

Trading Data

Market Cap. (Rs bn)	369.5
Shares o/s (m)	2,064.0
Free Float	32.42%
3M Avg. Daily Vol ('000)	9,430.0
3M Avg. Daily Value (Rs m)	1,519.2

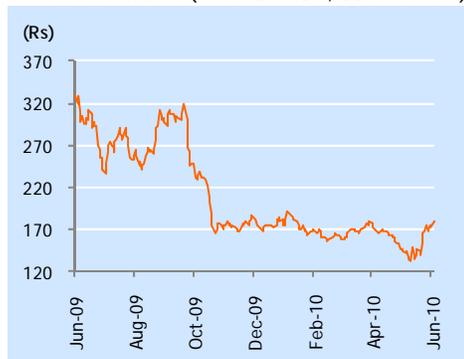
Major Shareholders

Promoters	67.58%
Foreign	7.69%
Domestic Inst.	9.76%
Public & Others	14.97%

Stock Performance

(%)	1M	6M	12M
Absolute	23.9	2.6	(43.9)
Relative	21.9	(0.1)	(60.5)

Price Performance (RIC: RLCM.BO, BB: RCOM IN)



Source: Bloomberg

Reliance Communications

Restructuring to raise significant cash

- **Reliance Communication (RCom) finally taking the demerger route:** RCom is restructuring Reliance Infratel by demerging its tower assets into a new entity for a consideration which include both, cash and stock. RCom will get shares in the demerged entity, deal contours are yet unknown.
- **Directionally things getting positive for RCom & its shareholders:** The concern on accounting policies, high net debt (Rs280bn) and fiercely competitive Indian markets has been a big overhang on the stock for the past 15 months. Recent 3G outflow of Rs87bn further aggravated that position. However, if the media news is to be believed, RCom can get as much as Rs150bn in cash and a partial ownership in the new entity post demerger. The cash shall be used to retire debt of the company. Also, RCom shareholders may get direct ownership in the tower company which is positive. Even if the stock deal is between the company and strategic investor, the cash raised would help in retiring debt which is positive for RCom shareholders.
- **RCom group tower portfolio consists of tenancy between their GSM & CDMA:** RCom currently has a portfolio of ~50k towers (split in 75:25 ground-based & roof-top towers). The tenancy of 1.76 includes GSM BTS of ~50K & CDMA BTS of ~30k. Third party tenants include Etisalat-DB with sharing arrangement in 15 circles and a potential deal size of Rs100bn spread over ten years.
- **Positive momentum for stock to continue:** RCOM is trying to reduce its leverage by raising funds via 26% stake sale to a strategic/PE investor (which may take some time). However, raising cash via demerger route of tower assets & roping in a strategic partner (skipping the IPO route) should help RCom deleverage its gross debt to ~Rs170bn. Lower interest burden, depreciation & O&M expenses of tower assets should nullify the Tower rental outgo at the P&L level. We rate the stock a 'Trading BUY'.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	229,411	222,502	245,071	277,175
Growth (%)	20.3	(3.0)	10.1	13.1
EBITDA (Rs m)	92,875	78,868	82,099	94,239
PAT (Rs m)	59,082	47,041	27,268	34,879
EPS (Rs)	28.6	22.8	13.2	16.9
Growth (%)	9.4	(20.4)	(42.0)	27.9
Net DPS (Rs)	1.5	0.9	-	1.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	40.5	35.4	33.5	34.0
RoE (%)	16.6	10.8	5.9	7.1
RoCE (%)	7.7	5.4	5.0	5.9
EV / sales (x)	2.8	2.5	2.6	2.2
EV / EBITDA (x)	7.0	7.2	7.6	6.4
PE (x)	6.3	7.9	13.5	11.5
P / BV (x)	0.9	0.8	0.8	0.7
Net dividend yield (%)	0.8	0.5	-	0.6

Source: Company Data; PL Research

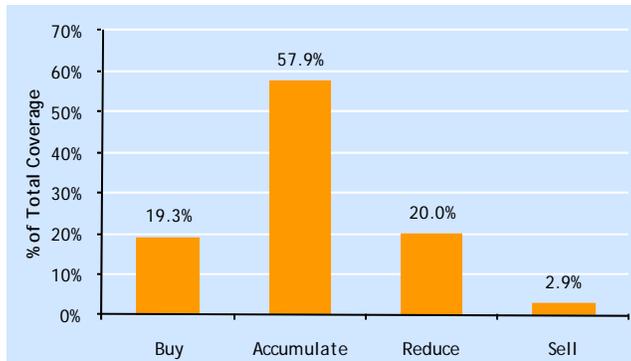
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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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