

# Reliance Communication

Rs477  
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs1,029bn; US\$25.1bn

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**Result:** Q4FY07

**Comment:** Results in line; ARPU discount to Bharti narrows to 8%

**Last report:** 09 April 2007 (Price Rs396; Recommendation: Out performer)

## Key financials

Year to March 31 (Rs mn)	Revenues	yoy change (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)	EVE (x)
2006	112,884	-	4,823	2.2	-	213.4	42.9
2007	144,683	28.2	31,639	14.7	nm	32.5	18.3
2008E	196,263	35.7	42,126	19.5	32.7	24.5	14.0
2009E	271,938	38.6	58,315	27.0	38.5	17.7	10.0

RCOM's revenues at Rs39.4b were marginally lower than our forecast of Rs39.6b mainly due to the decline in revenues in its Global business. In the Wireless business, it de-activated 5.58m subscriber connections in the quarter, which the company claims had been call barred from January onwards. As per the company, these subscribers were generating minimal revenues, hence the ARPUs rose by 15% to Rs377 (8% lower than Bharti's). RCOM's subscriber base shrunk to 28m (Bharti's - 37m). It transferred 12,000 towers to its subsidiary RTIL for Rs30b and plans to add another 20,000 towers in FY08, which would support multiple technologies. It plans to spend about \$2.5b as capex in the parent company (aside from the 20,000 towers in the tower subsidiary) in FY08. Going forward, we expect 37% CAGR in revenues and 40% in EBITDA over FY07-09E. It trades at 10x FY09 EBITDA, which is the lowest compared to Bharti and Idea. The company stated that value unlocking plans in Flag Telecom and RTIL (tower subsidiary) would be set out over the next couple of months. While we believe, Flag listing plans have been announced earlier and the current valuations partly discount the value in that business, the tower subsidiary value is yet to be discounted. Maintain Out performer.

## KEY HIGHLIGHTS

### □ 5.58m connections de-activated, ARPUs jump 15%

RCOM de-activated 5.58m subscriber connections as part of the subscriber re-verification exercise. The company stated that these subscribers were call barred from January onwards. Apparently, about 100,000 subscribers have been re-verified and their connections have been activated. RCOM's subscriber base declined to 28m as of March 2007, but ARPUs jumped by 15% to Rs377, which is 8% lower compared to Bharti's. The wireless business margins expanded by 140bp to 38.8% (39.1% for Bharti). RCOM population coverage remained at 54%.

### Some Key metrics

- Subscriber base at 28m, prepaid subscriber base – 84.7% (82.9% in the previous quarter)
- Blended APRU – Rs377 (Rs328 previous quarter)
- Blended MOU – 541 minutes (454 previous quarter)

- Revenue per minute – Rs0.7 (Rs0.72 previous quarter)
- Value-added services – 6.3% of revenues (SMS as % of mobile at 1.7%)

#### □ Global business performance disappointing

RCOM's global business comprises national and international long distance calling services including FLAG, which operates submarine cable system. Its global business revenues declined by 3% qoq to Rs12.9b and EBITDA margins declined 250bp during the quarter due to significant competition in the calling cards business segment. It contributed to 28% of overall revenues and 19% to EBITDA.

#### □ Broadband business shows modest performance

RCOM's broadband business revenues grew by 4.4% qoq, after growing at an average 18% qoq over the last three quarters. EBITDA margins expanded by 180bp to 48.8%. This business constituted 7% of overall revenues and 10% of EBITDA.

Rs m	Q1FY07	Q2FY07	Q3FY07	Q4FY07
<b>Revenue</b>	<b>32,501</b>	<b>35,260</b>	<b>37,553</b>	<b>39,369</b>
<i>qoq growth (%)</i>	9.4	8.5	6.5	4.8
License fee and access charges	9,286	9,068	9,491	9,978
<i>as % of Revenue</i>	28.6	25.7	25.3	25.3
Network operations	3,816	4,332	4,165	4,424
<i>as % of Revenue</i>	11.7	12.3	11.1	11.2
Employee	2,157	2,271	2,200	2,452
<i>as % of Revenue</i>	6.6	6.4	5.9	6.2
SG&A	5,180	6,063	6,426	6,164
<i>as % of Revenue</i>	15.9	17.2	17.1	15.7
<b>EBITDA</b>	<b>12,062</b>	<b>13,525</b>	<b>15,272</b>	<b>16,351</b>
margin	37.1	38.4	40.7	41.5
Dep and Amort	5,514	6,237	6,524	6,378
<i>as % of Revenue</i>	17.0	17.7	17.4	16.2
<b>EBIT</b>	<b>6,548</b>	<b>7,289</b>	<b>8,747</b>	<b>9,973</b>
margin	20.1	20.7	23.3	25.3

#### □ Net profit grows 10.8% qoq

RCOM's net profit at Rs10.2b grew 10.8% qoq and was above street estimates due to lower depreciation, higher other income and lower tax rate of 1.4%.

#### □ Capex of \$2.5b in parent company and 20,000 additional towers in tower subsidiary in FY08

RCOM transferred 12,000 towers to its tower subsidiary Reliance Telecom Infrastructure Ltd. (RTIL) for Rs30b. It plans to incur \$2.5b capital expenditure in the parent company to create active infrastructure. It claims that it requires to spend about \$1b to roll out GSM network in the additional 15 circles where it operates CDMA network. It also stated that it would be able to launch GSM services in those circles within a year of receiving spectrum.

#### □ Valuations and view

RCOM's results were broadly in line with expectations up to the EBITDA level. But higher other income and lower depreciation and tax rate lead to net profit being significantly higher than our expectation. Since we had assumed 5% tax rate for the next year, we are maintaining our forecast for FY08 and FY09. We expect 37% CAGR in revenues, 40% in EBITDA and 36% in PAT over FY07-09E. RCOM stated that value unlocking plans would be finalized in FLAG and RTIL (tower subsidiary) over the next couple of months. While we believe, value through FLAG listing is partly discounted currently, value unlocking in RTIL would provide a trigger. It is trading at 10x FY09 EBITDA, which is cheaper than Bharti's 11.2x and Idea's 12.5x. Maintain Out performer.

## Quarterly results

Year to 31 March (Rs m)	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07	FY08E
<b>Revenues</b>	<b>29,704</b>	<b>32,501</b>	<b>35,260</b>	<b>37,553</b>	<b>39,369</b>	<b>144,683</b>	<b>196,263</b>
<i>yoy change (%)</i>	<i>na</i>	42.4	39.8	25.6	32.5	28.2	35.7
<i>qoq change (%)</i>	(0.7)	9.4	8.5	6.5	4.8	-	-
Expenditure	19,282	20,439	21,734	22,281	23,017	87,472	116,244
<b>EBITDA</b>	<b>10,422</b>	<b>12,062</b>	<b>13,525</b>	<b>15,272</b>	<b>16,352</b>	<b>57,211</b>	<b>80,019</b>
Net interest	479	999	56	(657)	(391)	7	1,612
Depreciation and amortization	5,457	5,514	6,237	6,524	6,378	24,653	33,717
<b>PBT</b>	<b>4,541</b>	<b>5,549</b>	<b>7,233</b>	<b>9,404</b>	<b>10,365</b>	<b>32,551</b>	<b>44,361</b>
Tax	137	272	59	130	148	610	2,235
Extraordinary	374	150	150	30	(27)	303	-
<b>PAT</b>	<b>4,029</b>	<b>5,127</b>	<b>7,023</b>	<b>9,244</b>	<b>10,244</b>	<b>31,639</b>	<b>42,126</b>
<i>yoy change (%)</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	198.2	154.3	<i>nm</i>	33.1
<i>qoq change (%)</i>	30.0	27.3	37.0	31.6	10.8	-	-
EBITDA margin (%)	35.1	37.1	38.4	40.7	41.5	39.5	40.8
Net margin (%)	13.6	15.8	19.9	24.6	26.0	21.9	21.5

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