

UBS Investment Research

Reliance Communication Limited

RCOM FY09 Annual report analysis

■ Net interest income gets a boost from dividend income

RCOM released its FY09 annual report last week, which provides insights on few concerns that have perturbed the investor community. Primary one being the interest income of Rs5.1b in FY09 despite having net debt of Rs282.0b. RCOM's net finance charge was boosted by dividend income of Rs13.4bn from one of its subsidiaries besides Rs1.9bn income from FX fluctuations. Excluding them RCOM had a net interest expense of Rs10.2bn. RCOM also reclassified Rs56.1b of current liab. as foreign currency debt in its annual report from its earlier quarterly report.

■ Shareholders' equity up due to asset revaluation

RCOM's shareholders' equity during FY09 increased by Rs142.9b largely due to consolidation of one of its subsidiaries whose assets (mainly intangibles – telecom licenses) were revaluated at the time of amalgamation. The revaluation resulted in an increase of Rs123.4b in general reserve. Excluding this RCOM's equity & net debt/equity would have been Rs299.4b & 0.9x vs. reported Rs422.8b & 0.7x resp.

■ Annual report also throws some light on subsidiaries performance

RITL's revenue and net profit were Rs49.3b and Rs16.9b respect. over an asset base of Rs207.6b while DTH business generated revenue and net loss of Rs1.1b and Rs0.8b respect. over an asset base of Rs3.4b

■ Valuation: Maintain Buy with SoTP based PT of Rs360

We believe RCOM has the potential to re-rate from here as investors start ascribing a higher valuation to RITL given the tower sharing deals announcement. We see upside risks to our estimates and valuation for Infratel.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	190,678	229,411	269,837	334,344	380,970
EBIT (UBS)	53,938	53,562	63,600	88,153	110,033
Net Income (UBS)	53,632	59,153	52,741	62,876	79,574
EPS (UBS, Rs)	25.98	28.45	25.18	30.02	37.99
Net DPS (UBS, Rs)	0.75	2.88	4.68	5.10	7.83

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	-	23.3	23.6	26.4	28.9
ROIC (EBIT) %	-	10.5	10.2	13.5	16.5
EV/EBITDA (core) x	-	10.2	7.8	5.9	4.7
PE (UBS) x	-	11.9	12.1	10.1	8.0
Net dividend yield %	-	0.9	1.5	1.7	2.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs304.55 on 08 Sep 2009 21:31 EDT

Suresh A Mahadevan, CFA

Analyst
suresh.mahadevan@ubs.com
+91-22-6155 6066

Nupur Agarwal

Associate Analyst
nupur.agarwal@ubs.com
+91-22-6155 6054

Global Equity Research

India

Wireless Communications

12-month rating **Buy**
Unchanged

12m price target **Rs360.00/US\$7.41**
Unchanged

Price **Rs304.55/US\$6.27**

RIC: RLCM.BO BBG: RCOM IB

8 September 2009

Trading data (local/US\$)

52-wk range	Rs405.25-132.25/US\$9.06-2.55
Market cap.	Rs628bn/US\$12.9bn
Shares o/s	2,063m (ORD)
Free float	33%
Avg. daily volume ('000)	2,944
Avg. daily value (Rsm)	841.3

Balance sheet data 03/10E

Shareholders' equity	Rs412bn
P/BV (UBS)	1.5x
Net Cash (debt)	(Rs225bn)

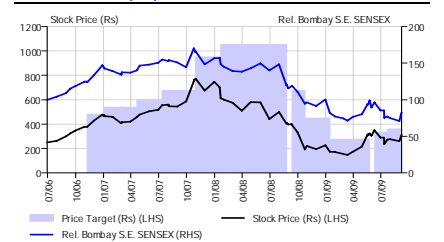
Forecast returns

Forecast price appreciation	+18.2%
Forecast dividend yield	1.8%
Forecast stock return	+20.0%
Market return assumption	12.0%
Forecast excess return	+8.0%

EPS (UBS, Rs)

	03/10E		03/09
	UBS	Cons.	Actual
Q1E	7.87	7.93	7.58
Q2E	5.03	-	7.67
Q3E	5.92	-	6.95
Q4E	6.36	-	6.24
03/10E	25.18	25.44	
03/11E	30.02	29.27	

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Table 1: RCOM net financial charges (income) analysis

(Rs billions)	FY09	FY08
Interest cost on loans	12.1	10.3
Other financial cost	0.5	0.4
Foreign currency fluctuation (Gain)/loss (net)	-1.9	-4.2
Financial charges	10.7	6.5
Income from investments & int. income	2.4	1.0
Distribution of income by RCOM shareholders trust	13.4	
Financial income	15.8	1.0
Net financial charges (income) pre adjustment	-5.1	5.4
Net financial charges (income) after adjustment¹	10.2	9.6

Source: Company reports and UBS; Note1: Adjusted for FX fluctuations and one-time items.

Table 2: RCOM Adjusted FY09 shareholders' equity

(Rs billions)	FY09
Shareholders' equity as reported by RCOM	422.8
Adjustment for assets revaluation due to RGNL amalgamation	123.4
Adjusted Shareholders' equity	299.4

Source: Company reports and UBS

Table 3: RCOM Net debt to equity ratio analysis

(Rs billions)	FY09 as reported	FY09 after adjustment ¹	FY08
Gross Debt	391.6	391.6	258.2
Cash and cash equivalents	109.7	109.7	117.4
Net Debt	282.0	282.0	140.8
Shareholders' equity	422.8	299.4	290.3
Net Debt / Equity (x)	0.7x	0.9x	0.5x

Source: Company reports and UBS; Note1: Equity adjusted for asset revaluation of Rs123.4b due to Reliance gateway net limited (RGNL) amalgamation.

Table 4: RCOM key subsidiaries' FY09 financials

(Rs millions)	Capital	Reserves	Total assets	Total Income	Profit after tax
Reliance Communication Infrastructure Limited	2,010.2	27,482.3	89,397.7	40,960.3	2,661.8
Reliance Infratel Limited	3,990.2	36,377.7	207,613.7	49,339.6	16,857.2
Reliance Telecom Limited	800.0	1,388.7	115,984.4	20,508.3	-1,742.9
Reliance BigTV Limited	100.0	-831.5	3,354.1	1,056.7	-842.4

Source: Company reports

Reliance Communication Limited

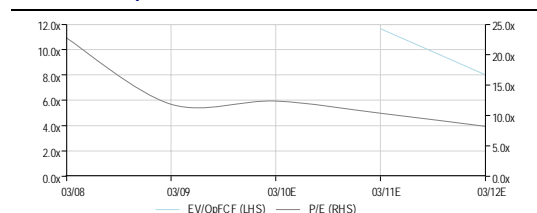
Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	-	112,884	144,683	190,678	229,411	269,837	17.6	334,344	23.9	380,970	13.9
Operating expenses (ex deprecn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	-	24,786	57,206	81,991	92,875	110,762	19.3	142,006	28.2	169,483	19.3
Depreciation	-	(16,987)	(24,653)	(28,053)	(39,313)	(47,161)	20.0	(53,852)	14.2	(59,450)	10.4
Operating income (EBIT, UBS)	-	7,799	32,553	53,938	53,562	63,600	18.7	88,153	38.6	110,033	24.8
Other income & associates	-	0	0	0	0	0	-	0	-	0	-
Net interest	-	(2,649)	(4)	3,997	7,867	(415)	-	(9,280)	2135.1	(10,273)	10.7
Abnormal items (pre-tax)	-	(374)	(302)	12,828	(75)	(111)	47.2	0	-	0	-
Profit before tax	-	4,776	32,247	70,763	61,354	63,074	2.8	78,874	25.0	99,759	26.5
Tax	-	(327)	(616)	(2,836)	123	(6,178)	-	(9,468)	53.3	(16,698)	76.4
Profit after tax	-	4,449	31,632	67,927	61,477	56,896	-7.5	69,405	22.0	83,061	19.7
Abnormal items (post-tax)	-	0	0	(12,448)	0	0	-	0	-	0	-
Minorities / pref dividends	-	0	0	(1,467)	(2,399)	(4,266)	77.8	(6,530)	53.1	(3,487)	-46.6
Net income (local GAAP)	-	4,449	31,632	54,012	59,078	52,630	-10.9	62,876	19.5	79,574	26.6
Net Income (UBS)	-	4,823	31,934	53,632	59,153	52,741	-10.8	62,876	19.2	79,574	26.6
Tax rate (%)	-	7	2	4	0	10	-	12	22.6	17	39.4
Pre-abnormal tax rate (%)	-	6	2	5	0	10	-	12	22.8	17	39.4
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	-	2.18	15.47	26.17	28.41	25.13	-11.6	30.02	19.5	37.99	26.6
EPS (UBS)	-	2.36	15.62	25.98	28.45	25.18	-11.5	30.02	19.2	37.99	26.6
Net DPS	-	0.00	0.50	0.75	2.88	4.68	62.8	5.10	8.9	7.83	53.6
Cash EPS	-	10.67	27.67	39.58	47.35	47.69	0.7	55.73	16.8	66.37	19.1
BVPS	-	96.08	99.15	123.40	177.94	196.80	10.6	221.27	12.4	250.09	13.0
Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	-	214,263	330,422	523,126	729,476	789,207	8.2	815,772	3.4	827,570	1.4
Net intangible fixed assets	-	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	-	(63,931)	(102,358)	(103,741)	(128,159)	(141,853)	10.7	(153,875)	8.5	(157,312)	2.2
Other liabilities	-	0	(26)	(1,028)	0	(936)	-	(936)	0.0	(936)	0.0
Operating invested capital	-	150,333	228,038	418,357	601,317	646,418	7.5	660,961	2.2	669,322	1.3
Investments	-	121	77,114	109,996	2,857	2,857	0.0	2,857	0.0	2,857	0.0
Total capital employed	-	150,453	305,152	528,354	604,174	649,275	7.5	663,818	2.2	672,179	1.3
Shareholders' equity	-	117,515	202,719	254,609	370,003	412,240	11.4	463,489	12.4	523,867	13.0
Minority interests	-	0	56	24,309	8,228	12,494	51.9	19,024	52.3	22,511	18.3
Total equity	-	117,515	202,775	278,918	378,231	424,735	12.3	482,514	13.6	546,378	13.2
Net debt / (cash)	-	32,938	102,377	249,435	225,943	224,541	-0.6	181,305	-19.3	125,801	-30.6
Debt deemed provisions	-	0	0	0	0	0	-	0	-	0	-
Total capital employed	-	150,453	305,152	528,354	604,174	649,275	7.5	663,818	2.2	672,179	1.3
Cash flow (Rsm)	03/05	03/10	03/11	03/12	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	-	7,799	32,553	53,938	53,562	63,600	18.7	88,153	38.6	110,033	24.8
Depreciation	-	16,987	24,653	28,053	39,313	47,161	20.0	53,852	14.2	59,450	10.4
Net change in working capital	-	17,304	38,428	1,382	23,391	14,630	-37.5	12,022	-17.8	3,437	-71.4
Other (operating)	-	3,615	33,852	(38,981)	(2,399)	4,266	-	6,530	53.1	3,487	-46.6
Operating cash flow	-	45,705	129,486	44,392	113,867	129,658	13.9	160,558	23.8	176,407	9.9
Net interest received / (paid)	-	(2,649)	(4)	3,997	7,867	(415)	-	(9,280)	2135.1	(10,273)	10.7
Dividends paid	-	0	(1,023)	(1,183)	(5,981)	(10,393)	73.8	(11,627)	11.9	(19,196)	65.1
Tax paid	-	(327)	(616)	(2,836)	123	(6,178)	-	(9,468)	53.3	(16,698)	76.4
Capital expenditure	-	(36,172)	(52,488)	(173,928)	(191,763)	(106,893)	-44.3	(80,417)	-24.8	(71,248)	-11.4
Net (acquisitions) / disposals	-	0	0	(29,791)	107,139	0	-	0	-	0	-
Other	-	-	6,550	7,764	35,243	0	-	0	-	0	-33.3
Share issues	-	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	-	6,183	81,604	(138,757)	66,420	5,669	-91.5	49,766	777.9	58,991	18.5
FX / non cash items	-	-	(151,043)	(8,301)	(42,928)	(4,266)	-90.1	(6,530)	53.1	(3,487)	-46.6
Balance sheet (inc)/dec in net debt	-	-	(69,439)	(147,058)	23,492	1,402	-94.0	43,236	2983.4	55,504	28.4
Core EBITDA	-	24,786	57,206	81,991	92,875	110,762	19.3	142,006	28.2	169,483	19.3
Maintenance capital expenditure	-	(36,172)	(52,488)	(173,928)	(191,763)	(106,893)	-44.3	(80,417)	-24.8	(71,248)	-11.4
Maintenance net working capital	-	17,304	38,428	1,382	23,391	14,630	-37.5	12,022	-17.8	3,437	-71.4
Operating free cash flow, pre-tax	-	5,918	43,146	(90,555)	(75,497)	18,499	-	73,611	297.9	101,671	38.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

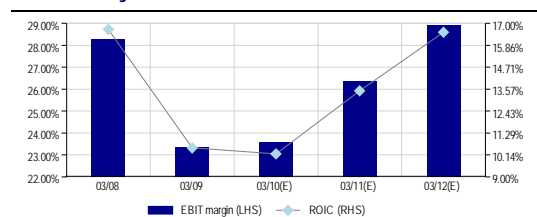
Company profile

Reliance Communications (RCOM) was formed in the wake of the reorganisation of the Reliance group. RCOM's businesses have been structured into three strategic business units (SBUS)-wireless, global and broadband. The mobile services group provides CDMA mobile services across India in 23 telecom circles, and GSM mobile services in eight circles. RCOM currently has a subscriber market share of 17%. The global business group provides national and international long-distance calling services. The broadband group has a portfolio of enterprise voice, data, video, internet and IT infrastructure services.

Value (EV/OpFCF & P/E)



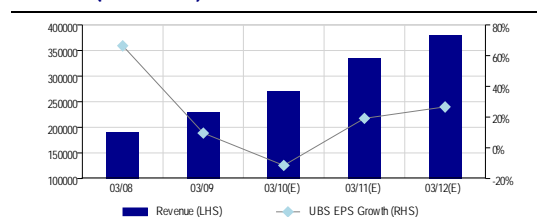
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	22.6	11.9	12.1	10.1	8.0
P/E (UBS)	-	22.7	11.9	12.1	10.1	8.0
P/CEPS	-	14.9	7.1	6.4	5.5	4.6
Net dividend yield (%)	-	0.1	0.9	1.5	1.7	2.6
P/BV	-	4.8	1.9	1.5	1.4	1.2
EV/revenue (core)	-	6.8	4.1	3.2	2.5	2.1
EV/EBITDA (core)	-	15.7	10.2	7.8	5.9	4.7
EV/EBIT (core)	-	23.9	17.7	13.5	9.6	7.3
EV/OpFCF (core)	-	NM	NM	NM	11.5	7.9
EV/op. invested capital	-	4.0	1.9	1.4	1.3	1.2

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,209,850	696,712	628,377	628,377	628,377
+ minority interests	12,183	16,269	10,361	15,759	20,768
+ average net debt (cash)	175,906	237,689	225,242	202,923	153,553
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(109,996)	(2,857)	(2,857)	(2,857)	(2,857)
Core enterprise value	1,287,942	947,812	861,123	844,202	799,840

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	-	31.8	20.3	17.6	23.9	13.9
EBITDA (UBS)	-	43.3	13.3	19.3	28.2	19.3
EBIT (UBS)	-	65.7	-0.7	18.7	38.6	24.8
EPS (UBS)	-	66.4	9.5	-11.5	19.2	26.6
Cash EPS	-	43.0	19.7	0.7	16.8	19.1
Net DPS	-	50.0	NM	62.8	8.9	53.6
BVPS	-	24.5	44.2	10.6	12.4	13.0

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	-	43.0	40.5	41.0	42.5	44.5
EBIT / revenue	-	28.3	23.3	23.6	26.4	28.9
Net profit (UBS) / revenue	-	28.1	25.8	19.5	18.8	20.9

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	-	16.7	10.5	10.2	13.5	16.5
ROIC post tax	-	15.9	10.5	9.2	11.9	13.8
Net ROE	-	23.5	18.9	13.5	14.4	16.1

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	-	-	NM	9.5	10.7
Dividend cover (UBS EPS)	-	NM	9.9	5.4	5.9	4.9
Div. payout ratio (% , UBS EPS)	-	2.9	10.1	18.6	17.0	20.6
Net debt / EBITDA	-	3.0	2.4	2.0	1.3	0.7

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	-	0.6	0.4	0.4	0.5	0.6
Revenue / fixed assets	-	0.4	0.4	0.4	0.4	0.5
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	-	NM	NM	0.3	0.8	0.9
Capex / revenue (%)	-	NM	NM	NM	24.1	18.7
Capex / depreciation	-	6.2	4.9	2.3	1.5	1.2

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	-	98.0	61.1	54.5	39.1	24.0
Net debt / (net debt + equity)	-	49.5	37.9	35.3	28.1	19.4
Net debt (core) / EV	-	13.7	25.1	26.2	24.0	19.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs304.55 on 08 Sep 2009 21:31 EDT Market cap(E) may include forecast share issues/buybacks.

Suresh A Mahadevan, CFA

Analyst

suresh.mahadevan@ubs.com

+91-22-6155 6066

Nupur Agarwal

Associate Analyst

nupur.agarwal@ubs.com

+91-22-6155 6054

■ **Reliance Communication Limited**

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■ **Statement of Risk**

We believe risks for RCOM include potential inefficiency related to operating two different networks (GSM and CDMA), the challenge of scaling up and executing well in light of the rapid growth in India's mobile penetration, and the risk that the company might not be allocated additional 2G and 3G spectrum. There is low visibility for capex associated with the GSM strategy, as it will depend on the amount of spectrum allocated as well as which circles can be allocated additional spectrum. Intense competitive environment prevailing in India is also a risk.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Reliance Communication Limited^{2,4}	RLCM.BO	Buy	N/A	Rs311.60	07 Sep 2009

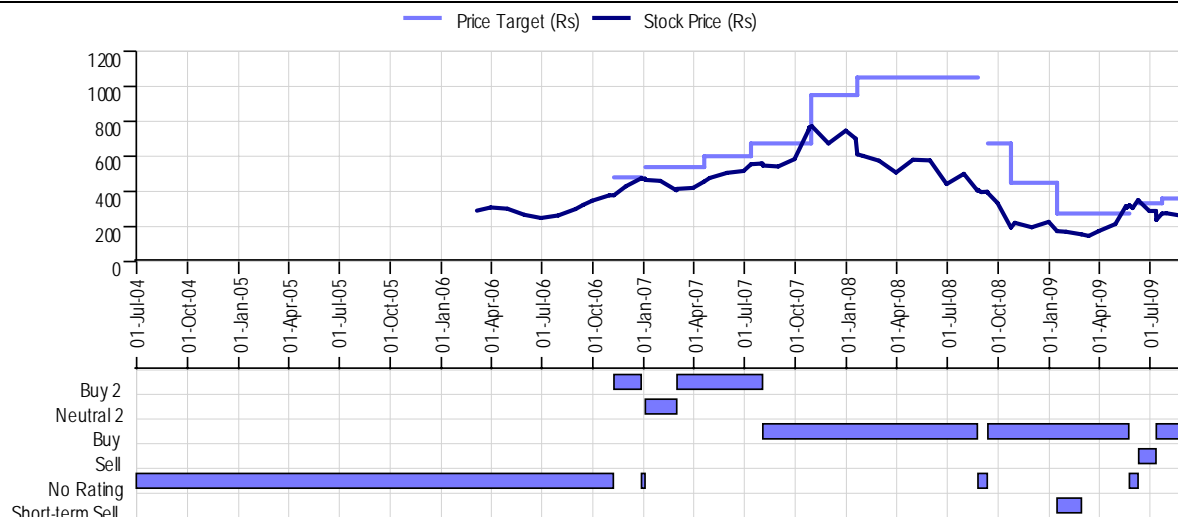
Source: UBS. All prices as of local market close.

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Reliance Communication Limited (Rs)



Source: UBS; as of 07 Sep 2009

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