

May 3, 2006

## India Telecommunications RCVL- Higher Disclosures: A Pleasant Surprise

**Quick Comment:** Reliance Communication Ventures Limited (RCVL) announced its unaudited consolidated F4Q06 results and released key operating and financial data for the first time. Key details are as follows:

The company's cumulative capex spend to F2006 was US\$5.8 bn of which 57% was in the wireless, 30% in the broadband, 5% global division and 8% in others. This is 39.03% higher than Bharti's capex. The capex for F2006 was US\$871.6 mn compared to Bharti's capex of US\$1.4 bn.

The company invested US\$311 mn in F4Q06 as compared to Bharti's capex of US\$519 mn. We believe the company's lower capex spend than Bharti is due to the latter's large network and the restructuring process being carried out by Bharti.

On the financial front, for F4Q06, although RCVL's revenue stagnated, its EBDITA and net profit increased by 23% and 30%, respectively. EBITDA margins increased from 28% to 35% on a sequential basis, largely due to a reduction in all major expenses.

For the whole year of operations revenue, EBIDTA and net profit for the company stood at Rs112.88 bn, Rs22.75 bn and Rs2.47 bn, respectively.

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### Stock Data

Rating	NOT RATED
Ticker (Bloomberg)	RCVL.IN
Price (April 28, 2006)	Rs 320.
Market Cap (in Rs. bn)	391.4
Foreign Ownership (%)	26.17%
Outstanding Shares (mn)	1223.1

### Company Description

Reliance Communication Ventures Limited has a pan India coverage and provides wireless, wireline and long distance, voice data, and internet communication services. It has 20 million subscribers and has a market share of 17% in the wireless space.

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**As of March 2006, the RCVL subscriber base stood at 20.5 million;** with 15.4 mn CDMA, 1.9 mn GSM, 2.7 mn fixed wireless terminal and 0.2.wirline subscribers, with a 19.2% market share in the wireless space. RCVL's wireless net additions for the quarter of 2.6 mn subs was the highest ever, up 156% sequentially and comprised of 2.4mn CDMA and 0.24mn GSM subs. The company had a 17% share in the wireless net adds pie, behind Bharti and BSNL who had a 21.4% and 20.9% net adds market share, respectively, for the quarter ending March 2006.

RCVL's financial performance for F1Q06-F4Q06 is shown in Exhibit 1.

For the quarter F4Q06, RCVL's revenue stagnated showing a decline of 0.7%, but, EBITDA increased by 22.9% sequentially due to higher margins. The company has restated its F3Q06 earnings from Rs33.27 billion to Rs29.91 billion; however, it has not disclosed the reason for the re-statement. EBITDA margins grew from 23.2% in F3Q06 to 27.6% in F4Q06, driven by overall robust growth in all divisions and a reduction in expenses.

All the basic costs for the company as a percentage of sales fell on a sequential basis. Network operation costs and Access & License Fees have declined by 266 bps and 186 bps, while Employee and Selling & General costs declined by 103 and 113 bps, respectively. Overall, total expenses showed a decline of 673 bps.

**Cumulative Capex to F2006 was Rs259.6 billion (US\$5.77 billion).** The company's cumulative capex up to F2006 was US\$5.8 billion of which 57% was in the wireless, 30% in the broadband, 5% in the global division and 8% in others. Capex for F2006 was US\$ 871.6 million. The company now has coverage in 3,824 Census towns (and a presence in over 242,814 Non-Census towns and villages).

**Wireless division.** The division's revenues and EBITDA increased sequentially by 7.0% and 18.5%, respectively, in F4Q06. The division's EBITDA margins rose from 32.3% in F3Q06 to 35.7% in F4Q06, driven by record customer acquisitions, economies of scale, cost efficiencies and productivity gains.

The introduction of micro prepaid lower denomination coupons, and the lifetime packages coupled with changes in the interconnect regime, which lowered long distance rates, led to a 8.5% fall in sequential Gross ARPUs. The net ARPU's showed a higher sequential decline of 9.3% in F4Q06. The company's ARPUs at Rs 375/sub are at a 15.2%

discount to Bharti's ARPUs. Though the overall traffic increased, the Minutes of Usage (MoU) declined by 2.74% sequentially to Rs 532mins/month. This is, however, 23.4% higher than Bharti's F4Q06 MOUs. Revenue per minute averaged Rs 0.70, a decrease of 7.1% compared with the prior quarter and is 30% lower than Bharti's RPM for F4Q06. Having said that, the company's EBITDA margins were only 53 bps lower than Bharti's margins.

For F4Q06, prepaid customers formed 89% of the wireless nets adds. Prepaid subscribers formed 79.3% of the total wireless subscriber base as compared to 77.5% in F3Q06. Bharti had 97.9% of its net adds and 82.7% of the total wireless subscriber base as prepaid subscribers.

Although the total churn increased from 1.8% in F2Q06 to 2.1% this quarter, it was much lower than Bharti's churn of 5.2%

Non-voice revenue increased from 5.5% of the wireless average revenue in F3Q06 to 6.1% in F4Q06, while the share of SMS revenues increased to 1.7% from 1.3% for the same period. However, this is still lower than Bharti's non-voice revenues of 10.7% and SMS revenue of 6.8%.

RCVL had coverage in 3,824 Census towns (and presence in over 242,814 Non-Census towns and villages) and had 6.4mn wireless multimedia users and 320k wireless internet subscribers as at F4Q06.

#### Global Business

**In F4Q06,** revenues and EBITDA sequentially increased by 1.7% and 32.8%, respectively. The division's EBITDA margins rose from 14.2% in F3Q06 to 18.6% in F4Q06, driven by increased volumes in long distance voice and international data and cost efficiencies.

Interestingly, revenue originating from this business is nearly twice that of Bharti's long distance business.

The NLD MOUs increased by 13.19% on a sequential basis but ILD minutes were stagnant at 0.42%. This may be attributed to the reduced tariff under new launched schemes like the ONE India scheme, where a customer can make a call at one rupee (US2 cents) anywhere in the country leading to high proportion of national long distance calls.

### Broadband and Wireline division.

This division experienced high growth in both revenue and EBITDA of 53.5% and 65.5%, respectively, in F4Q06. EBITDA margins have swung from negative in F1Q06 to a positive 31.3% in F4Q06 led by a broadening customer base. The number of access lines showed an 18.0% increase on a sequential basis with 256k active lines in F4Q06 as against 1347k lines at Bharti. Although RCVL has a smaller customer base, its average revenue per line (ARPL) for F4Q06 was Rs2,341/line, which is more than double Bharti's ARPL of Rs1,063/line.

The company was operational in 18 circles and 30 towns and is engaged in an aggressive expansion spree. It increased its last mile connectivity by bringing the fibre to 101k buildings in F4Q06, which is a 76% jump from the previous quarter and

Exhibit 1

### RCVL: Quarterly Financial Performance

Rs mn	F1Q06	F2Q06	F3Q06	F4Q06	% Growth
(period ending)	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	QoQ
Total Revenues	25,400	27,870	29,910	29,700	-0.7%
Access charges and Licence Fee	8,550	8,760	10,920	10,290	-5.8%
Total Cost	25,140	24,280	21,430	19,280	-10.0%
EBDITA	260	3,590	8,480	10,420	22.9%
Net Interest	350	540	1,280	420	-67.2%
Depreciation and Amortisation	3,760	3,790	3,980	5,460	37.2%
Cash profit from Operations	(90)	3,050	7,200	10,000	38.9%
PBT	(3,850)	(740)	3,220	4,540	41.0%
Tax	60	10	120	140	16.7%
PAT	(3,910)	(750)	3,100	4,400	41.9%
Extraordinary Items	-	-	-	370	
Profit after Tax	(3,910)	(750)	3,100	4,030	30.0%
OPM (%)	1.0	12.9	28.4	35.1	23.7
Wireless ARPU					
Gross ARPU	399	420	412	NA	
Net ARPU	255	266	271	NA	
Access and Licence Fee of Revenues (%)	34	31	37	35	-5

Source: Company data

Exhibit 2

### RCVL: Subscriber Base

	4Q06	4Q05	% Chg	F3Q06	% Chg	FF2006	F2005	% Chg
('000 Subs)	31-Mar-06	31-Mar-05	YoY	31-Dec-05	QoQ	31-Mar-06	31-Mar-05	YoY
GSM	1,904	1,116	70.6%	1,665	70.6%	1,904	1,116	71%
CDMA	15,407	9,330	65.1%	13,015	65.1%	15,407	9,330	65%
Wireline	3,135	1,311	139.2%	2,568	139.2%	3,135	1,311	139%
Total	20,446	11,757	73.9%	17,247	18.5%	20,446	11,757	74%

Source: TRAI, COAI, Morgan Stanley Research

almost a three-fold increase from F2Q06 figures, in terms of buildings covered.

### Mobilisation of Resources

RCVL has raised Rs2,224 Crore (US\$ 500 million) through the issue of Foreign Currency Convertible Bonds (FCCBs) during the quarter. The FCCBs have a 5-year maturity, YTM of 4.65% per annum and carry a conversion price of Rs480.68 per share. When fully converted into equity, the FCCBs would increase RCVL's share capital by approximately 4.62 crore-equity shares of Rs5 each only, which is 2% of the fully diluted equity share capital. The company had a net debt of Rs32.93 billion and a debt to equity ratio of 0.28 as on March 31, 2006.

Exhibit 3

**Mobility Business**

Wireless	F2Q06	F3Q06	F4Q06	Growth
	30-Sep-05	31-Dec-05	31-Mar-06	Q-o-Q
Town Covered	3,545	3,684	3,824	3.80%
Towns/villages covered	219,453	235,971	242,814	2.90%
Market Share(%)	0	21	21	0.48%
Pre-paid as % of total wireless (%)	77.30	77.50	79.30	2.32
Pre-paid as of total net adds (%)	78.30	79.20	89.00	12.37
Wireless ARPU(Rs/sub)	417	410	375	-8.54%
Wireless net ARPU(Rs/sub)	263	269	244	-9.29%
Churn()	1.80%	2.2	2.1	
Total Wireless MOU (Bn mins)	23.97	26.22	29.69	13.23%
Wireless MOU per customer/month	568	547	532	-2.74%
Wireless RPM	0.73	0.75	0.70	-6.67%
SMS Revenue( of ARPU)	1.4	1.3	1.7	30.77%
Non-voice Revenue( of ARPU)	6	5.5	6.1	10.91%
Wireless Multimedia Users (mn)	4.2	5.3	6.4	20.75%
Wireless Internet Users('000)	295.2	302.0	320.4	6.12%

Source: Company data

Exhibit 4

**Comparison: Reliance Vs Bharti**

F4Q06	Reliance	Bharti
Rs mn		
<b>Total Revenues</b>	29,910	34,113
EBDITA	10,420	12,782
PAT	4,400	6,823
<b>Revenues</b>		
Wireless	21,200	24,134
Global	14,150	7,463
Broadband	1,950	4,102
<b>EBITDA</b>		
Wireless	7,570	8746
Global	2,630	2394
Broadband	606	934
<b>OPM</b>		
Wireless (%)	36	36
Global (%)	19	32
Broadband (%)	31	23
<b>Wireless Division</b>		
Gross ARPU (Rs/sub)	375	442
SMS Revenue( %ARPU)	1.7	6.3
Non-voice Revenue( % ARPU)	6.1	9.4
Towns	3824	3780
<b>Broadband Division</b>		
Subscribers('000)	256	1,347
ARPU (Rs/Sub)	2,341	1,063

Source: Company data, Morgan Stanley Research

Exhibit 5

**Operational Performance: Quarterly**

Rs mn	F1Q06	F2Q06	F3Q06	F4Q06	% Growth
(period ending)	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	QoQ
<b>Revenue</b>	30,840	35,110	36,090	37,740	4.6%
Wireless	15,050	18,010	19,810	21,200	7.0%
Global	14,780	16,200	13,910	14,150	1.7%
Broadband	1,010	900	1,270	1,950	53.5%
Others	-	-	1,100	440	-60.0%
Interdivision revenues	5,440	7,310	6,180	8,040	
Total Net revenues	25,400	27,800	29,700	29,910	0.7%
<b>EBITDA</b>	3,440	6,090	8,360	10,420	24.6%
Wireless	3,400	5,070	6,390	7,570	18.5%
Global	280	890	1,980	2,630	32.8%
Broadband	(240)	130	240	610	154.2%
Others	0	-	580	200	-65.5%
<b>OPM</b>					
Wireless (%)	22.6	28.2	32.3	35.7	10.7
Global (%)	1.9	5.5	14.2	18.6	30.6
Broadband (%)	NM	14.4	18.9	31.3	65.5

Source: Company data

Exhibit 6

**Operational Performance: Global Business**

Global	F2Q06	F3Q06	F4Q06	Growth
	30-Sep-05	31-Dec-05	31-Mar-06	Q-o-Q
Total ILD minutes	1,082	1,183	1,188	0.42%
Total NLD minutes	2,271	2,434	2,755	13.19%
Long Distance net RPM	0.62	0.69	0.77	11.59%

Source: Company data

Exhibit 7

**Operational Performance: Broadband Business**

Broadband	F2Q06	F3Q06	F4Q06	Growth
	30-Sep-05	31-Dec-05	31-Mar-06	Q-o-Q
Circles Operational	18	18	18	0.00%
Towns active	29	29	30	3.45%
Access lines('000)	173	217	256	17.97%
Net Additions ('000)	39	44	39	-11.36%
ARPL (Rs/line)	2,150	2,386	2,341	-1.89%
Buildings directly connected('000)	30.54	57.79	101.74	76.05%

Source: Company data

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**Hong Kong**

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**Industry Coverage: India Telecommunications**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (04/28/2006)</b>
<b>Vinay Jaising</b>		
Bharti Airtel Limited (BRTI.BO)	O (04/11/2002)	Rs405.85
Mahanagar Telephone Nigam (MTNL.BO)	U (02/07/2005)	Rs211.70
Videsh Sanchar Nigam (VSNL.BO)	U (10/22/2002)	Rs416.20

Stock Ratings are subject to change. Please see latest research for each company.