

# UBS Investment Research

## Reliance Communication Limited

### Incrementally positive news flows

#### ■ Sale of tower assets = potential deleveraging

According to CNBC, four bidders have shown interest in Reliance Infratel with American Tower Company (ATC) emerging as the highest bidder valuing tower assets at Rs180-200bn. While the implied valuation of tower assets at EV/Tower of Rs3.5m-Rs3.9m is lower than the earlier announced GTL deal (Rs6.3m) or UBS-e (Rs4.5m), we believe that potential sale will be positive for RCom as it will leverage balance sheet.

#### ■ Formal closure of loan facility from CDB implies better liquidity

The formal closure of US\$1.93bn of loan facility from China Development Bank (CDB) addresses few of the concerns on the company's liquidity front. RCom has US\$374m & US\$1,182m of FCCBs due on May'11 and Mar'12 respectively. The formal closure of these loans will allay some of the concerns regarding RCom's ability to refinance FCCBs.

#### ■ Execution remains the key risk for RCom

Syed Safawi, Wireless head, is trying hard for operational turnaround. He has been with RCom for over a year and has taken number of initiatives to bring RCom back on track. The key risk to our positive thesis on RCom is poor execution.

#### ■ Valuation: Maintain Buy and SoTP based PT of Rs195

At current levels, we believe RCom offers excellent risk reward for investors with higher risk appetite. We have done a worst case valuation for RCom by estimating the replacement cost of all its assets (see table 1 for details). The stock is trading below our estimate of worst case value of Rs158.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	229,411	222,503	202,369	219,329	253,680
EBIT (UBS)	53,562	41,139	25,933	30,516	49,440
Net Income (UBS)	59,153	47,152	14,463	19,617	36,280
EPS (UBS, Rs)	28.66	22.84	7.01	9.50	17.58
Net DPS (UBS, Rs)	2.84	4.49	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	-	18.5	12.8	13.9	19.5
ROIC (EBIT) %	-	6.4	3.8	4.3	7.0
EV/EBITDA (core) x	-	9.8	7.4	6.7	5.0
PE (UBS) x	-	10.0	14.2	10.5	5.7
Net dividend yield %	-	2.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, 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 Rs99.75 on 10 Mar 2011 20:32 EST

Suresh A Mahadevan, CFA

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

Varun Ahuja, CFA

Associate Analyst  
varun.ahuja@ubs.com  
+91-22-6155 6064

## Global Equity Research

India

Wireless Communications

12-month rating **Buy**  
**Unchanged**

12m price target **Rs195.00/US\$4.33**  
**Unchanged**

Price **Rs99.75/US\$2.22**

RIC: RLCM.BO BBG: RCOM IB

10 March 2011

#### Trading data (local/US\$)

52-wk range	Rs201.45-86.00/US\$4.36-1.90
Market cap.	Rs206bn/US\$4.57bn
Shares o/s	2,064m (ORD)
Free float	33%
Avg. daily volume ('000)	11,102
Avg. daily value (m)	Rs1,228.0

#### Balance sheet data 03/11E

Shareholders' equity	Rs398bn
P/BV (UBS)	0.5x
Net Cash (debt)	(Rs348bn)

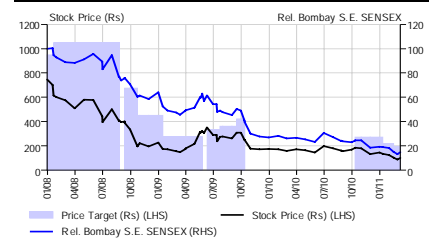
#### Forecast returns

Forecast price appreciation	+95.5%
Forecast dividend yield	0.0%
Forecast stock return	+95.5%
Market return assumption	13.1%
Forecast excess return	+82.4%

#### EPS (UBS, Rs)

	03/11E	03/10	Actual
Q1	1.22	-	7.98
Q2E	2.16	-	3.59
Q3E	2.33	1.60	5.37
Q4E	1.82	1.82	5.91
03/11E	7.01	7.01	
03/12E	9.50	9.50	

#### Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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**Table 1: Worst case valuation for RCom**

Assets	USD Bn	Comments
RCom's Global assets (Flag+YIPES+Falcon+Vanco)	1.5	Yipes was acquired at US\$300m (in July 2007); Flag at US\$207m (in 2003); Vanco \$77m (in May 2008) and Falcon the initial amount invested was US\$400m
Optical Fibre of 200,000+ route Kms	2.5	
50,000 towers	2.5	Assuming 50,000 towers and Rs4.5m as private market transaction value and applying 50% discount on account of current telecom industry environment
GSM network - Replacement cost of electronics	2.0	
CDMA network - Replacement cost of electronics	2.0	
2G GSM spectrum value	1.0	
3G spectrum value	2.0	At auction price
CDMA spectrum	1.0	
<b>Total value</b>	<b>14.5</b>	
<b>Net Debt</b>	<b>7.2</b>	
<b>Equity value</b>	<b>7.3</b>	
<b>No of shares</b>	<b>2.1</b>	
<b>Worst case - Share price (Rs)</b>	<b>158.2</b>	
<b>Current Market price (Rs)</b>	<b>99.8</b>	
<b>% Discount to our worst case valuation</b>	<b>58.6%</b>	

Note: Current market price as on 10 March 2011; Source: UBS estimates

# Reliance Communication Limited

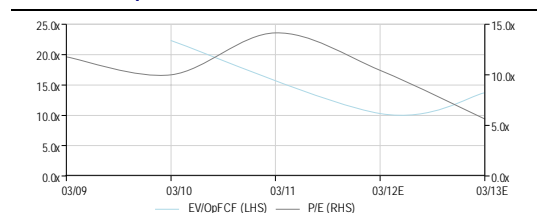
Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	112,884	144,683	190,678	229,411	222,503	202,369	-9.0	219,329	8.4	253,680	15.7
Operating expenses (ex depn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	24,786	57,206	81,991	92,875	78,870	66,249	-16.0	75,242	13.6	95,501	26.9
Depreciation	(16,987)	(24,653)	(28,053)	(39,313)	(37,731)	(40,316)	6.9	(44,726)	10.9	(46,060)	3.0
Operating income (EBIT, UBS)	7,799	32,553	53,938	53,562	41,139	25,933	-37.0	30,516	17.7	49,440	62.0
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(2,649)	(4)	3,997	7,867	11,863	(10,777)	-	(7,992)	-25.8	(7,297)	-8.7
Abnormal items (pre-tax)	(374)	(302)	12,828	(75)	(111)	0	-	0	-	0	-
Profit before tax	4,776	32,247	70,763	61,354	52,891	15,156	-71.3	22,523	48.6	42,144	87.1
Tax	(327)	(616)	(2,836)	123	(4,454)	1,163	-	(1,126)	-	(4,051)	259.7
Profit after tax	4,449	31,632	67,927	61,477	48,437	16,319	-66.3	21,397	31.1	38,093	78.0
Abnormal items (post-tax)	0	0	(12,448)	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	(1,467)	(2,399)	(1,396)	(1,855)	32.9	(1,780)	-4.1	(1,813)	1.8
Net income (local GAAP)	4,449	31,632	54,012	59,078	47,041	14,463	-69.3	19,617	35.6	36,280	84.9
Net Income (UBS)	4,823	31,934	53,632	59,153	47,152	14,463	-69.3	19,617	35.6	36,280	84.9
Tax rate (%)	7	2	4	0	8	0	-	5	-	10	92.2
Pre-abnormal tax rate (%)	6	2	5	0	8	0	-	5	-	10	92.2
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	2.18	15.47	26.17	28.62	22.79	7.01	-69.3	9.50	35.6	17.58	84.9
EPS (UBS)	2.36	15.62	25.98	28.66	22.84	7.01	-69.3	9.50	35.6	17.58	84.9
Net DPS	0.00	0.50	0.75	2.84	4.49	0.00	-	0.00	-	0.00	-
Cash EPS	10.67	27.67	39.58	47.71	41.12	26.54	-35.5	31.17	17.5	39.89	28.0
BVPS	96.08	99.15	123.40	178.22	183.14	192.87	5.3	202.38	4.9	218.44	7.9
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	214,263	330,422	523,126	727,053	712,539	703,073	-1.3	692,399	-1.5	689,805	-0.4
Net intangible fixed assets	0	0	0	0	0	84,777	-	80,484	-5.1	76,192	-5.3
Net working capital (incl. other assets)	(63,931)	(102,358)	(103,741)	(70,498)	(73,964)	(74,371)	0.5	(77,533)	4.3	(56,123)	-27.6
Other liabilities	0	(26)	(1,028)	(281)	(991)	(991)	0.0	(991)	0.0	(991)	0.0
Operating invested capital	150,333	228,038	418,357	656,274	637,585	712,488	11.7	694,360	-2.5	708,883	2.1
Investments	121	77,114	109,996	95,657	41,599	41,599	0.0	41,599	0.0	41,599	0.0
Total capital employed	150,453	305,152	528,354	751,931	679,183	754,087	11.0	735,959	-2.4	750,482	2.0
Shareholders' equity	117,515	202,719	254,609	370,588	383,631	398,094	3.8	417,711	4.9	450,858	7.9
Minority interests	0	56	24,309	6,549	6,584	8,439	28.2	10,219	21.1	12,032	17.7
Total equity	117,515	202,775	278,918	377,137	390,215	406,534	4.2	427,931	5.3	462,890	8.2
Net debt / (cash)	32,938	102,377	249,435	374,794	288,969	347,554	20.3	308,029	-11.4	287,592	-6.6
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	150,453	305,152	528,354	751,931	679,183	754,087	11.0	735,959	-2.4	750,482	2.0
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	7,799	32,553	53,938	53,562	41,139	25,933	-37.0	30,516	17.7	49,440	62.0
Depreciation	16,987	24,653	28,053	39,313	37,731	40,316	6.9	44,726	10.9	46,060	3.0
Net change in working capital	17,304	38,428	1,382	(33,989)	4,175	407	-90.3	3,162	677.4	(21,409)	-
Other (operating)	3,241	33,549	(26,153)	(4,873)	(111)	(1,073)	866.8	0	-	0	-
Operating cash flow (pre tax/interest)	45,331	129,184	57,220	54,013	82,934	65,583	-20.9	78,404	19.5	74,091	-5.5
Net interest received / (paid)	(2,649)	(4)	3,997	7,867	11,863	(10,777)	-	(7,992)	-25.8	(7,297)	-8.7
Dividends paid	0	(1,023)	(1,183)	(1,792)	(3,028)	(1,542)	-49.1	(1,201)	-22.1	(1,415)	17.9
Tax paid	(327)	(616)	(2,836)	123	(4,454)	1,163	-	(1,126)	-	(4,051)	259.7
Capital expenditure	(36,172)	(52,488)	(173,928)	(226,172)	(48,320)	(114,554)	137.1	(29,760)	-74.0	(39,692)	33.4
Net (acquisitions) / disposals	0	0	(29,791)	15,567	54,884	0	-	0	-	0	-
Other	-	6,550	7,764	36,203	0	0	-	0	-	0	-
Share issues	0	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	6,183	81,604	(138,757)	(114,191)	93,878	(60,127)	-	38,325	-	21,637	-43.5
FX / non cash items	-	(151,043)	(8,301)	(11,167)	(8,054)	1,542	-	1,201	-22.1	(1,201)	-
Balance sheet (inc)/dec in net debt	-	(69,439)	(147,058)	(125,358)	85,825	(58,585)	-	39,525	-	20,436	-48.3
Core EBITDA	24,786	57,206	81,991	92,875	78,870	66,249	-16.0	75,242	13.6	95,501	26.9
Maintenance capital expenditure	(36,172)	(52,488)	(173,928)	(226,172)	(48,320)	(114,554)	137.1	(29,760)	-74.0	(39,692)	33.4
Maintenance net working capital	17,303	38,427	1,381	(33,990)	4,174	406	-90.3	3,161	679.0	(21,410)	-
Operating free cash flow, pre-tax	5,917	43,145	(90,556)	(167,287)	34,724	(47,899)	-	48,643	-	34,398	-29.3

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.

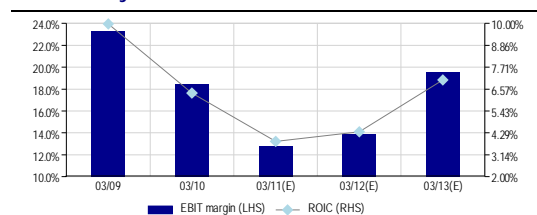
## Company profile

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 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 &amp; P/E)



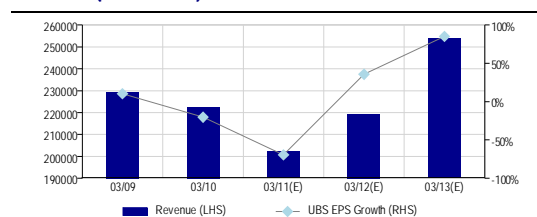
## Profitability



## ROE v Price to book value



## Growth (UBS EPS)



## Reliance Communication Limited

Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	11.8	10.0	14.2	10.5	5.7
P/E (UBS)	-	11.8	10.0	14.2	10.5	5.7
P/CEPS	-	7.1	5.6	3.8	3.2	2.5
Net dividend yield (%)	-	0.8	2.0	0.0	0.0	0.0
P/BV	-	1.9	1.2	0.5	0.5	0.5
EV/revenue (core)	-	4.1	3.5	2.4	2.3	1.9
EV/EBITDA (core)	-	10.0	9.8	7.4	6.7	5.0
EV/EBIT (core)	-	17.4	18.9	18.9	16.4	9.6
EV/OpFCF (core)	-	NM	22.3	NM	10.3	13.8
EV/op. invested capital	-	1.7	1.2	0.7	0.7	0.7

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	700,010	478,970	205,884	205,884	205,884
+ minority interests	15,429	6,567	7,512	9,329	11,126
+ average net debt (cash)	312,114	331,881	318,261	327,791	297,810
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(95,657)	(41,599)	(41,599)	(41,599)	(41,599)
Core enterprise value	931,897	775,818	490,058	501,406	473,221

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	-	20.3	-3.0	-9.0	8.4	15.7
EBITDA (UBS)	-	13.3	-15.1	-16.0	13.6	26.9
EBIT (UBS)	-	-0.7	-23.2	-37.0	17.7	62.0
EPS (UBS)	-	10.3	-20.3	-69.3	35.6	84.9
Cash EPS	-	20.5	-13.8	-35.5	17.5	28.0
Net DPS	-	NM	58.1	-	-	-
BVPS	-	44.4	2.8	5.3	4.9	7.9

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	-	40.5	35.4	32.7	34.3	37.6
EBIT / revenue	-	23.3	18.5	12.8	13.9	19.5
Net profit (UBS) / revenue	-	25.8	21.2	7.1	8.9	14.3

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	10.0	6.4	3.8	4.3	7.0
ROIC post tax	-	10.0	5.8	3.8	4.1	6.4
Net ROE	-	18.9	12.5	3.7	4.8	8.4

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	-	-	2.4	3.8	6.8
Dividend cover (UBS EPS)	-	10.1	5.1	-	-	-
Div. payout ratio (% , UBS EPS)	-	9.9	19.7	-	-	-
Net debt / EBITDA	-	4.0	3.7	5.2	4.1	3.0

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	0.4	0.3	0.3	0.3	0.4
Revenue / fixed assets	-	0.4	0.3	0.3	0.3	0.3
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	-	NM	0.8	NM	1.6	0.7
Capex / revenue (%)	-	NM	21.7	NM	13.6	15.6
Capex / depreciation	-	5.8	1.3	2.8	0.7	0.9

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	-	NM	75.3	87.3	73.7	63.8
Net debt / (net debt + equity)	-	50.3	43.0	46.6	42.4	38.9
Net debt (core) / EV	-	33.5	42.8	64.9	65.4	62.9

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 Rs99.75 on 10 Mar 2011 20:32 EST Market cap(E) may include forecast share issues/buybacks.

Suresh A Mahadevan, CFA

Analyst

suresh.mahadevan@ubs.com

+91-22-6155 6066

Varun Ahuja, CFA

Associate Analyst

varun.ahuja@ubs.com

+91-22-6155 6064

## ■ 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

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

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 31 December 2010.

### 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.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

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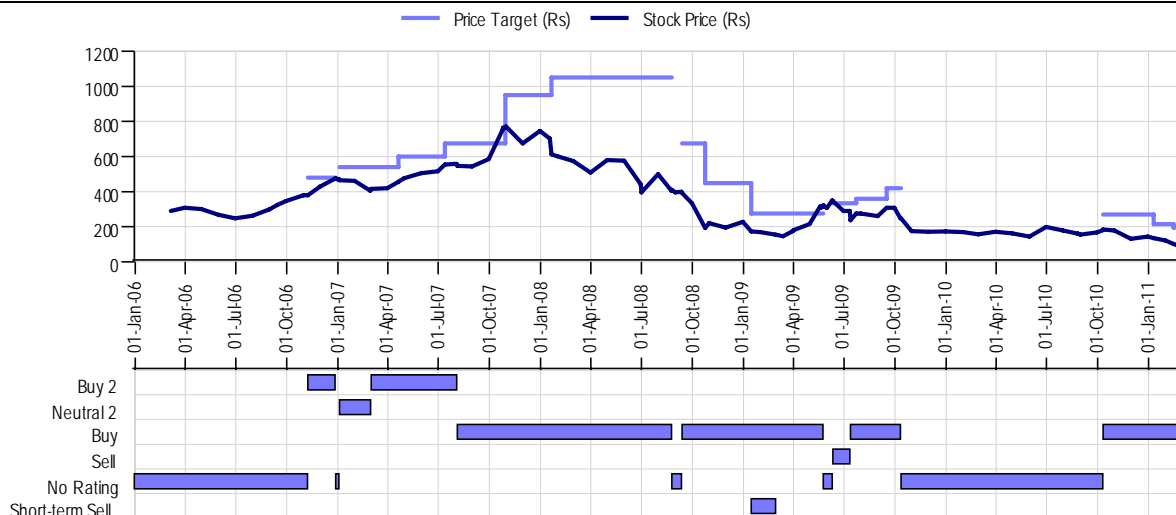
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Reliance Communication Limited	RLCM.BO	Buy	N/A	Rs99.30	09 Mar 2011

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

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Reliance Communication Limited (Rs)



Source: UBS; as of 09 Mar 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.



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