

COMMENT

Reliance Communications (RLCM.BO) Rs181.65**Estimates Under Review****Jan-09 net adds (5 mn) surprisingly high****News**

In a press release, Reliance Communications (RCOM) stated that it added 5mn new wireless (GSM and CDMA) subs to its network in Jan-09. Separately, further to its inaugural GSM tariffs in Jan-09, RCOM recently introduced a new offering wherein: (1) one-time subscription charge is Rs49 (vs. Rs25 in the inaugural offer), (2) additional recharge of Rs60 is required within 48 hrs to validate the number (no such charge in the inaugural offer); the voucher comes with lifetime validity, (3) free outgoing talk time (local calls) of Rs4/day for 90 days (vs. Rs10/day previously), (4) subscriber gets double talk time on any recharge made up to 31-Mar-09; the additional talk time to be utilized within 30 days. Existing subscribers can avail the same benefits of double talk time and lifetime validity at a special recharge of Rs26.

Analysis

On subscriber growth, RCOM's Jan-09 net adds are significantly above our expectations. Of the 5 mn net adds, we expect GSM net adds to aggregate 3.75 mn; combining this with 9.3 mn ex-RCOM GSM net adds in Jan-09, it implies that RCOM's GSM launch has expanded the overall market as the country added a record-high 13.1 mn GSM net adds in Jan-09 (vs. 8.5 mn previously in Dec-08). In our view, the ratio of active-to-total wireless subs in 1Q09 would be significantly lower than in the past. As regards to its GSM tariff plans, RCOM is now effectively charging Rs109 (vs. Rs99 or less by its peers) for a new lifetime validity prepaid connection; the incremental outlay adds to the cost of the double talk time it is currently offering on the recharge coupons of all denominations up to 31-Mar-09.

Implications

In light of the unexpected net adds growth for RCOM, likely dent to monthly ARPU and pending release of circle-wise net adds break-down between CDMA and GSM services by TRAI, we are placing our estimates for RCOM under review. We maintain our target price and Neutral rating on the stock.

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Neutral

Coverage View: Neutral

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Exhibit 1: RCOM – GSM inaugural vs. current talk plans

Effective upfront cost of a new GSM connection is now Rs109/- vs. Rs25/- in the inaugural offer

RCOM GSM service Plan	Mumbai / Bangalore	
	Inaugural offer (Jan-09)	Current offer (Feb-09)
One time subscription charge (Rs.)	25/-	49/-
Additional recharge required	Nil	Rs60/- within first 48 hrs to validate the number
Effective upfront cost	25/-	109/-
Validity	6 months	Lifetime
Talktime		
- Bundled talktime (local calls)	Rs10/day for 90 days	Rs4/day for 90 days
- On-net calls on RCOM's network (2300-0600 hrs)	90 days - free of charge	90 days for Rs15/-
- Additional talktime on e-recharge	Existing customers can avail double talktime and lifetime validity by a special recharge of Rs26/-	Double talktime up to 31-Mar-09. Additional talktime is valid for 30 days
Outgoing airtime charge		
- Local	Rs1.0/min	Rs1.0/min
- NLD	Rs1.5/min	Rs1.5/min

GSM subscribers	Net adds (000's)		Share of net adds		Market share	
	Dec-08	Jan-09	Dec-08	Jan-09	Dec-08	Jan-09
Bharti	2,730	2,732	32.1%	20.9%	33.2%	32.6%
Idea	1,401	1,853	16.5%	14.2%	13.2%	13.3%
RCOM*	390	3,750	4.6%	28.7%	4.0%	5.2%
Vodafone	2,169	2,407	25.5%	18.4%	23.6%	23.3%
BSNL	874	1,312	10.3%	10.0%	16.0%	15.7%
MTNL	79	104	0.9%	0.8%	1.5%	1.5%
Others	862	895	10.1%	6.9%	8.5%	8.4%
Total GSM	8,505	13,053	100.0%	100.0%	100.0%	100.0%

* RCOM has announced 5 mn wireless (GSM + CDMA) net adds in Jan-09, break-up is not available. For the above analysis, we calculate its Jan-09 net adds split as 1.25mn CDMA (10% lower than Dec-08's CDMA net adds), and 3.75mn GSM.

Source: Company data, TRAI, AUSPI, COAI, Goldman Sachs Research.

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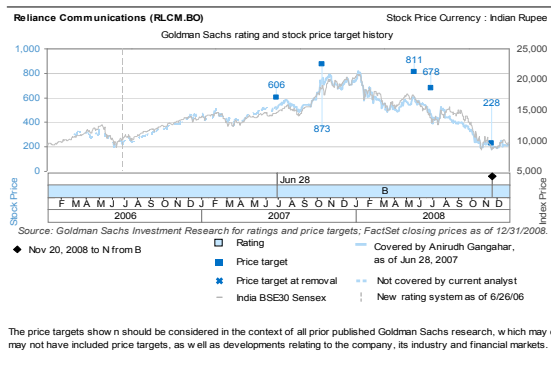
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