

Good news, but not enough

Strong sub additions in Jan; pace likely to continue in Feb

Reliance Com reported 5mn new subscriber additions in Jan '09, the first subscriber reporting since the Co's nationwide launch of GSM services. While the CDMA-GSM split of RCom's Jan additions is not yet available, the numbers mark a strong improvement vs the Co's ~1.8mn net adds (CDMA & GSM) in Dec '08.

No visible impact on adds of other operators - a surprise

From an industry standpoint, a key surprise to us is that none of the other operators have reported any slowdown in their net adds for Jan '09 despite stronger growth by RCom. While exact numbers for the industry are awaited, it seems like the wireless industry added ~15mn subs in Jan '09 vs ~11mn in Dec '08. This market expansion is surprising to us given that RCom's early stage GSM coverage would be mostly in towns where other operators already have coverage.

RCom revises up prices; coverage expansion to help

RCom has reportedly revised up the price points of its promotional GSM offer from Rs25/subscription to Rs49/subscription plus a mandatory recharge voucher of ~Rs50-60. The promotional/free talk-time has also been cut to ~Rs4 per day versus Rs5-10/day earlier. The upward price revisions will likely taper RCom's subscriber additions over next 3-4 months but any immediate impact on Feb net adds is unlikely due to the Co's expanding network coverage on GSM. By end-Jan, RCom offered GSM services in ~14000 towns vs ~11000 towns at the start.

Maintain Neutral pending visibility; pot'l trading upside

Newsflow on RCom for next 2 mths (before 4Q results) will likely be neutral-to-positive w.r.t. strong subscriber additions, further announcements of commercial tariffs, & launch of GSM post-paid. However, we maintain our Neutral rating due to low visibility on revenue upside from GSM & concerns over earnings quality.

Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	31,934	55,097	57,179	41,807	41,236
EPS	15.19	25.54	26.46	19.38	19.11
EPS Change (YoY)	599.6%	68.1%	3.6%	-26.8%	-1.4%
Dividend / Share	0.500	0.750	0.942	0.678	0.669
Free Cash Flow / Share	22.29	(59.12)	(47.80)	(20.11)	5.98

Valuation (Mar)

	2007A	2008A	2009E	2010E	2011E
P/E	11.95x	7.11x	6.86x	9.37x	9.50x
Dividend Yield	0.275%	0.413%	0.519%	0.373%	0.368%
EV / EBITDA*	11.58x	8.08x	7.26x	6.22x	5.29x
Free Cash Flow Yield*	12.16%	-32.56%	-26.33%	-11.08%	3.29%

* For full definitions of *iQmethod*SM measures, see page 4.

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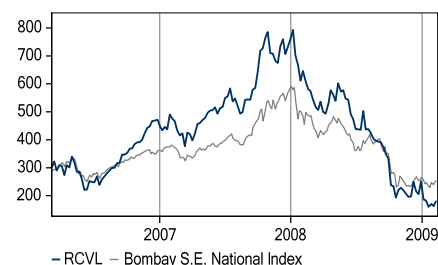
RESEARCH

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Stock Data

Price	Rs181.55
Price Objective	Rs225.00
Date Established	26-Jan-2009
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs147.30-Rs632.40
Mrkt Val / Shares Out (mn)	US\$7,698 / 2,063.7
Average Daily Volume	16,025,550
ML Symbol / Exchange	RLCMF / BSE
Bloomberg / Reuters	RCOM IN / RLCM.BO
ROE (2009E)	20.3%
Net Dbt to Eqty (Mar-2008A)	55.8%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	32.3%



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Refer to important disclosures on page 5 to 8. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

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*iQprofile*SM Reliance Communication Ltd.

Key Income Statement Data (Mar)

(Rs Millions)	2007A	2008A	2009E	2010E	2011E
Sales	144,683	190,678	228,095	277,752	337,660
Gross Profit	57,206	81,989	91,268	106,453	125,248
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	32,553	53,936	52,546	55,339	61,759
Net Interest & Other Income	(4)	3,997	6,541	(11,299)	(16,730)
Associates	NA	NA	NA	NA	NA
Pretax Income	32,550	57,933	59,087	44,040	45,029
Tax (expense) / Benefit	(616)	(2,836)	475	(1,161)	(2,736)
Net Income (Adjusted)	31,934	55,097	57,179	41,807	41,236
Average Fully Diluted Shares Outstanding	2,102	2,157	2,157	2,157	2,157

Key Cash Flow Statement Data

Net Income	31,632	54,011	57,091	41,807	41,236
Depreciation & Amortization	24,653	28,053	38,722	51,114	63,489
Change in Working Capital	56,192	6,676	21,120	22,623	27,294
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	182	25,395	4,111	1,072	1,057
Cash Flow from Operations	112,658	114,135	121,044	116,616	133,076
Capital Expenditure	(67,086)	(236,140)	(219,682)	(158,126)	(120,738)
(Acquisition) / Disposal of Investments	(11,925)	(27,320)	(1,641)	0	0
Other Cash Inflow / (Outflow)	(17,570)	1,276	0	0	0
Cash Flow from Investing	(96,581)	(262,184)	(221,323)	(158,126)	(120,738)
Shares Issue / (Repurchase)	0	13,528	0	0	0
Cost of Dividends Paid	(1,196)	(1,781)	(2,230)	(1,612)	(1,590)
Cash Flow from Financing	61,266	114,526	74,872	24,027	(19,644)
Free Cash Flow	45,572	(122,005)	(98,638)	(41,510)	12,338
Net Debt	18,238	155,626	259,863	302,985	292,237
Change in Net Debt	(14,579)	137,388	102,596	43,122	(10,747)

Key Balance Sheet Data

Property, Plant & Equipment	330,423	523,126	704,086	811,098	868,347
Other Non-Current Assets	11,925	39,245	40,886	40,886	40,886
Trade Receivables	18,316	27,224	27,238	33,168	40,322
Cash & Equivalents	137,200	102,591	75,455	57,971	50,665
Other Current Assets	40,747	46,754	56,384	68,659	83,468
Total Assets	538,611	738,939	904,049	1,011,781	1,083,687
Long-Term Debt	155,438	258,217	335,318	360,957	342,903
Other Non-Current Liabilities	0	1,028	1,028	1,028	1,028
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	179,186	200,776	231,540	272,368	321,625
Total Liabilities	334,624	460,021	567,886	634,352	665,555
Total Equity	203,987	278,918	336,163	377,429	418,132
Total Equity & Liabilities	538,611	738,939	904,049	1,011,782	1,083,687

*iQmethod*SM - Bus Performance*

Return On Capital Employed	11.8%	12.8%	8.8%	7.1%	7.4%
Return On Equity	19.9%	24.0%	20.3%	12.7%	11.2%
Operating Margin	22.5%	28.3%	23.0%	19.9%	18.3%
EBITDA Margin	39.5%	43.0%	40.0%	38.3%	37.1%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	3.5x	2.1x	2.1x	2.8x	3.2x
Asset Replacement Ratio	2.7x	8.4x	5.7x	3.1x	1.9x
Tax Rate (Reported)	1.9%	4.9%	NM	2.6%	6.1%
Net Debt-to-Equity Ratio	8.9%	55.8%	77.3%	80.3%	69.9%
Interest Cover	6.6x	8.8x	NA	4.9x	3.7x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 4.

Company Description

Reliance Communications ranks among the largest private telecom operators in India. It has dominant wireless, long-distance and enterprise businesses in India. RCom also owns 100% of the global undersea cable FLAG. RCom was listed in Mar '06 as a result of the de-merger of Reliance Industries. The Anil D. Ambani group is the promoter-shareholder of RCom.

Investment Thesis

Headline valuations seem attractive but we remain Neutral on the stock as earnings visibility is low and GSM returns are difficult to assess at this point. Re balance sheet, we think the Co will need additional funds in FY10E but servicing pressures (debt/EBITDA) will likely peak in FY09E.

Stock Data

Price to Book Value 1.2x

Price objective basis & risk

RCVL (RLCMF)

Our PO of Rs225/sh for RCom is based on 15% discount to DCF using 12% WACC and 5% terminal growth. Our PO pegs RCom's FY10E-EV/EBITDA at about 15% discount versus our target valuation for Bharti at 8x FY10E. The discount versus DCF and Bharti allows for potential execution challenges in the current environment due to RCom's relatively leveraged balance sheet and dual technology (GSM) overlay. Upside surprise could be led by stronger-than-expected revenue market share post GSM-launch and unexpected easing in the credit environment allowing access to low-cost capital. Higher-than-expected cost pressures from GSM rollout and irrational bidding for 3G licences could present downside risk to our outlook.

Analyst Certification

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APR - Telecommunications Coverage Cluster

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BUY	Advanced Info	XVDIF	ADVANC TB	Thititthep Nophaket
	Bharti	BHTIF	BHARTI IN	Reena Verma Bhasin, CFA
	China Mobile	CHLKF	941 HK	Cynthia J.H. Meng
	China Mobile - A	CHL	CHL US	Cynthia J.H. Meng
	Chunghwa Telecom	CHT	CHT US	John Kim
	Chunghwa Telecom	CHWAF	2412 TT	John Kim

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APR - Telecommunications Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	FarEasTone	FEOTF	4904 TT	John Kim
	KT	KTCNF	030200 KS	John Kim
	KT -A	KTC	KTC US	John Kim
	LG Dacom Corp	DCMPF	015940 KS	John Kim
	LG TeleCom	LTCFL	032640 KS	John Kim
	SingTel	SNGNF	ST SP	Reena Verma Bhasin, CFA
	StarHub	SRHBF	STH SP	Chen Hsung Khoo, CFA
	Taiwan Mobile	TWMBF	3045 TT	John Kim
	Total Access	TACJF	DTAC SP	Thitiitthep Nophaket
	Total Access Communication	TACPF	DTAC TB	Thitiitthep Nophaket
NEUTRAL				
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	China Unicom -A	CHU	CHU US	Cynthia J.H. Meng
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	Idea Cellular	IDEAF	IDEA IN	Reena Verma Bhasin, CFA
	MobileOne	MBOFF	M1 SP	Chen Hsung Khoo, CFA
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	China Telecom-H	CHJHF	728 HK	Cynthia J.H. Meng
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	MTNL	XMTNF	MTNL IN	Reena Verma Bhasin, CFA
	SK Broadband	HANTF	033630 KS	John Kim
	SK Telecom	SKMTF	017670 KS	John Kim
	SK Telecom- A	SKM	SKM US	John Kim
	Tata Communications Limited	TCL	TCL US	Reena Verma Bhasin, CFA
	Tata Communications Limited	VSLSF	TCOM IN	Reena Verma Bhasin, CFA
	TRUE Corp	TCPJF	TRUE TB	Thitiitthep Nophaket

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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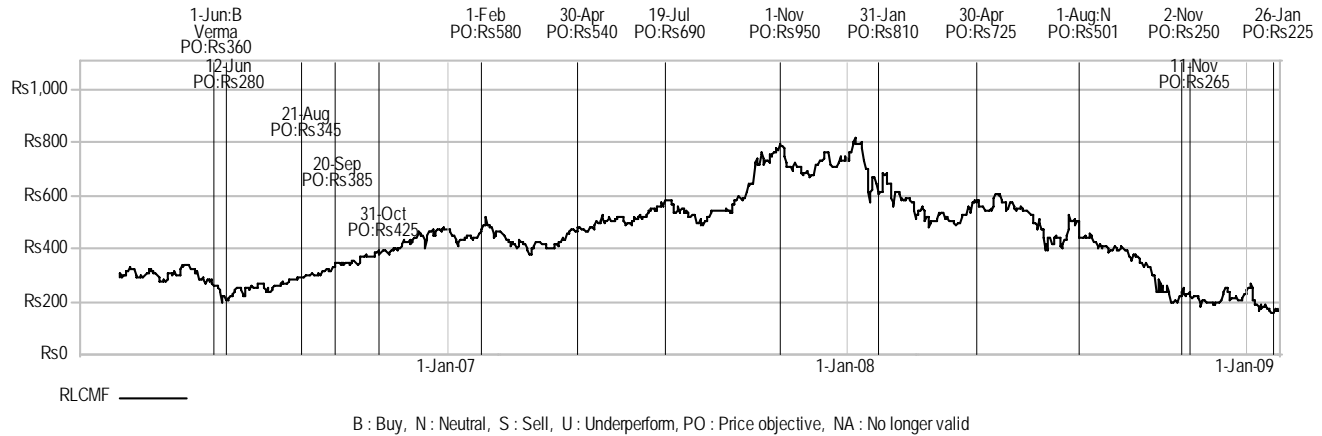
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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	82	45.30%	Buy	12	18.18%
Neutral	51	28.18%	Neutral	12	30.77%
Sell	48	26.52%	Sell	7	17.50%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

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