

# Reliance Communications Limited

RCOM's tower business gets valued at US\$6.75 bn; news more positive for Bharti - ALERT

Neutral

Rs579.30

19 July 2007

- Tower business gets significantly higher valuation than expectations.**  
 RCOM today announced sale of 5% equity stake in its tower subsidiary (RTIL) to a clutch of investors for US\$337.5 mn. This implies US\$6.75 bn value for 100% of RTIL's equity or Rs135/share of RCOM. The transaction poses upside risk to our Jun-08 DCF based PT of Rs525 (ex-towers) but recent rally implies the news is largely in the RCOM stock price. The key upside risk to our price target is higher wireless sub-additions; the key downside risk higher handset subsidies.
- News more positive for Bharti stock.** Bharti's tower subsidiary (BIL) currently has ~3x the number of towers compared with RTIL and will likely have ~2x the number of RTIL towers by Mar-08. If RTIL's valuation were to be used as a benchmark, then even under conservative assumptions BIL would be worth at least US\$10 bn in equity value (1.5X US\$6.75 bn) or Rs215/share of Bharti versus our estimate of Rs80/share.
- Tower values presumably riding on fairly optimistic assumptions.**  
 We believe the biggest 'swing factor' (and the biggest unknown) for tower values is the 'occupancy ratio'. Compared to our base case assumption of 0.75x 'external' tenants/tower, we estimate RTIL's valuations would be justified if we use a 2.3-2.4x occupancy (excluding RCOM CDMA as anchor tenant). This may be difficult to achieve given: (1) likely large supply of towers from Bharti, RCOM and independent tower-cos, (2) BSNL is ruled out as a tenant, (3) VOD-Essar's infra sharing MoU with Bharti and (4) uncertainty about RCOM's GSM expansion. RCOM management expects ~4x occupancy in the long term based on implementation of their pan-India GSM rollout, 3G/4G/WiMax deployments and consolidation in independent tower-co space.
- Other details.** RTIL's growth will be funded through debt and it will end FY08 with ~US\$2 bn in net-debt (currently zero). RCOM will book capital gains of US\$280 mn, which will reflect in its 2QFY08 financials.

## Wireless Services

**Sanjay Chawla**<sup>AC</sup>  
(91-22) 6639-3019  
sanjay.x.chawla@jpmchase.com

**Tim Storey**  
(852) 2800-8563  
tim.storey@jpmorgan.com

Table 1: Bharti versus RCOM: Comparison of key drivers of tower business valuation

|  | BIL       | RTIL      | Comments   |
|--|-----------|-----------|--|
| Number of towers end of Mar-07         | 36,000    | 12,000    | BIL has 3x that of RTIL  |
| Towers added in FY08E                  | 30,000    | 23,000    | RTIL's additions look stretched since CDMA is more efficient               |
| Number of towers end of Mar-08E        | 66,000    | 35,000    | BIL to have 1.9x towers that of RTIL by end of FY08                        |
| Existing tower-mix (Ground vs Rooftop) |           | Advantage | RTIL has a more favorable GBT:RTT mix in existing towers                   |
| Sharing potential (Occupancy ratio)    | Advantage |           | Bharti has infra sharing MOU with VOD; also GSM network grids are similar  |
| Fiber backhaul availability at sites   |           | Advantage | RCOM can lease out un-lit fiber backhaul to tenants as additional facility |

Source: Company data, JPMorgan estimates.

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited  
J.P. Morgan Securities (Asia Pacific) Limited

See page 2 for analyst certification and important disclosures, including investment banking relationships. JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. The analysts listed above are employees of either J.P. Morgan India Private Limited or another non-US affiliate of JPMSI, and are not registered/qualified as research analysts under NYSE/NASD rules, unless otherwise noted.

**Other Companies Recommended in This Report (all prices in this report as of market close on 19 July 2007)**  
 Bharti Airtel Limited (BRTI.BO/Rs895.85/Overweight)

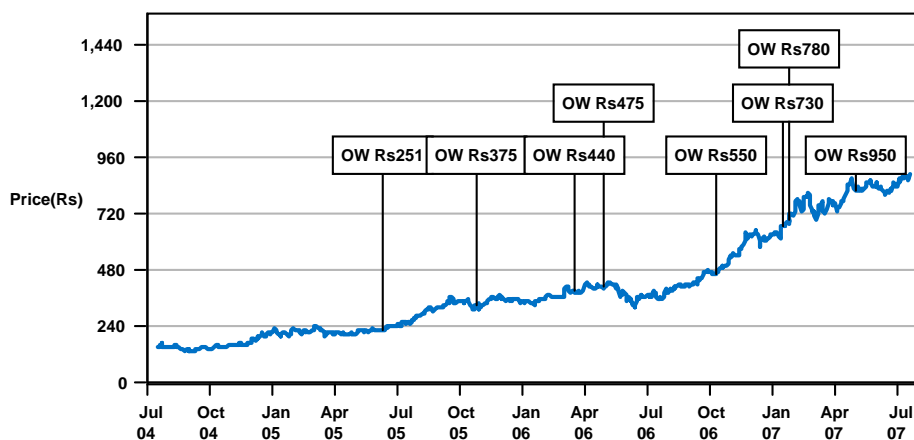
**Analyst Certification:**

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

**Important Disclosures**

- **Lead or Co-manager:** JPMSI or its affiliates acted as lead or co-manager in a public offering of equity and/or debt securities for Reliance Communications Limited within the past 12 months.
- **Client of the Firm:** Bharti Airtel Limited is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company non-securities-related services. Reliance Communications Limited is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services.
- **Investment Banking (past 12 months):** JPMSI or its affiliates received in the past 12 months compensation for investment banking services from Reliance Communications Limited.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Reliance Communications Limited.
- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Reliance Communications Limited. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Reliance Communications Limited.

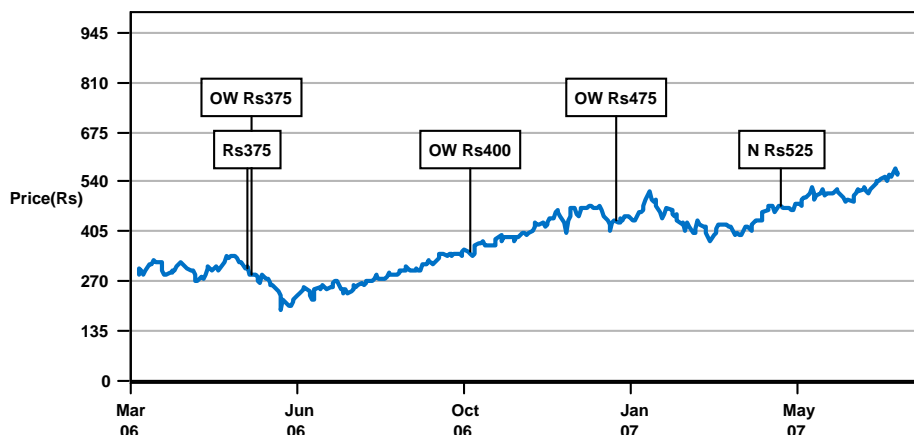
**Bharti Airtel Limited (BRTI.BO) Price Chart**



| Date      | Rating | Share Price (Rs) | Price Target (Rs) |
|-----------|--------|------------------|-------------------|
| 10-Jun-05 | OW     | 220.45           | 251.00            |
| 24-Oct-05 | OW     | 323.85           | 375.00            |
| 17-Mar-06 | OW     | 391.20           | 440.00            |
| 29-Apr-06 | OW     | 405.85           | 475.00            |
| 10-Oct-06 | OW     | 463.85           | 550.00            |
| 14-Jan-07 | OW     | 664.70           | 730.00            |
| 24-Jan-07 | OW     | 689.15           | 780.00            |
| 30-Apr-07 | OW     | 812.05           | 950.00            |

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
 This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

**Reliance Communications Limited (RLCM.BO) Price Chart**



| Date      | Rating | Share Price (Rs) | Price Target (Rs) |
|-----------|--------|------------------|-------------------|
| 19-May-06 | OW     | 285.40           | 375.00            |
| 10-Oct-06 | OW     | 347.50           | 400.00            |
| 13-Jan-07 | OW     | 433.75           | 475.00            |
| 02-May-07 | N      | 477.10           | 525.00            |

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
 Initiated coverage May 19, 2006. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

**Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:**

JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Sanjay Chawla:** Bharti Airtel Limited (BRTI.BO), Hutchison Telecommunications International Limited (2332.HK), Idea Cellular Limited (IDEA.BO), MTNL (Mahanagar Telephone Nigam) (MTNL.BO), New Delhi Television Ltd. (NDTV.BO), Reliance Communications Limited (RLCM.BO), Sun TV Network Limited (SUTV.BO), Tata Teleservices Maharashtra Ltd (TTML.BO), Videsh Sanchar Nigam Limited (VSNL.NS)

**JPMorgan Equity Research Ratings Distribution, as of June 29, 2007**

|                                     | Overweight<br>(buy) | Neutral<br>(hold) | Underweight<br>(sell) |
|-------------------------------------|---------------------|-------------------|-----------------------|
| JPM Global Equity Research Coverage | 44%                 | 41%               | 16%                   |
| IB clients*                         | 50%                 | 50%               | 38%                   |
| JPMSI Equity Research Coverage      | 40%                 | 47%               | 13%                   |
| IB clients*                         | 69%                 | 62%               | 48%                   |

\*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

**Valuation and Risks:** Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your JPMorgan representative.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

## Other Disclosures

**Options related research:** If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

### Legal Entities Disclosures

**U.S.:** JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London EC2Y 5AJ. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.

### Country and Region Specific Disclosures

**U.K. and European Economic Area (EEA):** Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **Pakistan:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

**General:** Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to

particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Revised June 25, 2007.

---

**Copyright 2007 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of JPMorgan.**

Sanjay Chawla  
(91-22) 6639-3019  
sanjay.x.chawla@jpmchase.com

Asia Pacific Equity Research  
20 July 2007

