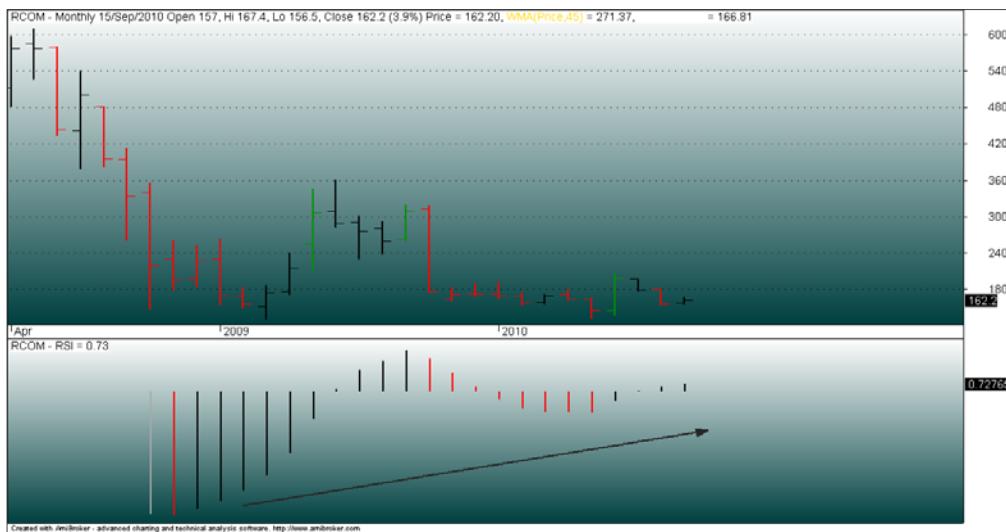


Date : 16 Sept 2010

Reliance Communications - Accumulate

Reliance Communications is forming a massive buy signal on Weekly charts suggesting that the long term downtrend may be near its exhaustion point. All time frames are showing unique characteristics and confirming that a bottom is indeed forming. Most telecom stocks have already begun their bullish trends and the broader indices have also confirmed a bullish trend. These dynamics offer a favorable environment for the stock to rally.

Plotted below is the monthly chart of Reliance Communications with a RSI histogram:



Though not much data is available to plot a monthly chart, the RSI histogram still manages to show a bullish divergence. As can be seen in the chart, Rcom has formed a double bottom on this monthly chart, yet the histogram has formed a higher low which is very near to the zero line. Failures at zero lines are usually very reliable technical formations and suggest a bottom formation.

Weekly chart of Rcom:

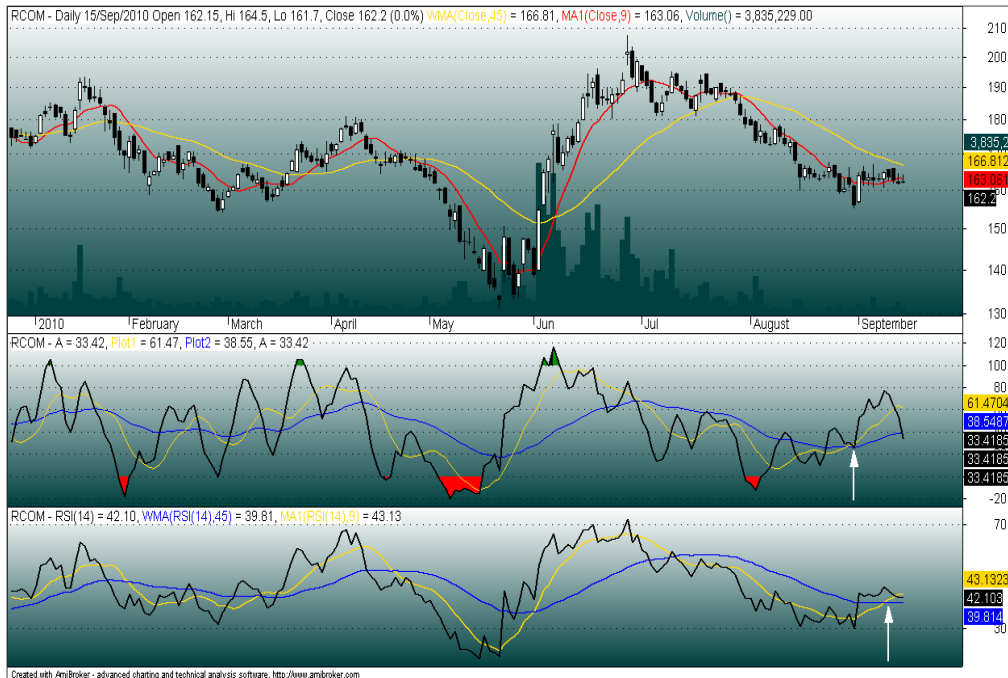


Perhaps the most blatant signals are offered by this weekly chart of Rcom. As can be seen in the chart, Rcom has formed a higher low while both the oscillators plotted below price have formed lower lows. This technical characteristic suggests that price is getting oversold at higher levels and displays the strong internal strength that is building up in the stock.

As per this particular signal, a price objective of Rs. 220 is being worked out.

Currently, price is below both trending moving averages and is converging near 169 which can offer resistance to the stock in the short term. Also note that volume is rising on rallies while falling on declines which suggest accumulation.

Daily chart of Rcom:



Trending moving averages on Rcom are currently descending and hence are likely to resist any immediate rallies. However, the bullish reversal signal that we saw in the weekly chart will also show up on daily charts in the next couple of days (I am running ahead of the stock here!). Moving average crossovers has occurred on RSI which has offered reliable buy and sells signals in the past.

Hence, as long as 156 is not violated on a closing basis, we are likely to witness a change of trend in the Rcom stock and the broader timeframes will start catching up with the short term time frames.

STRATEGY

We recommend accumulation in Rcom between 160 and 165 with a stop below 146 on a closing basis and a price target of 220 which offers over 30% appreciation.
Time Horizon: 3-4 months.

| Mithil Pradhan | Milan Chandak |
|-------------------------------------|--|
| VP -Derivatives & Technicals | AVP - Equity Derivatives/ Cash Sales Trading |
| Dir: +91 22 4215 9866 | Dir:+91 22 4215 9669 |
| Cell: +91 97730 87727 | Cell:+91 93258 99999 |
| Email: mithil.pradhan@centrum.co.in | Email: milan.chandak@centrum.co.in |

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort,
Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg,
Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000