

RESULTS REVIEW
Reliance Communications Limited
Buy
Share Data

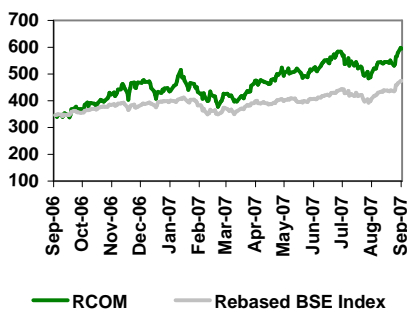
Market Cap	Rs. 1,215.21 bn
Price	Rs. 594.35
BSE Sensex	16,899.54
Reuters	RLCM.BO
Bloomberg	RCOM IN
Avg. Volume (52 Week)	1.72 mn
52-Week High/Low	Rs. 607.8/333.85
Shares Outstanding	2,044.61 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	21.0	26.3
+/- (%)	34.4%	25.3%
PER (x)	28.3x	22.6x
EV/ Subscribers (Rs.)	31,405.2	25,027.7
EV/ Sales (x)	6.4x	5.3x
EV/ EBITDA (x)	15.5x	12.6x

Shareholding Pattern (%)

Promoters	67
FII's	12
Institutions	7
Public & Others	13

Relative Performance

RTIL and FLAG to fuel growth

During the first quarter, Reliance Communications Limited (RCOM) reported an increase of 32.8% yoy in net sales to Rs. 42,478.8 mn primarily due to enhanced subscriber base. On yoy basis, EBITDA increased 54.4% to Rs. 17,584.3 mn and margins improved 580 bps to 41.4%. The improvement in EBITDA margins was a result of economies of scale leading to lower operating cost. In addition, RCOM's adjusted net profit rose substantially to Rs. 12,193.7 mn driven by reduction in depreciation and finance charges.

With the expected increase in subscriber base, the Company's net sales are estimated to increase at a CAGR of 27.7% for FY07-FY09E. Moreover, RCOM's initiatives like listing of FLAG Telecom and Reliance Telecommunications Infrastructure Limited (RTIL), development of SEZ at the Dhirubhai Ambani Knowledge City coupled with hiving off of its BPO business will further add value to the Company's stock. At the current price of Rs. 594.35, the stock is trading at a forward P/E of 28.3x FY08E and 22.6x FY09E. Considering the above factors, we believe the stock has a strong value creating potential and hence, maintain **Buy** with a 9-months target price of Rs. 665.

Result Highlights

RCOM reported an increase in net sales by 32.8% yoy to Rs. 42,478.8 mn driven by strong growth across all business segments. EBITDA increased 54.4% yoy to Rs. 17,584.3 mn and EBITDA margins improved 580 bps yoy to 41.4%.

Key Figures (Consolidated)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales*	31,988	38,736	42,479	32.8%	9.7%
EBITDA	11,387	15,719	17,584	54.4%	11.9%
<i>EBITDA Margin</i>	35.6%	40.6%	41.4%		
Wireless Subscribers	23	28	32	41.5%	13.8%
Wireless ARPU	379	377	375	(1.1)%	(0.5)%
Wireless minutes of use per customer	491	541	510	3.9%	(5.7)%
Average realised rate	0.77	0.70	0.74	(4.7)%	5.5%
Wireless churn	2.6%	2.6%	NA		
Per Share Data (Rs.)					
Normalized EPS	2.6	5.0	6.0	131.0%	19.4%

* Excludes Other income

Increased EBITDA margins due to reduction in network operating expenses and license & WPC charges

The improvement in margins was driven by reduction in network operating expenses and license & WPC charges partially offset by increased selling & distribution expenses. The Company's adjusted net profit rose substantially to Rs. 12,193.7 mn on the back of declining depreciation and finance charges.

Segment Net sales analysis:

The Company operates through three business segments: Wireless, Global and Broadband.

Segment Net Sales

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
Wireless	24,320	29,692	33,730	38.7%	13.6%
Global	12,340	12,938	13,033	5.6%	0.7%
Broadband	2,271	3,299	3,833	68.8%	16.2%
Other Income*	1,028	947	990		
Sub Total	39,959	46,876	51,586	29.1%	10.0%
Eliminations	(7,458)	(7,507)	(8,549)		
Total	32,501	39,369	43,037	32.4%	9.3%

* Other income includes income from retailing, property leasing, investments, and equipment distribution and marketing

Wireless segment net sales increased due to enhanced subscriber base

Wireless segments net sales increased 38.7% yoy to Rs. 33,730 mn due to enhanced subscriber base. RCOM's subscribers increased from 23 mn in 1QFY07 to 32 mn in 1QFY08 driven by higher sales of low cost "Classic" handsets along with network expansion. However, on a qoq basis, the Company reported lower minutes of use (MoU) per user due to the continued rebalancing of its acquisition and tariff strategy.

Net sales of the Global segment rose due to higher traffic

Net sales in the Global segment increased 5.6% yoy to Rs. 13,033 mn driven by increase in international long distance (ILD) and national long distance (NLD) minutes of use. ILD and NLD minutes grew by 6% and 16% qoq to 1.6 bn and 5.6 bn respectively. In addition, higher realisation rate also contributed to the increase. However, net sales was adversely affected by the appreciation in rupee.

Launch of WiMax and Integrated Business Internet Package adds value to the Broadband business

The Company's net sales in the Broadband segment reported an increase of 68.8% yoy to Rs. 3,833 mn as a result of launch of Integrated Business Internet Package and WiMax technologies.

Segment EBITDA analysis:

Segment EBITDA					
Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
Wireless	8,746	11,511	13,392	53.1%	16.3%
Global	2,842	3,121	3,239	14.0%	3.8%
Broadband	882	1,611	1,836	108.2%	14.0%
Other Income*	230	158	(284)		
Sub Total	12,700	16,401	18,183	43.2%	10.9%
Eliminations	(639)	(49)	(41)		
Total	12,061	16,352	18,142	50.4%	10.9%

* Other income includes income from retailing, property leasing, investments, and equipment distribution and marketing

EBITDA margins increased on the back of economies of scale and higher realisation rate

Wireless segment's EBITDA increased 53.1% yoy to Rs. 13,392 mn. EBITDA margin improved 374 bps to 39.7% as a result of economies of scale.

EBITDA of the Global segment rose 14% yoy to Rs. 3,239 mn and margins improved 182 bps to 24.9%. The improvement in margins was a result of better realization for both wholesale inbound and retail prices for Reliance India Call coupled with higher volume. However, declining tariff (NLD/ILD charges) due to reduction in access deficit charge did put pressure on the margins.

Broadband segment's EBITDA increased 108.2% yoy to Rs. 1,836 mn and margins were higher by 906 bps to 47.9%. The increase in EBITDA was driven by higher sales across the segment.

Key Events

- The Company sold 5% stake in its wholly owned subsidiary, Reliance Telecommunications Infrastructure Limited (RTIL), for about Rs. 14 bn. The deal thus attributes an equity value of about Rs. 270 bn to RTIL, equivalent to Rs. 135 per share or more than 22.7% of the current RCOM's share price.
- RCOM's wholly owned subsidiary FLAG Telecom, acquired US-based Yipes Holdings for Rs. 12 bn. Yipes is a leading provider of managed Ethernet services. The acquisition of Yipes drives forward its strategy to

5% stake sale in RTIL for Rs. 14 bn

Acquisition of Yipes, a leading provider of Ethernet services, for Rs. 12 bn

offer the most sophisticated, cutting edge data communication products and services.

- RCOM bagged 8,982 sites under the USO (Universal Services Obligation) tender offer. This will help the Company to expand its rural presence by putting up radio electronics at all these sites at zero rentals for the next 5 years.

Key Risks

- Decline in MoU per user will have an adverse impact on the revenues.
- Delay in the listing of FLAG Telecom and RTIL will affect the Company's rating.

Key developments

- The Company is planning to spend USD 4 bn, excluding the tower company project, to expand the network.
- RTIL currently owns 14,000 towers and the Company is planning to increase the number to 23,000 towers by the end of this financial year.
- RCOM is planning to set up over 2,000 rural multimedia kiosks to provide internet and e-governance applications to the masses as per the agreement with the West Bengal government.
- RCOM, along with its competitors Bharti Airtel Ltd and Tata Group, made a bid to acquire 51% stake in Telcom Kenya to expand its presence in the international market.
- Recently, the Company was in talks with Aircel Cellular Ltd to acquire a controlling stake in the latter. Agreement with Aircel will help RCOM to expand its GSM network.

Enhanced subscriber base along with listing of FLAG and RTIL to add value

Outlook

With an expected increase in the subscriber base coupled with acquisition of Yipes Holdings, the Company's net sales are estimated to increase at a CAGR of 27.7% for FY07-FY09E. Moreover, the Company's initiatives in the form of possible listing of FLAG Telecom and RTIL, development of SEZ at Dhirubhai Ambani Knowledge City near Mumbai, and hive off of its BPO business will further add value to the stock.

At the current price of Rs. 594.35, the stock is trading at a forward PE of 28.3x FY08E and 22.6x FY09E. We maintain our **Buy** rating on the stock with a target price of Rs. 665 over a period of 9-months.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)					
Net Sales	106,273	142,625	194,563	232,562	27.7%
EBITDA	23,961	55,148	80,133	98,108	33.4%
<i>EBITDA Margin</i>	22.5%	38.7%	41.2%	42.2%	
Wireless Subscribers	20	28	39	49	32.9%
% increase in subscribers	NA	38.6%	40.8%	25.5%	
Wireless ARPU	379	377	368	360	
Wireless minutes of use per customer	532	541	535	525	
Average realised rate	0.71	0.70	0.69	0.69	
Wireless churn	2.1%	2.6%	2.0%	1.8%	
Per Share Data (Rs.)					
Normalized EPS	2.3	15.6	21.0	26.3	29.8%
PER (x)	131.9x	38.1x	28.3x	22.6x	

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.