



INDIA

Reliance Communications

2 May 2008

RCOM IN **Outperform**

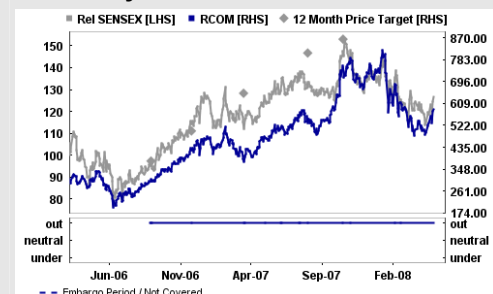
Stock price as of 30 Apr 08	Rs	579.75
12-month target	Rs	865.00
Upside/downside	%	+49.2
Valuation	Rs	865.00
- Sum of Parts		

GICS sector	telecommunication services		
Market cap	Rs bn	1,197	
30-day avg turnover	US\$m	114.2	
Market cap	US\$m	29,708	
Number shares on issue	m	2,157	

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	144.7	191.1	252.7	310.9
EBITDA	bn	57.2	81.1	109.6	140.7
EBITDA growth	%	128.6	41.7	35.2	28.3
EBIT	bn	32.6	54.1	79.1	110.3
EBIT Growth	%	304.9	66.1	46.2	39.4
Reported profit	bn	31.6	67.0	76.5	101.1
Adjusted profit	bn	31.9	54.8	76.5	101.1
EPS adj	Rs	15.62	25.38	35.47	46.86
EPS adj growth	%	562.1	62.5	39.7	32.1
PE adj	x	37.1	22.8	16.3	12.4
Total DPS	Rs	0.00	0.50	2.00	6.00
Total DPS growth	%	0.00	0.00	300.00	200.00
Total div yield	%	0.0	0.1	0.3	1.0
ROA	%	7.4	8.9	11.0	13.0
ROE	%	18.4	21.8	24.8	26.1
EV/EBITDA	x	21.9	16.3	12.0	9.4
Net debt/equity	%	44.6	2.9	-2.3	-8.3
Price/book	x	5.2	4.6	3.6	2.9

RCOM IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, April 2008 (all figures in INR unless noted)

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Less of wireless; Investing in future

Event

- Reliance Communications reported in line operating results for 4QFY08 although PAT came in ahead of expectations. We shift our Top Pick recommendation to Bharti Airtel even as we reiterate our Outperform on RCOM.

Impact

- 4Q results driven by outperformance in the non-wireless businesses of Global and Broadband/Fixed Line**, while wireless EBITDA came in line with our estimates. Wireless metrics were weak with ARPU and Minutes of Use surprising negatively while ARPM and EBITDA per minute were largely in line.
- MOUs decline sequentially at RCOM, in-contrast to trends at Bharti and Idea.** RCOM registered 4Q ARPU of Rs317, 3.6% below our estimate of 329, marking declines of 6.5% QoQ and 15.9% YoY. Similarly, monthly MOUs in 4Q at 430 were 2.8% below our estimate of 442. This is contrary to a sequential uptick in MOU seen in Bharti's (+7% QoQ) and Idea's (+9% QoQ) 4Q results.
- We believe RCOM is increasingly becoming an integrated telecom story** with the non-wireless businesses likely to drive operating performance for the next 3-4 quarters. Management is consciously focusing on EBITDA market share in the wireless business and RCOM now boasts of the highest EBITDA margins in the overall business and in the wireless segment across Indian telcos. Investors, however, are likely looking at subscriber and revenue market shares, while taking the view that profitability will follow. This apparent disconnect between management focus and market focus may cap stock valuations. We believe both revenues and margins will be equally important.

Earnings revision

- We are reviewing numbers for the sector and all three stocks post 4Q results.

Price catalyst

- 12-month price target: Rs865.00 based on a Sum of Parts methodology.
- Catalyst: 1) Ramp-up in tenancy ratio in the towers business, 2) IPO of the TowerCo leading to value unlocking, 3) Successful GSM launch by end CY08.

Action and recommendation

- We continue to like RCOM as a company with strong future growth drivers;** it is investing aggressively in future growth (capex of US\$11bn guided for FY09-10E). While this will likely deliver strong growth in topline and earnings post 2010-11E, the flip sides are a sharp increase in capital intensity, delayed free cash, lower return on capital in near-term and execution worries.
- RCOM's valuation re-rating may get pushed back by couple of quarters:** We believe that in the next 2-3 quarters, RCOM is unlikely to deliver positive surprises in operating performance. This will only improve with the launch of pan-India GSM service in the next 9-12 months. We think investors in the interim will be focused on execution and network rollout schedules as promised.
- Bharti our new Top Pick in Indian telecoms:** We see Bharti as a well-oiled execution machine in the near term, delivering consistent positive surprises on key operating metrics. The widening chasm between Bharti & RCOM in QoQ wireless revenue growth will likely mean that catch-up in valuations between the two will likely be delayed. We shift our Top Pick reco in Indian Telecoms to Bharti Airtel (BHARTI IN, OP, Tgt Price: Rs1,400, Upside: 56%).

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 4Q FY3/08 results – RCOM quarterly P&L; YoY growth, QoQ growth and deviation from Macquarie 4Q expectations

Particulars	4QFY07	1QFY08	2QFY08	3QFY08	Actual 4QFY08	(% chg YoY)	(% chg QoQ)	Estimate 4QFY08	Deviation (%)
Revenues									
Wireless	29,692	33,730	37,230	39,567	41,608	40.1%	5.2%	42,675	-2.5%
Global Service revenues	12,938	13,033	13,161	13,299	15,257	17.9%	14.7%	13,304	14.7%
Broadband & Telephone Service revenues	3,299	3,833	4,371	4,564	5,100	54.6%	11.7%	5,025	1.5%
Others	947	990	1,087	1,544	683	-27.9%	-55.8%	1,621	-57.9%
Inter-segment eliminations	(7,507)	(8,549)	(10,064)	(10,232)	(9,534)	27.0%	-6.8%	(9,214)	3.5%
Total Revenues	39,369	43,037	45,785	48,742	53,114	34.9%	9.0%	53,412	-0.6%
QoQ growth (%)	4.8	9.3	6.4	6.5	9.0			9.6	
YoY growth (%)	32.5	32.4	29.9	29.8	34.9			35.7	
Operating Expenses									
Cost of service (a+b+c)	16,851	16,489	18,464	19,721	19,954	18.4%	1.2%	21,588	-7.6%
(% of total revenues)	42.8%	38.3%	40.3%	40.5%	37.6%			40.4%	
Access & License Fees (a)	9,978	9,687	9,746	11,188	9,962	-0.2%	-11.0%	11,795	-15.5%
(% of total revenues)	25.3%	22.5%	21.3%	23.0%	18.8%			22.1%	-3.3%
Network Operations Costs - (b)	4,423	4,338	5,662	5,446	6,562	48.4%	20.5%	6,409	2.4%
(% of total revenues)	11.2%	10.1%	12.4%	11.2%	12.4%			12.0%	0.4%
Employee Cost - (c)	2,451	2,464	3,056	3,087	3,430	39.9%	11.1%	3,383	1.4%
(% of total revenues)	6.2%	5.7%	6.7%	6.3%	6.5%			6.3%	0.1%
Selling & General Cost	6,166	8,406	7,703	7,956	9,996	62.1%	25.6%	8,547	16.9%
(% of total revenues)	15.7%	19.5%	16.8%	16.3%	18.8%			16.0%	2.8%
Total Operating Expense	23,017	24,895	26,167	27,677	29,950	30.1%	8.2%	30,135	-0.6%
(% of total revenues)	58.5%	57.8%	57.2%	56.8%	56.4%			56.4%	0.0%
QoQ growth (%)	3.3	8.2	5.1	5.8	8.2			8.9	
YoY growth (%)	19.7	21.8	20.4	24.2	30.1			30.9	
EBITDA									
EBITDA	16,352	18,142	19,618	21,065	23,164	41.7%	10.0%	23,277	-0.5%
EBITDA Margin	41.5%	42.2%	42.8%	43.2%	43.6%	2.1%	0.4%	43.6%	0.0%
Net Interest	392	1,274	1,125	1,518	81	-79.3%	-94.7%	7	1043.6%
Depreciation	(6,378)	(6,192)	(6,754)	(7,252)	(7,856)	23.2%	8.3%	(8,257)	-4.9%
(% of total revenues)	16.2%	14.4%	14.8%	14.9%	14.8%			15.5%	
Profit Before Taxes (PBT)	10,366	13,224	13,989	15,331	15,389	48.5%	0.4%	15,027	2.4%
(% of total revenues)	26.3%	30.7%	30.6%	31.5%	29.0%	2.6%	-2.5%	28.1%	0.8%
Income tax expense / (benefit)									
Income tax expense / (benefit)	149	1,031	698	1,379	(272)	-282.1%	-119.7%	1,052	-125.9%
Effective Tax Rate (%)	1.4%	7.8%	5.0%	9.0%	-1.8%			7.0%	
Profit After Taxes (PAT)	10,217	12,193	13,291	13,952	15,661	53.3%	12.2%	13,975	12.1%
Extraordinary items	28	15	12,203	-	611				
Share of Minority and Associates			12,448	223	1,240				
Rptd. Net Profit	10,244	12,208	13,046	13,729	15,032				
Adjusted Net Profit (excl. exceptional)	10,217	12,193	13,046	13,729	14,421	41.2%	5.0%	13,752	4.9%
Diluted EPS (Adjusted)	5.00	5.65	6.05	6.36	6.68	33.8%	5.0%	6.37	4.9%
Segmental breakdown of EBITDA									
Wireless	11,511.0	13,392.0	14,873.0	15,819.0	16,763.0	45.6%	6.0%	16,670.2	0.6%
Global (Long distance)	3,121.0	3,239.0	3,276.0	3,428.0	4,089.0	31.0%	19.3%	2,990.7	36.7%
Broadband & Fixed	1,611.0	1,836.0	2,102.0	2,222.0	2,492.0	54.7%	12.2%	2,446.6	1.9%
Others	158.0	(284.0)	(566.0)	(258.0)	(115.0)	-172.8%	-55.4%	17.9	115.6%
Intersegment eliminations	(49.0)	(41.0)	(67.0)	(146.0)	(65.0)	32.7%	-55.5%	1,151.5	-105.6%
Net Others (Others + intersegment)	109.0	(325.0)	(633.0)	(404.0)	(180.0)	-265.1%	-55.4%	1,169.4	-115.4%
Total	16,352.0	18,142.0	19,618.0	21,065.0	23,160.0	41.6%	9.9%	23,276.9	-0.5%
Segment-wise EBITDA margin (%)									
Wireless	38.8%	39.7%	39.9%	40.0%	40.3%	1.5%	0.3%	39.1%	1.2%
Global (Long distance)	24.1%	24.9%	24.9%	25.8%	26.8%	2.7%	1.0%	22.5%	4.3%
Broadband & Fixed	48.8%	47.9%	48.1%	48.7%	48.9%	0.0%	0.2%	48.7%	0.2%
Others	16.7%	-28.7%	-52.1%	-16.7%	-16.8%	-33.5%	-0.1%	1.1%	-17.9%
						0.0%	0.0%		0.0%
Capex									
Wireless	9,860.0	14,973.0	49,685.0	60,605.0	46,442.0	371.0%	-23.4%	17,401.9	166.9%
Global	3,330.0	744.0	895.0	22,393.0	1,682.0	-49.5%	-92.5%	5,151.1	-67.3%
Broadband Service	2,240.0	2,176.0	2,596.0	5,034.0	4,605.0	105.6%	-8.5%	2,914.7	58.0%
Others	14,764.2	(9,274.2)	(33,288.0)	(59,576.0)	(9,099.0)	-161.6%	-84.7%	-	N.A
Capital Work in progress	(14,254.2)	9,307.2	33,291.0	59,723.0	9,099.0	-163.8%	-84.8%	696.1	1207.1%
Subscriber Base									
Wireless	28.0	31.9	36.3	41.0	45.8	63.5%	11.8%	45.6	0.5%
Wireline	0.6	0.7	0.8	0.9	1.0	66.3%	14.4%	1.0	1.0%
Per subscriber metrics									
Wireless ARPU	377.0	375.0	361.0	339.0	317.0	-15.9%	-6.5%	328.8	-3.6%
Broadband	1,932.0	1,929.0	1,948.0	1,797.0	1,760.0	-8.9%	-2.1%	1,743.1	1.0%
Average Minutes of Usage per User (MoU)	541.0	510.0	490.0	449.0	430.0	-20.5%	-4.2%	442.3	-2.8%
Average Revenue per Minute (ARPM)	0.70	0.74	0.74	0.76	0.74	5.8%	-2.4%	0.74	-0.8%
Average EBITDA per Minute	0.27	0.29	0.26	0.30	0.30	10.7%	-1.4%	0.29	3.1%
Blended churn rate (%)	<i>nmf</i>	<i>nmf</i>	1.50	1.40	1.40	na	na	na	na

Source: Macquarie Research, Company Data, May 2008

Fig 2 FY3/08 results – RCOM annual P&L; YoY growth, and deviation from Macquarie expectations

Particulars	FY06	FY07	Actual FY08	(% chg YoY)	Estimate FY08	Deviation (%)
Revenues						
Wireless	73,643	107,276	152,135	41.8%	151,534	0.4%
Global Service revenues	51,855	51,771	54,751	5.8%	52,797	3.7%
Broadband & Telephone Service revenues	5,126	11,440	17,867	56.2%	17,793	0.4%
Others	3,212	3,872	4,310	11.3%	5,242	-17.8%
Inter-segment eliminations	(26,172)	(29,677)	(38,386)	29.3%	(38,059)	0.9%
Total Revenues	107,664	144,683	190,678	31.8%	190,976	-0.2%
QoQ growth (%)	-	-	-	-	-	-
YoY growth (%)	-	34.4	31.8	-	32.0	-
Operating Expenses						
Cost of service (a+b+c)	64,140	63,637	74,628	17.3%	76,262	-2.1%
(% of total revenues)	59.6%	44.0%	39.1%	-	39.9%	-
Access & License Fees (a)	40,400	37,822	40,583	7.3%	42,416	-4.3%
(% of total revenues)	37.5%	26.1%	21.3%	-	22.2%	-0.9%
Network Operations Costs - (b)	15,350	16,736	22,008	31.5%	21,855	0.7%
(% of total revenues)	14.3%	11.6%	11.5%	-	11.4%	0.1%
Employee Cost - (c)	8,390	9,079	12,037	32.6%	11,990	0.4%
(% of total revenues)	7.8%	6.3%	6.3%	-	6.3%	0.0%
Selling & General Cost	18,492	23,835	34,061	42.9%	32,612	4.4%
(% of total revenues)	17.2%	16.5%	17.9%	-	17.1%	0.8%
Total Operating Expense	82,632	87,471	108,689	24.3%	108,874	-0.2%
(% of total revenues)	76.8%	60.5%	57.0%	-	57.0%	0.0%
QoQ growth (%)	0.0	0.0	0.0	-	0.0	-
YoY growth (%)	0.0	5.9	24.3	-	24.5	-
EBITDA						
EBITDA	25,032	57,212	81,989	43.3%	82,102	-0.1%
EBITDA Margin	23.2%	39.5%	43.0%	3.5%	43.0%	0.0%
Net Interest	(2,891)	(4)	3,998	na	3,924	1.9%
Depreciation	(16,990)	(24,653)	(28,054)	13.8%	(28,455)	-1.4%
(% of total revenues)	15.8%	17.0%	14.7%	-	14.9%	-
Profit Before Taxes (PBT)	5,151	32,555	57,933	78.0%	57,571	0.6%
(% of total revenues)	4.8%	22.5%	30.4%	7.9%	30.1%	0.2%
Income tax expense / (benefit)	327	613	2,836	363.0%	4,160	-31.8%
Effective Tax Rate (%)	6.3%	1.9%	4.9%	-	7.2%	-
Profit After Taxes (PAT)	4,824	31,942	55,097	72.5%	53,412	3.2%
Extraordinary items	(374)	(302)	12,829	-	12,218	-
Share of Minority and Associates	-	-	13,911	-	-	-
Rptd. Net Profit	4,450	31,640	54,015	-	65,630	-17.7%
Adjusted Net Profit (excl. exceptional)	4,824	31,942	53,389	67.1%	52,966	0.8%
Diluted EPS (Adjusted)	2.36	15.62	24.75	58.4%	24.55	0.8%
Segmental breakdown of EBITDA						
Wireless	22,490.4	39,844.4	60,847.0	52.7%	60,754.2	0.2%
Global (Long distance)	6,176.6	12,714.2	14,032.0	10.4%	12,933.7	8.5%
Broadband & Fixed	760.2	5,194.1	8,652.0	66.6%	8,606.6	0.5%
Others	410.2	265.0	(1,223.0)	-561.5%	(1,090.1)	10.9%
Intersegment eliminations	(4,809.0)	(808.0)	(319.0)	-60.5%	897.5	-135.5%
Net Others (Others + intersegment)	(4,398.8)	(543.0)	(1,542.0)	184.0%	(192.6)	700.6%
Total	25,028.4	57,211.5	81,989.0	43.3%	82,988.8	-1.2%
Segment-wise EBITDA margin (%)						
Wireless	30.5%	37.1%	40.0%	2.9%	40.1%	-0.1%
Global (Long distance)	11.9%	24.6%	25.6%	1.1%	24.5%	1.1%
Broadband & Fixed	14.8%	45.4%	48.4%	3.0%	48.4%	0.1%
Others	12.8%	6.8%	-28.4%	-35.2%	-20.8%	-7.6%
				0.0%		0.0%
Capex						
Wireless	-	64,853.0	212,013.0	226.9%	189,117.8	12.1%
Global	-	44,057.0	171,705.0	289.7%	142,664.9	20.4%
Broadband Service	-	14,217.0	25,714.0	80.9%	32,853.1	-21.7%
Others	-	6,260.0	14,411.0	130.2%	12,720.7	13.3%
Capital Work in progress	-	(5,282.8)	(111,237.2)	2005.6%	(102,138.2)	N.A
	-	5,601.8	111,420.2	1889.0%	103,017.3	8.2%
Subscriber Base						
Wireless	20.2	28.0	45.8	63.5%	45.6	0.5%
Wireline	0.3	0.6	1.0	66.3%	1.0	1.0%
Per subscriber metrics						
Wireless ARPU	401.0	358.0	345.1	-3.6%	348.6	-1.0%
Broadband	2,903.8	2,234.3	1,847.9	-17.3%	1,843.1	0.3%
Average Minutes of Usage per User (MoU)	537.8	486.4	465.5	-4.3%	469.2	-0.8%
Average Revenue per Minute (ARPM)	0.75	0.74	0.74	0.7%	0.74	-0.2%
Average EBITDA per Minute	0.23	0.27	0.29	6.3%	0.29	0.9%
Blended churn rate (%)	na	na	na	na	na	na

Source: Macquarie Research, Company Data, May 2008

Fig 3 Key quarterly operating & financial metrics - Wireless business: Bharti, RCOM, Idea

Reliance Communications - Actuals for 4QFY08									Comments
March Year ends; Rs million	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	
Subscribers (m)	22.52	25.98	29.98	28.01	31.87	36.32	40.96	45.79	Due to deactivation of 5.6m subscribers in March 2007, RCOM benefitted from low base effect for 4Q08.
YoY growth (%)	70.1	74.2	75.9	38.6	41.5	39.8	36.6	63.5	
QoQ growth (%)	11.4	15.3	15.4	-6.6	13.8	14.0	12.8	11.8	
Gross ARPU (Rs)	379	354	328	377	375	361	339	317	
YoY growth (%)	-6.4	-15.1	-20.0	-0.5	-1.1	2.0	3.4	-15.9	
QoQ growth (%)	na	-6.6	-7.3	14.9	-0.5	-3.7	-6.1	-6.5	
Blended Churn	2.1%	1.9%	1.8%	nmf	nmf	1.5%	1.4%	na	
Total minutes carried (m)	na	na	na	na	na	na	na	na	
YoY growth (%)	na	na	na	na	na	na	na	na	
QoQ growth (%)	na	na	na	na	na	na	na	na	
Total Population Centres covered	na	na	na	na	na	na	na	na	
YoY growth (%)	na	na	na	na	na	na	na	na	
QoQ growth (%)	na	na	na	na	na	na	na	na	
Wireless Revenues (Rs m)	24,320	25,744	27,520	29,692	33,730	37,230	39,567	41,608	Differential in wireless revenue growth for RCOM and Bharti is narrowing, in-line with our expectations.
YoY growth (%)	63.8	44.8	38.9	40.0	38.7	44.6	43.8	40.1	
QoQ growth (%)	14.7	5.9	6.9	7.9	13.6	10.4	6.3	5.2	
ARPM (Rs)	0.77	0.77	0.72	0.70	0.74	0.74	0.76	0.74	
YoY growth (%)	-4.5	4.6	-3.6	-2.2	-4.7	-4.1	4.5	5.8	
QoQ growth (%)	8.4	-0.5	-5.9	-3.5	5.5	0.2	2.5	-2.4	
Avg. EBITDA per minute (Rs)	0.28	0.28	0.27	0.27	0.29	0.26	0.30	0.30	As subscribers on promotional plans come up for repricing, RCOM has been able to improve/maintain its avg. EBITDA per min.
YoY growth (%)	59.8	30.4	11.4	6.3	5.2	-4.9	12.5	10.7	
QoQ growth (%)	9.1	-0.3	-2.5	0.2	8.0	-9.9	15.3	-1.4	
Wireless EBITDA (Rs m)	8,746	9,294	10,293	11,511	13,392	14,873	15,819	16,763	
YoY growth (%)	152.8	82.3	61.8	52.0	53.1	60.0	53.7	45.6	
QoQ growth (%)	15.5	6.3	10.7	11.8	16.3	11.1	6.4	6.0	
EBITDA margin (%)	36.0	36.1	37.4	38.8	39.7	39.9	40.0	40.3	
YoY expansion (basis points)	1,266.3	742.2	529.2	306.6	374.1	384.6	257.8	152.0	
QoQ expansion (basis points)	26.1	14.0	129.9	136.6	93.6	24.5	3.1	30.8	
VAS as % of total revenue	6.2%	6.3%	6.3%	6.3%	5.7%	6.2%	6.4%	6.9%	
YoY growth (%)	3.3	5.0	14.5	3.3	-8.1	-1.6	1.6	9.5	
QoQ growth (%)	1.6	1.6	0.0	0.0	-9.5	8.8	3.2	7.8	
Total employees	na	na	na	na	na	na	na	na	
YoY growth (%)	na	na	na	na	na	na	na	na	
QoQ growth (%)	na	na	na	na	na	na	na	na	

Bharti Airtel - Actuals for 4QFY08									Comments
March Year ends; Rs million	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08A	
Subscribers (m)	23.07	27.06	31.97	37.14	42.70	48.88	55.16	61.98	Bharti's industry leading subscriber addition helps it to maintain its strong revenue growth.
YoY growth (%)	88.3	92.4	95.8	89.7	85.1	80.6	72.5	66.9	
QoQ growth (%)	17.8	17.3	18.2	16.2	15.0	14.5	12.9	12.4	
Gross ARPU (Rs)	441	438	427	406	390	366	358	357	
YoY growth (%)	-10.2	-8.0	-9.2	-8.1	-11.5	-16.5	-16.2	-12.1	
QoQ growth (%)	-0.2	-0.7	-2.6	-4.8	-3.9	-6.3	-2.2	-0.2	
Blended Churn	4.5%	4.8%	4.6%	3.6%	4.0%	3.8%	3.8%	4.2%	Avg. EBITDA per min. has been declining for Bharti since past 8 quarters, expect gradual decline from these levels.
Total minutes carried (m)	28,194	33,844	41,305	49,240	57,125	64,375	73,840	89,058	
YoY growth (%)	111.2	121.5	121.6	112.4	102.6	90.2	78.8	80.9	
QoQ growth (%)	21.6	20.0	22.0	19.2	16.0	12.7	14.7	20.6	
Total Population Centres covered	105,640	159,433	181,174	212,003	248,439	294,876	325,525	347,646	
YoY growth (%)	na	na	195.6	151.2	135.2	85.0	79.7	64.0	
QoQ growth (%)	25.2	50.9	13.6	17.0	17.2	18.7	10.4	6.8	
Wireless Revenues (Rs m)	28,411	33,022	37,579	42,431	46,976	50,579	56,105	64,201	
YoY growth (%)	62.7	73.3	72.8	75.8	65.3	53.2	49.3	51.3	
QoQ growth (%)	17.7	16.2	13.8	12.9	10.7	7.7	10.9	14.4	
ARPM (Rs)	1.00	0.97	0.91	0.86	0.82	0.78	0.76	0.70	
YoY growth (%)	-22.0	-20.8	-20.2	-16.6	-18.3	-19.6	-17.3	-17.7	
QoQ growth (%)	-2.5	-2.9	-6.0	-6.3	-4.5	-4.4	-3.3	-6.7	
Avg. EBITDA per minute (Rs)	0.36	0.36	0.34	0.34	0.33	0.32	0.31	0.28	Avg. EBITDA per min. has been declining for Bharti since past 8 quarters, expect gradual decline from these levels.
YoY growth (%)	-20.4	-21.5	-19.3	-10.4	-8.1	-9.6	-9.3	-17.4	
QoQ growth (%)	-3.7	-1.9	-4.1	-1.2	-1.1	-3.5	-3.8	-10.0	
Wireless EBITDA (Rs m)	10,341	12,179	14,129	16,604	19,087	20,728	22,887	24,833	
YoY growth (%)	69.9	75.3	78.1	89.8	84.6	70.2	62.0	49.6	
QoQ growth (%)	18.2	17.8	16.0	17.5	15.0	8.6	10.4	8.5	
EBITDA margin (%)	36.4	36.9	37.6	39.1	40.6	41.0	40.8	38.7	
YoY expansion (basis points)	155.5	40.8	111.6	289.2	423.4	410.0	319.5	-45.1	
QoQ expansion (basis points)	15.9	48.4	71.7	153.4	150.0	35.0	-18.8	-211.2	
VAS as % of total revenue	10.8%	10.3%	10.4%	10.1%	9.9%	9.8%	9.3%	9.4%	
YoY growth (%)	5.9	-5.5	7.2	-5.6	-8.3	-4.9	-10.6	-6.9	
QoQ growth (%)	0.9	-4.6	1.0	-2.9	-2.0	-1.0	-5.1	1.1	
Total employees	na	na	18,213	20,314	22,955	23,264	24,703	25,543	
YoY growth (%)	na	na	na	na	na	na	35.6	25.7	
QoQ growth (%)	na	na	na	11.5	13.0	1.3	6.2	3.4	

Idea Cellular - Actuals for 4Q08									Comments
March Year ends; Rs million	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08A	
Subscribers (m)	8.54	10.36	12.44	14.01	16.13	18.67	21.05	24.00	
YoY growth (%)	na	na	na	na	88.9	80.2	69.2	48.8	
QoQ growth (%)	na	21.4	20.1	12.6	15.1	15.8	12.8	14.0	
Gross ARPU (Rs)	377	335	322	317	320	288	279	287	
YoY growth (%)	na	na	na	na	-15.2	-14.0	-13.4	-9.5	
QoQ growth (%)	na	-11.2	-3.9	-1.6	0.9	-10.0	-3.1	2.9	
Blended Churn	5.2%	4.4%	3.7%	4.2%	4.2%	4.5%	4.7%	4.6%	
Total minutes carried (m)	8,097	9,736	12,629	15,469	17,100	18,831	22,457	27,824	
YoY growth (%)	na	na	na	na	111.2	93.4	77.8	79.9	
QoQ growth (%)	na	20.2	29.7	22.5	10.5	10.1	19.3	23.9	
Total Population Centres covered	2,271	3,031	3,607	4,432	6,066	8,413	11,104	13,308	
YoY growth (%)	na	na	na	na	167.1	177.6	207.8	200.3	
QoQ growth (%)	na	33.5	19.0	22.9	36.9	38.7	32.0	19.8	
Wireless Revenues (Rs m)	8,942	10,010	11,464	13,057	14,773	15,622	17,081	19,724	
YoY growth (%)	na	na	na	na	65.2	56.1	49.0	51.1	
QoQ growth (%)	na	11.9	14.5	13.9	13.1	5.7	9.3	15.5	
ARPM (Rs)	1.06	0.97	0.87	0.82	0.84	0.80	0.74	0.70	As long as decline in ARPM and average EBITDA per minute is in-line with our expectations, we do not see downside risks to stock price.
YoY growth (%)	na	na	na	na	-20.8	-17.9	-15.2	-14.8	
QoQ growth (%)	na	-8.1	-10.4	-6.1	2.5	-4.8	-7.5	-5.6	
Avg. EBITDA per minute (Rs)	0.36	0.34	0.29	0.27	0.30	0.27	0.25	0.24	
YoY growth (%)	na	na	na	na	-16.1	-21.1	-14.0	-12.7	
QoQ growth (%)	na	-3.1	-14.8	-7.3	9.6	-8.9	-7.1	-5.8	
Wireless EBITDA (Rs m)	3,020	3,548	3,706	4,181	5,141	5,107	5,672	6,605	
YoY growth (%)	na	na	na	na	70.2	43.9	53.1	58.0	
QoQ growth (%)	na	17.5	4.4	12.8	23.0	-0.7	11.1	16.5	
EBITDA margin (%)	33.8	35.4	32.3	32.0	34.8	32.7	33.2	33.5	Higher losses in three acquired circles continue to drag Idea's margins.
YoY expansion (basis points)	na	na	na	na	102.4	-275.4	88.0	146.9	
QoQ expansion (basis points)	na	167.0	-311.6	-30.6	277.7	-210.9	51.7	28.4	
VAS as % of total revenue	9.2%	9.6%	9.2%	9.0%	8.4%	8.3%	8.0%	8.2%	
YoY growth (%)	na	na	na	na	-8.7	-13.5	-13.0	-8.9	
QoQ growth (%)	na	4.3	-4.2	-2.2	-6.7	-1.2	-3.6	2.5	
Total employees	4,422	4,597	4,647	5,532	5,638	5,865	5,923	6,107	
YoY growth (%)	na	na	na	na	27.5	27.6	27.5	10.4	
QoQ growth (%)	na	4.0	1.1	19.0	1.9	4.0	1.0	3.1	

Source: Macquarie Research, Company Data, May 2008

Fig 4 Key annual operating & financial metrics – Wireless business: RCOM, Bharti, Idea

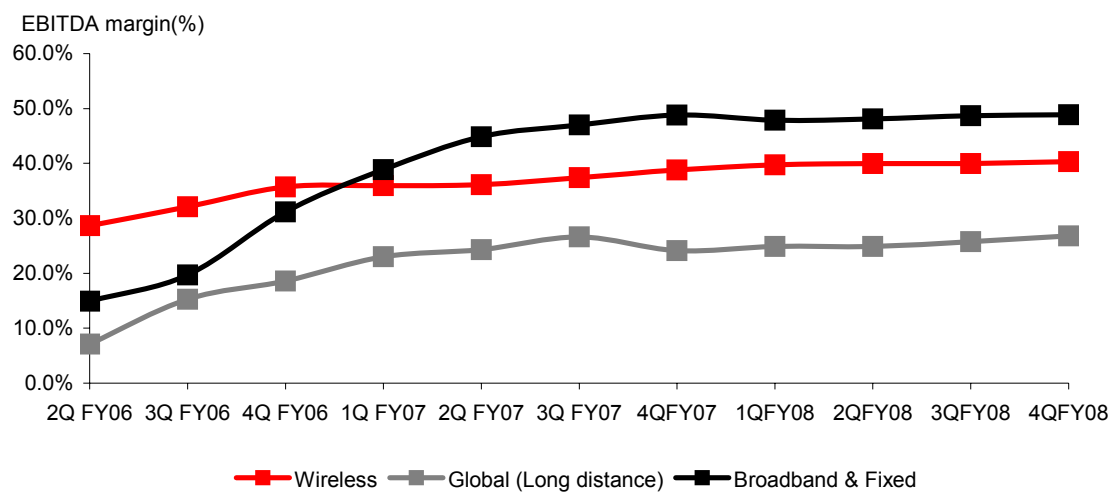
Reliance Communications - Actuals for FY08					
March Year ends; Rs million	FY06	FY07	FY08	FY09E	FY10E
Subscribers (m)	20.21	28.01	45.79	65.30	82.20
YoY growth (%)	na	38.6	63.5	42.6	25.9
Gross ARPU (Rs)	401	358	345	296	277
YoY growth (%)	na	-10.7	-3.6	-14.2	-6.4
Total minutes carried (m)	na	na	na	na	na
YoY growth (%)	na	na	na	na	na
Total Population Centres covered	na	na	na	na	na
YoY growth (%)	na	na	na	na	na
Wireless Revenues (Rs m)	73,643	107,276	152,135	194,967	245,183
YoY growth (%)	na	45.7	41.8	28.2	25.8
ARPM (Rs)	0.75	0.74	0.74	0.65	0.63
YoY growth (%)	na	-1.3	0.7	-12.3	-3.1
Avg. EBITDA per minute (Rs)	0.23	0.27	0.29	0.27	0.27
YoY growth (%)	na	21.3	6.3	-7.1	0.0
Wireless EBITDA (Rs m)	22,490	39,844	60,847	80,063	104,636
YoY growth (%)	na	77.2	52.7	31.6	30.7
EBITDA margin (%)	30.5	37.1	40.0	41.1	42.7
YoY expansion (basis points)	na	660.2	285.4	107.0	161.2
VAS as % of total revenue	5.9%	6.3%	6.3%	7.7%	9.7%
YoY growth (%)	na	6.5	1.1	21.3	26.0
Total employees	na	na	na	na	na
YoY growth (%)	na	na	na	na	na
Bharti Airtel - Actuals for FY08					
March Year ends; Rs million	FY06	FY07	FY08	FY09E	FY10E
Subscribers (m)	19.58	37.14	61.98	85.40	104.90
YoY growth (%)	78.2	89.7	66.9	37.8	22.8
Gross ARPU (Rs)	474	427	370	312	296
YoY growth (%)	-7.7	-9.9	-13.3	-15.7	-5.1
Total minutes carried (m)	70,456	152,583	284,399	na	na
YoY growth (%)	na	116.6	86.4	na	na
Total Population Centres covered	84,405	212,003	347,646	na	na
YoY growth (%)	na	151.2	64.0	na	na
Wireless Revenues (Rs m)	82,392	141,443	217,861	275,958	337,953
YoY growth (%)	52.5	71.7	54.0	26.7	22.5
ARPM (Rs)	1.17	0.93	0.77	0.67	0.63
YoY growth (%)	-22.1	-20.5	-17.3	-12.5	-6.0
Avg. EBITDA per minute (Rs)	0.40	0.34	0.30	0.28	0.27
YoY growth (%)	-2.7	-14.8	-10.3	-8.1	-3.6
Wireless EBITDA (Rs m)	29,712	53,253	87,535	117,112	146,084
YoY growth (%)	60.4	79.2	64.4	33.8	24.7
EBITDA margin (%)	36.1	37.6	40.2	42.4	43.2
YoY expansion (basis points)	177.7	158.8	253.0	222.1	80.0
VAS as % of total revenue	10.4%	10.4%	9.6%	10.7%	11.4%
YoY growth (%)	29.8	-0.1	-7.6	11.8	6.5
Total employees	na	20,314	25,543	na	na
YoY growth (%)	na	na	25.7	na	na
Idea Cellular - Actuals for FY08					
March Year ends; Rs million	FY06	FY07	FY08	FY09E	FY10E
Subscribers (m)	7.37	14.01	24.00	34.13	42.59
YoY growth (%)	45.3	90.2	71.3	42.2	24.8
Gross ARPU (Rs)	391	334	295	247	227
YoY growth (%)	-5.6	-14.5	-11.9	-16.1	-8.2
Total minutes carried (m)	20,921	45,931	86,212	na	na
YoY growth (%)	61.3	119.5	87.7	na	na
Total Population Centres covered	1,944	4,432	13,308	na	na
YoY growth (%)	76.9	128.0	200.3	na	na
Wireless Revenues (Rs m)	29,489	43,473	67,199	85,665	104,453
YoY growth (%)	31.3	47.4	54.6	27.5	21.9
ARPM (Rs)	1.35	0.95	0.75	0.66	0.61
YoY growth (%)	-19.0	-30.0	-21.3	-11.5	-6.9
Avg. EBITDA per minute (Rs)	0.49	0.28	0.25	0.23	0.22
YoY growth (%)	-21.7	-43.8	-9.3	-8.0	-3.3
Wireless EBITDA (Rs m)	10,674	14,653	22,517	29,825	37,803
YoY growth (%)	30.0	37.3	53.7	32.5	26.7
EBITDA margin (%)	36.0	33.6	33.5	34.8	36.2
YoY expansion (basis points)	-40.2	-243.6	-5.0	105.8	137.6
VAS as % of total revenue	7.5%	9.1%	8.2%	8.8%	9.3%
YoY growth (%)	0.0	21.6	-9.9	7.3	5.9
Total employees	3,720	5,532	6,107	na	na
YoY growth (%)	na	48.7	10.4	na	na

Source: Macquarie Research, Company Data, May 2008

EBITDA margins positive; wireless operating metrics below expectations

- **Global (Long distance) business delivers strong numbers.** 4QFY08 results and management comments on the call point to strong potential of the non-wireless business. Segment revenue for Global services was Rs15.3bn, 15% ahead of our revenue estimate of Rs13.3bn. The EBITDA margin of 26.8% in 4Q for the Global segment was 100bp higher than last quarter. Strong revenue growth in the segment coupled with healthy margin expansion resulted in 19% QoQ/+31% YoY growth in the EBITDA (Rs4bn) for the segment.
- **Consolidated EBITDA of Rs23.2bn meets our above consensus forecast.** Consolidated EBITDA of Rs23.2bn was up +10% QoQ and +41.7% YoY. RCOM expanded consolidated margins by 40bp sequentially to 43.6%. Margin expansion during the quarter came in from 30bp margin expansion in wireless segment (40.3% vs 40% in 3Q), 100bp in Global segment (26.8% vs 25.8% in 3Q), 20bp in Broadband and Fixed segment (48.9% vs 48.7% in 3Q).

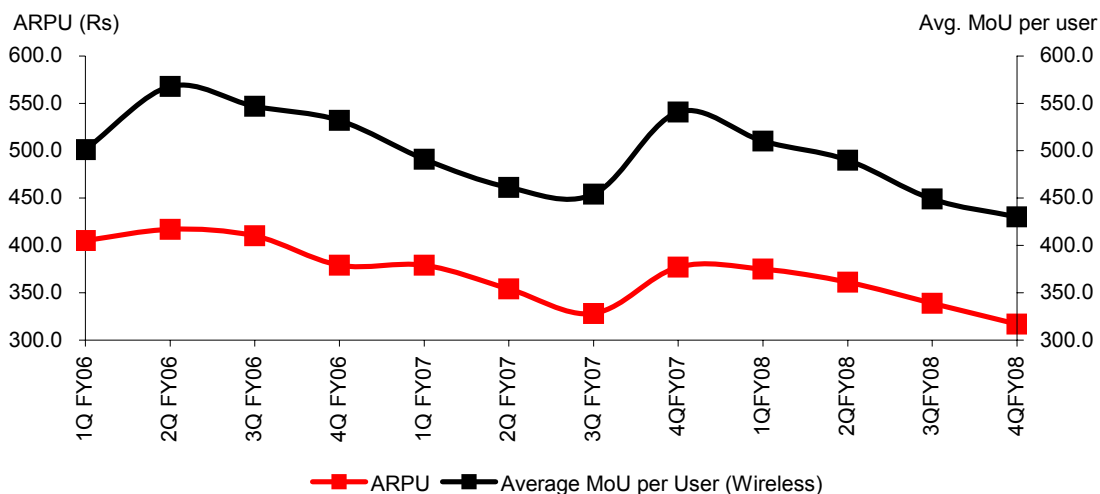
Fig 5 Consolidated EBITDA margins for RCOM expand 40bp QoQ



Source: Macquarie Research, May 2008

- **MOUs decline sequentially at RCOM, in contrast to trends at Bharti and Idea.** RCOM registered a 4QFY08 ARPU of Rs317, 3.6% below our estimate of Rs329. This marked 6.5% QoQ/15.9% YoY decline in ARPU. Similarly, monthly MOUs for the quarter came in at 430 2.8% below our estimate of 442. This is in contrast to sequential up tick in MOU seen at Bharti (+7% QoQ) and Idea (+9% QoQ) during the quarter. RCOM management clarified on the call that trend in MOU this quarter is by no means an indication of lack of elasticity.
- **Better EBITDA margins result in +3.1% surprise in average EBITDA per minute.** Though, ARPU and MOUs metrics disappointed for the quarter, per subscriber financial metrics were exactly in line with our estimate. Average revenue per minute (ARPM) for the quarter was 0.74, declining 2.4% QoQ. Average EBITDA per minute was 0.30, declining 1.4% QoQ, but surprising our estimate of 0.29 by 3.1%.

Fig 6 Both ARPU and MOUs decline sequentially



Source: Macquarie Research, Company Data, May 2008

- **Wireless subscriber additions for the quarter came in at record 4.8m.** We note that monthly net adds for RCOM this quarter were in excess of 1.6m for all three months, with March monthly net adds at a record 1.62m. We note that RCOM's FY3.08 subscriber base of 46m came in +0.5% ahead of our above consensus forecast.

Fig 7 FY3/08 subscriber numbers highlight our conservative FY3/09 subscriber forecast

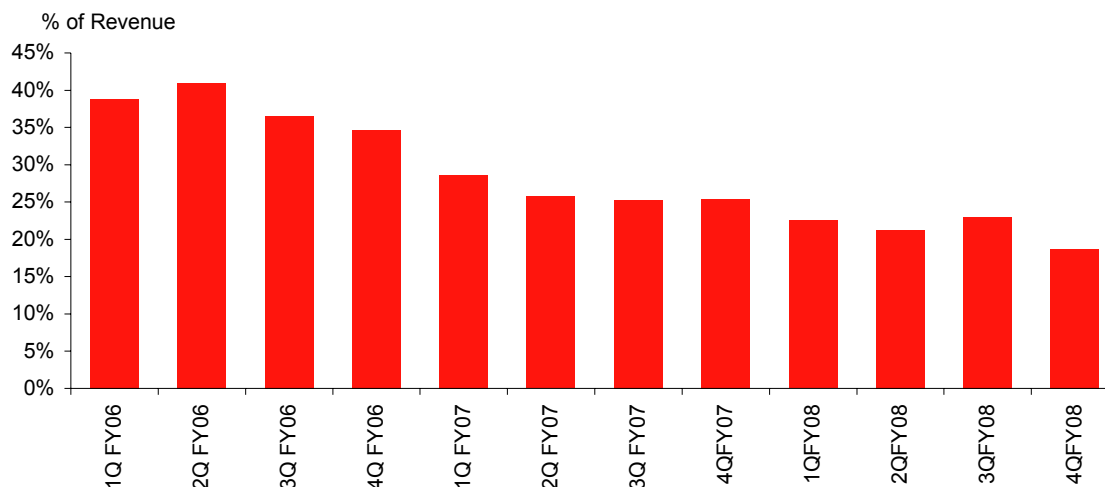
Operator	March 2008 net adds (Reported)	February 2008 net adds (Reported)	Required monthly net adds run rate for FY09E to meet Macquarie FY09 subscriber estimate	March 2008 total subs base (m)	March 2008 Macquarie subs forecast	FY 2008 Actual over FY2008 Macquarie est.	FY 2009E Macquarie forecast
Aircel Cellular	0.43	0.25	0.60	10.61	10.75	-1.3%	17.84
Bharti Airtel	2.31	2.25	1.95	61.98	61.42	0.9%	85.41
BSNL	1.64	0.82	1.17	36.21	39.05	-7.3%	50.19
Vodafone Essar	1.57	1.41	1.73	44.13	46.28	-4.7%	64.87
MTNL	0.12	0.11	0.05	3.24	3.52	-7.8%	3.79
Idea Cellular	1.13	0.92	0.84	24.00	23.61	1.6%	34.13
Spice Comm.	0.13	0.14	0.10	4.21	4.22	-0.3%	5.41
Reliance Communications	1.62	1.61	1.62	45.80	45.56	0.5%	65.25

Source: Macquarie Research, COAI Data, May 2008

Access, interconnect and license fees cost continues to decline

- RCOM's superior Pol network (point of interconnection) and increased share of on-net calling has resulted in access, interconnect and license fees cost declining to 19% this quarter.
- We believe access, interconnect and license fees cost will continue to fall as a percentage of revenue for RCOM in coming quarters as we think the company will continue to benefit from economies of scale.

Fig 8 RCOM's higher share of on-net calls keeps access, interconnect and license fee low



Source: Macquarie Research, May 2008

Tower business remains on track

- **New lease agreements expected to be signed in next quarter.** RCOM management remained confident with the business plans for towers business. Currently, Reliance Infratel is in talks with various wireless operators to sign them on as external tenants.
- **Current 35,000 towers have 1.2x average tenancy.** Reliance Infratel, the tower subsidiary of RCOM has approximately 35,000 towers at the end of 4QFY08 vs 36,849 towers guided by the company in its Red Herring Prospectus (RHP) filed in February 2008. The average tenancy on these towers is 1.2, flat from 1.2 average tenancy for the period ending 31 December 2007.
- **Reliance Infratel IPO to happen once market conditions improve.** Management reiterated its commitment to bring Reliance Infratel IPO once the investor sentiment improves. On the earnings conference call, company also highlighted key regulatory changes that have taken place in the sector since the time of RHP filing. The key regulatory changes cited by the management are TRAI's directive on active infrastructure sharing.

Key takeaways from the conference call

Forex derivative loss of Rs80m in the quarter, lower than expectation

- Forex-related derivative loss for 4QFY08 was Rs80m and for full year FY08 the loss was Rs250m. We highlight that this loss amount is much lower than what the Street was expecting and should allay investor concerns on RCOM's treasury management.

Capex: FY08 14% ahead of our estimates, FY09E guidance maintained

- RCOM's full year capex of Rs212bn came in 14% ahead of our Rs189bn estimate. The higher-than-expected capex in the wireless business (Rs171bn vs Rs143bn estimate) was the key reason for the deviation in reported results and our estimate.
- Management maintained its full year FY09E capex guidance of US\$6–6.5bn.

GSM launch on track

- RCOM management confirmed that it is on track to launch its new GSM operations by CY09 and establish a pan India GSM presence in next 12–18 months.

Fig 9 Macquarie - Global Emerging Market Telecom Valuation Comparisons

Macquarie - Global Emerging Market Telecom Valuation																	
Company Name	Bloomberg Ticker	Rec	Price lcy	EBITDA			EV/EBITDA			EV/EBITDA by	EPS			PER			PEG
				FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	EBITDA CAGR FY2008-10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY2007-10E
Bharti Airtel	BHARTI IN	OP	898.3	113971	154147	191182	15.2	11.3	9.1	0.3	35.5	47.3	59.5	25.3	19.0	15.1	0.7
Bharti Airtel - Ex Tower Co	BHARTI IN	OP	648.3	113971	154147	191182	11.1	8.2	6.6	0.2	35.5	47.3	59.5	18.3	13.7	10.9	0.5
Reliance Comms	RCOM IN	OP	577.9	81074	109625	140703	15.5	11.5	8.9	0.2	25.4	35.5	46.9	22.8	16.3	12.3	0.5
Reliance Comms - Standalone	RCOM IN	OP	330.6	na	86319	108469	na	8.3	6.6	0.3	na	24.2	34.0	na	13.7	9.7	0.3
Idea Cellular	IDEA IN	OP	105.6	22312	30834	39104	15.0	10.9	8.6	0.4	3.9	4.4	5.9	27.2	24.2	17.9	0.6
Idea Cellular - Ex Tower Co	IDEA IN	OP	83.6	22312	30834	39104	12.4	9.0	7.1	0.3	3.9	4.4	5.9	21.5	19.1	14.1	0.5
China Mobile	941 HK	OP	134.1	194003	234514	263742	11.3	10.0	9.1	0.6	4.3	5.9	6.5	22.9	20.6	18.7	0.9
China Unicom	762 HK	N	16.9	33005	35476	37724	6.6	6.2	5.7	1.1	0.5	0.6	0.7	26.1	23.6	20.4	1.9
SK Telecom	017670 KS	OP	203,000.0	4023000	4300425	4549173	4.2	4.0	3.9	1.7	16642	19461	22872	10.4	8.9	8.4	2.1
KT Freetel	032390 KS	UP	27,700.0	1583236	1661023	1690622	3.3	3.3	3.4	na	1270	1746	2026	15.9	13.7	12.2	na
LG Telecom	032640 KQ	OP	8,490.0	676500	762121	828185	3.8	3.5	3.4	5.2	993	1056	1207	8.0	7.0	6.5	0.7
Far EasTone	4904 TT	OP	52.0	27060	26957	26246	5.6	6.0	6.7	na	3.0	3.3	3.5	13.9	13.8	14.6	na
Taiwan Mobile	3045 TT	OP	58.0	30337	30982	31945	6.4	6.2	6.1	1.2	1.9	5.4	5.6	10.8	10.3	10.5	1.2
MobileOne	M1 SP	N	2.0	309	306	305	6.2	6.2	6.1	na	0.2	0.2	0.2	12.2	12.1	11.7	na
AIS	ADVANC TB	UP	93.0	43683	44386	45830	5.7	5.4	5.2	2.1	5.5	5.5	5.9	13.0	11.9	11.3	6.3
TAC	DTAC TB	N	46.3	18893	23604	25723	5.8	5.2	4.9	0.4	2.5	4.2	4.7	11.7	10.2	9.3	na
Digi.Com	DIGI MK	OP	24.3	2110	2238	2457	7.9	7.2	6.6	0.6	1.5	1.6	1.8	15.1	13.5	12.1	0.9
Indosat	ISAT IJ	N	6,050.0	8553783	10354193	11616208	4.8	4.3	3.6	0.3	400	463	529	13.1	11.4	7.7	0.6
Globe	GLO PM	OP	1,360.0	7601	8832	9869	4.6	4.5	4.3	0.7	98.7	113.3	126.4	12.0	10.8	10.3	0.9
Orascom Telecom Holding	ORTE EY	NR	81.1	2546	2890	3180	7.2	6.4	5.8	na	0.9	1.1	1.4	16.3	13.9	10.8	na
Mtn Group Ltd	MTN SJ	NR	14,450.0	40059	47464	54366	5.6	4.8	4.2	na	8.2	10.9	12.6	17.6	13.3	11.5	na
Vivo Participacoes Sa	VIVO3 BZ	NR	12.5	3833	4451	4929	4.7	4.0	3.6	na	0.3	0.6	0.8	0.5	20.9	14.8	na
America Movil Sab De C-Ser L	AMXL MM	NR	30.5	149711	170772	182381	8.4	7.4	6.9	na	1.8	2.6	2.8	16.9	11.9	10.9	na
Ethad Etisalat Co	EEC AB	NR	57.5	3996	4529	4733	11.3	9.9	9.5	na	3.4	4.4	5.0	16.7	13.0	11.6	na
Saudi Telecom Co	STC AB	NR	68.3	18759	19020	18958	9.2	9.1	9.2	na	6.3	6.3	6.5	10.9	10.8	10.5	na
Qatar Telecom (Q-Tell) Q.S.C	QTEL QD	NR	214.6	6776	7325	7171	7.7	7.1	7.2	na	19.3	22.4	26.2	11.1	9.6	8.2	na
Wireless Average							6.5	6.0	5.8					13.8	13.0	11.6	
Average (ex-China Mobile)							6.3	5.8	5.6					13.3	12.7	11.2	

Source: Bloomberg, Macquarie Research, April 2008. Prices as of April 30, 2008

Reliance Communications – Detailed financial statements

Fig 10 RCOM – Annual income statement, fiscal year-end March

Particulars (Rs m)	FY2006	FY2007	FY2008A	FY2009E	FY2010E
Revenues					
Wireless	73,643	107,276	152,135	194,967	245,183
Global Service revenues	51,855	51,771	54,751	67,853	77,137
Broadband & Telephone Service revenues	5,126	11,440	17,867	26,542	34,799
Others	3,212	3,872	4,310	5,424	5,586
Inter-segment eliminations	(26,172)	(29,677)	(38,386)	(42,129)	(51,771)
Total Revenues	107,664	144,683	190,678	252,657	310,935
Operating Expenses					
Access & Interconnect Charges	40,400	37,822	40,583	52,016	62,164
(% of total revenues)	37.5%	26.1%	21.3%	20.6%	20.0%
Network Operations Costs - (a)	15,350	16,736	22,008	32,845	38,867
(% of total revenues)	14.3%	11.6%	11.5%	13.0%	12.5%
Employee Cost - (b)	8,390	9,079	12,037	16,423	19,707
(% of total revenues)	7.8%	6.3%	6.3%	6.5%	6.3%
Selling & General Cost - (c)	18,492	23,835	34,061	41,748	49,494
(% of total revenues)	17.2%	16.5%	17.9%	16.5%	15.9%
Total Service Operating Expenses - (a+b+c)	42,232	49,649	68,106	91,016	108,068
(% of total revenues)	39.2%	34.3%	35.7%	36.0%	34.8%
Total Operating Expense	82,632	87,471	108,689	143,033	170,232
(% of total revenues)	76.8%	60.5%	57.0%	56.6%	54.7%
EBITDA	25,032	57,212	81,989	109,625	140,703
<i>EBITDA Margin</i>	23.2%	39.5%	43.0%	43.4%	45.3%
Net Interest	(2,891)	(4)	3,998	5,008	5,279
Depreciation	(16,990)	(24,653)	(28,054)	(30,549)	(30,434)
(% of total revenues)	15.8%	17.0%	14.7%	12.1%	9.8%
Profit Before Taxes (PBT)	5,151	32,555	57,933	84,084	115,548
(% of total revenues)	4.8%	22.5%	30.4%	33.3%	37.2%
Income tax expense / (benefit)	327	613	2,836	7,568	14,443
<i>Effective Tax Rate (%)</i>	6.3%	1.9%	4.9%	9.0%	12.5%
Profit After Taxes (PAT)	4,824	31,942	55,097	76,516	101,104
Extraordinary items	(374)	(302)	12,829		
Reported Net Profit	4,450	31,640	54,015	76,516	101,104
Adjusted Net Profit	4,824	31,942	53,389	76,516	101,104
<i>PAT Margin</i>	4.5%	22.1%	28.0%	30.3%	32.5%
Adjusted Diluted EPS	2.36	15.62	24.75	35.47	46.86
Diluted number of shares outstanding	2,045	2,045	2,157	2,157	2,157
YoY Growth (%)					
Total Revenues		34.4	31.8	31.8	23.1
Access & Interconnection Charges		(6.4)	7.3	25.5	19.5
Network Operations		9.0	31.5	41.4	18.3
Employee Costs		8.2	32.6	34.5	20.0
Selling & General Costs		28.9	42.9	19.8	18.6
Operating Expenses		5.9	24.3	28.0	19.0
EBITDA		128.6	43.3	37.0	28.3
Adjusted Net Profit After Taxes		562.2	67.1	39.8	32.1
Adjusted Diluted EPS		562.2	58.4	39.8	32.1
Key parameters					
ROE (%)	4.1%	18.4%	20.8%	24.8%	26.1%
ROA (%)	2.5%	7.4%	8.1%	11.0%	13.0%
Fixed asset turnover (X)	0.50	0.41	0.35	0.46	0.50
Total asset turnover (X)	0.51	0.36	0.36	0.51	0.54

Source: Company data, Macquarie Research, May 2008

Fig 11 RCOM – balance sheet, fiscal year-end March

Particulars (Rs m)	FY06	FY07	FY08A	FY09E	FY10E
ASSETS					
Cash and Cash equivalents	60,037	72,006	115,981	132,515	161,856
Inventories	4,076	4,821	4,059	4,699	5,963
Debtors	16,808	18,316	27,224	30,289	35,779
Other Current Assets	765	13,884	23,058	20,076	23,853
Loans and Advances	23,668	22,103	42,834	37,861	46,853
Total Current Assets	105,354	131,130	213,156	225,440	274,304
Fixed Assets					
Gross Block	230,531	349,442	463,640	553,543	652,295
Less: Depreciation	47,573	55,926	89,814	113,699	144,133
Net Block	182,958	293,516	373,826	439,845	508,163
Capital Work-in-progress	31,305	36,907	148,327	81,920	84,378
Goodwill		26,588	26,588	26,588	26,588
Total Fixed Assets	214,263	357,010	548,741	548,352	619,128
Investments	121	77,114	2,797	11,942	20,191
Total Assets	319,738	565,254	764,694	785,735	913,624
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities	89,956	114,334	199,267	230,070	256,514
Provisions	19,291	47,175	42,420	64,167	79,286
Total Current Liabilities	109,247	161,508	241,687	294,237	335,800
Secured Foreign Currency Loans	35,079	19,381	0	16,778	16,778
Secured Rupee Loans	52,106	31,755	9,500	19,005	19,005
Unsecured Loans	5,791	123,248	206,181	88,190	88,190
Total Debt	92,976	174,383	215,681	123,973	123,973
Minority interest		56	24,311	23,419	23,419
Stockholders' Equity	117,515	229,307	283,015	344,106	430,432
Share capital	10,223	10,223	10,320	10,223	10,223
Reserves	107,292	219,083	272,695	333,883	420,209
Total Liabilities and Stockholders' Equity	319,738	565,254	764,694	785,735	913,624
Ratios					
Net debt/equity	0.28	0.45	0.35	(0.02)	(0.09)
Gross Debt/Equity	0.79	0.76	0.76	0.36	0.29
WC/Revenues (%)	(3.62)	(21.00)	(14.96)	(27.23)	(19.78)
Net working capital days <Days of Gross Sales>	(13.20)	(76.64)	(54.61)	(99.39)	(72.19)

Source: Company data, Macquarie Research, May 2008

Fig 12 RCOM – Cashflow statement, fiscal year-end March

Particulars (Rs m)	FY06	FY07	FY08A	FY09E	FY10E
Cash Flows from operating activities					
Net Profit / (Loss)	4,439	31,639	69,731	76,516	101,104
Add:					
Depreciation	16,987	24,653	28,053	30,549	30,434
Provision for Doubtful Debts	746	1,405	1,475		
Interest expense (net)	2,595	4	1,077	(5,008)	(5,279)
(Profit)/Loss on sale of assets / investments	(673)	(948)	(1,640)		
Tax expense / (income)	337	(99)	(873)		
Extraordinary items		302	(12,829)		
Exchange (gain) / loss	620	0	0		
Increase / (decrease) in working capital	17,304	14,916	(31,385)	33,624	22,041
Net cash provided by/ used in operating activities	42,355	71,872	53,609	135,681	148,300
Cashflows from investing activities					
Capex	(39,238)	(53,569)	(176,413)	(118,729)	(101,210)
Sale of fixed assets / investments	3,066	(75,723)	9,230	0	(8,249)
Interest expense (net)	(2,595)	3,186	(3,476)	5,008	5,279
Net cash provided by/ used in investing activities	(38,767)	(126,106)	(170,659)	(113,721)	(104,180)
Cashflows from financing activities					
Changes in Net Debt	(12,960)	66,203	95,832	12,904	0
Increase in share capital					
Dividends including dividend tax	0	0	0	(4,926)	(14,778)
Net cash provided by/ used in financing activities	(12,960)	66,203	95,832	7,978	(14,778)
Net (decrease) / increase in cash	(9,372)	11,969	(21,218)	29,938	29,342
Cash at the beginning of the period	69,409	60,038	137,200	102,576	132,515
Cash at the end of the period	60,037	72,007	115,982	132,515	161,856

Source: Company data, Macquarie Research, May 2008

Reliance Communications Limited (RCOM IN, Outperform, Target price: Rs865.00)

Quarterly Results					Profit & Loss						
	3Q/08A	4Q/08E	1Q/09E	2Q/09E		2007A	2008E	2009E	2010E		
Revenue	m	48,742	53,486	57,423	61,237	Revenue	m	144,683	191,050	252,657	310,935
Gross Profit	m	29,021	31,757	34,170	36,537	Gross Profit	m	81,046	114,647	151,373	190,197
Cost of Goods Sold	m	19,721	21,729	23,253	24,700	Cost of Goods Sold	m	63,637	76,403	101,285	120,738
EBITDA	m	21,065	22,249	24,335	26,233	EBITDA	m	57,212	81,074	109,625	140,703
Depreciation	m	7,252	6,805	7,077	7,423	Depreciation	m	24,653	27,003	30,549	30,434
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	13,813	15,444	17,258	18,810	EBIT	m	32,559	54,071	79,076	110,269
Net Interest Income	m	1,518	1,097	1,079	1,193	Net Interest Income	m	-4	5,014	5,008	5,279
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	-302	12,218	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	15,331	16,540	18,336	20,003	Pre-Tax Profit	m	32,253	71,302	84,084	115,548
Tax Expense	m	-1,379	-992	-1,650	-1,800	Tax Expense	m	-613	-4,100	-7,568	-14,443
Net Profit	m	13,952	15,548	16,686	18,203	Net Profit	m	31,640	67,202	76,516	101,104
Minority Interests	m	-223	0	0	0	Minority Interests	m	0	-223	0	0
Reported Earnings	m	13,729	15,548	16,686	18,203	Reported Earnings	m	31,640	66,979	76,516	101,104
Adjusted Earnings	m	13,729	15,548	16,686	18,203	Adjusted Earnings	m	31,941	54,761	76,516	101,104
EPS (rep)		6.36	7.21	7.73	8.44	EPS (rep)		15.47	31.05	35.47	46.86
EPS (adj)		6.36	7.21	7.73	8.44	EPS (adj)		15.62	25.38	35.47	46.86
EPS Growth yoy (adj)	%	40.3	44.2	36.8	37.0	EPS Growth (adj)	%	562.1	62.5	39.7	32.1
						PE (rep)	x	37.5	18.7	16.3	12.4
						PE (adj)	x	37.1	22.8	16.3	12.4
EBITDA Margin	%	43.2	41.6	42.4	42.8	Total DPS		0.00	0.50	2.00	6.00
EBIT Margin	%	28.3	28.9	30.1	30.7	Total Div Yield	%	0.0	0.1	0.3	1.0
Earnings Split	%	25.1	28.4	21.8	23.8	Weighted Average Shares	m	2,045	2,157	2,157	2,157
Revenue Growth	%	29.8	35.9	33.4	33.7	Period End Shares	m	2,045	2,157	2,157	2,157
EBIT Growth	%	57.9	54.8	44.4	46.2						
Profit and Loss Ratios					Cashflow Analysis						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Revenue Growth	%	34.4	32.0	32.2	23.1	EBITDA	m	55,551	78,963	102,057	126,259
EBITDA Growth	%	128.6	41.7	35.2	28.3	Tax Paid	m	0	0	0	0
EBIT Growth	%	304.9	66.1	46.2	39.4	Chgs in Working Cap	m	14,916	-49,434	33,624	22,041
Gross Profit Margin	%	56.0	60.0	59.9	61.2	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	39.5	42.4	43.4	45.3	Other	m	1,405	1,214	0	0
EBIT Margin	%	22.5	28.3	31.3	35.5	Operating Cashflow	m	71,872	30,744	135,681	148,300
Net Profit Margin	%	21.9	35.2	30.3	32.5	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	2.0	5.6	12.8	Capex	m	-53,569	-148,930	-118,729	-101,210
EV/EBITDA	x	21.9	16.3	12.0	9.4	Asset Sales	m	-75,723	22,758	0	-8,249
EV/EBIT	x	38.5	24.4	16.7	12.0	Other	m	3,186	1,339	5,008	5,279
						Investing Cashflow	m	-126,106	-124,833	-113,721	-104,180
Balance Sheet Ratios					Dividend (Ordinary)	m	0	0	-4,926	-14,778	
ROE	%	18.4	21.8	24.8	26.1	Equity Raised	m	0	0	0	0
ROA	%	7.4	8.9	11.0	13.0	Debt Movements	m	66,203	77,103	12,904	0
ROIC	%	21.2	15.4	23.6	26.9	Other	m	0	0	0	0
Net Debt/Equity	%	44.6	2.9	-2.3	-8.3	Financing Cashflow	m	66,203	77,103	7,978	-14,778
Interest Cover	x	9,044.0	nmf	nmf	nmf	Net Chg in Cash/Debt	m	11,969	-16,987	29,938	29,342
Price/Book	x	5.2	4.6	3.6	2.9						
Book Value per Share		112.2	126.3	159.5	199.5						
					Balance Sheet						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Cash	m	72,006	102,576	132,515	161,856	Cash	m	72,006	102,576	132,515	161,856
Receivables	m	18,316	23,446	30,289	35,779	Receivables	m	18,316	23,446	30,289	35,779
Inventories	m	4,821	3,637	4,699	5,963	Inventories	m	4,821	3,637	4,699	5,963
Investments	m	77,114	11,942	11,942	20,191	Investments	m	77,114	11,942	11,942	20,191
Fixed Assets	m	330,422	433,585	521,765	592,541	Fixed Assets	m	330,422	433,585	521,765	592,541
Intangibles	m	26,588	26,588	26,588	26,588	Intangibles	m	26,588	26,588	26,588	26,588
Other Assets	m	35,987	46,021	57,938	70,706	Other Assets	m	35,987	46,021	57,938	70,706
Total Assets	m	565,254	647,794	785,735	913,624	Total Assets	m	565,254	647,794	785,735	913,624
Payables	m	114,334	188,280	230,070	256,514	Payables	m	114,334	188,280	230,070	256,514
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	174,383	111,068	123,973	123,973	Long Term Debt	m	174,383	111,068	123,973	123,973
Provisions	m	47,175	52,512	64,167	79,286	Provisions	m	47,175	52,512	64,167	79,286
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	335,892	351,860	418,210	459,773	Total Liabilities	m	335,892	351,860	418,210	459,773
Shareholders' Funds	m	229,307	272,516	344,106	430,432	Shareholders' Funds	m	229,307	272,516	344,106	430,432
Minority Interests	m	56	23,419	23,419	23,419	Minority Interests	m	56	23,419	23,419	23,419
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	229,363	295,935	367,525	453,851	Total S/H Equity	m	229,363	295,935	367,525	453,851
Total Liab & S/H Funds	m	565,254	647,794	785,735	913,624	Total Liab & S/H Funds	m	565,254	647,794	785,735	913,624

All figures in INR unless noted.

Source: Macquarie Research, May 2008

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p>Macquarie - Australia/New Zealand Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts) Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts) Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)</p> <p>Macquarie - Asia Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of benchmark return Neutral (Hold) – return within 5% of benchmark return Underperform (Sell) – return >5% below benchmark return</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historic price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ stocks only</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / <i>efpowa</i>* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions – For quarter ending 31 March 2008

	AU/NZ	Asia	RSA	USA	CA
Outperform	38.95%	70.56%	64.52%	50.00%	69.72%
Neutral	47.37%	16.32%	27.42%	39.47%	26.06%
Underperform	13.68%	13.12%	8.06%	10.53%	4.22%

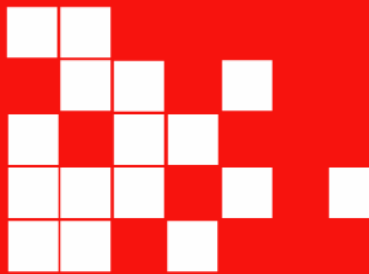
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