

# RESULTS

## REVIEW

# Reliance Communications Ltd.

Rs.580 | Buy

Q4FY08 results update

### Analyst

Manish Palande  
+91-20-6623 8313  
e.info@idbicapital.com

Nifty: 5166; Sensex: 17287

### Key Stock Data

Sector	Telecom
Bloomberg/Reuters	RCOM@IN/RLCM.BO
Shares o/s (m)	2,064
Market cap (Rs bn)	1,197
Market cap (US\$ m)	29,575
3-m daily average vol.	1,829,948

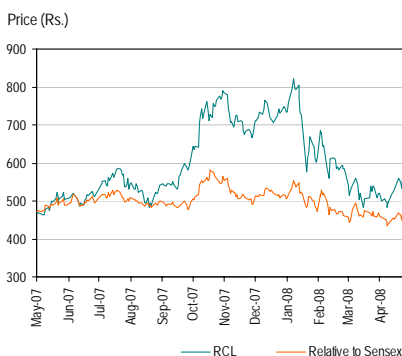
### Price Performance

52-week high/low	Rs844/455		
	-1m	-3m	-12m
Absolute (%)	8	(5)	23
Rel to Sensex (%)	3	(3)	0.1

### Shareholding Pattern (%)

Promoters	66.12
FII/NRI/OCBs/GDR	13.12
MFs/Banks/FIs	8.98
Govt. Holding	0.05
Non Promoter Corporate	1.98
Public & Others	9.74

### Stock vs Relative to Sensex



Source: Capitaline

## Highlights

Reliance Communication Ltd. (RCOM) displayed an impressive set of results for Q4FY08. At Rs.53.1bn, the company recorded top-line growth of 34.9% YoY and 9% QoQ in Q4FY08. In the wake of increased competition the EBITDA margins witnessed a smart improvement from 41.5% in Q4FY07 to 43.6% in Q4FY08. The net income on a consolidated basis stood at Rs.15.0bn for the quarter ended March 31, 2008 as compared to Rs.10.2bn for the same quarter last year, thus growing at 46.8% on YoY basis. Net margin witnessed a striking expansion from 26% for quarter ended March, 2007 to 30.6% in Q4FY08. The company has declared a dividend of Rs.0.75/share (15%) to its over 2m shareholders, thus becoming the first telecom company in India to have a dividend payout.

With the nationwide rollout of its GSM operations in FY09 – FY10 and considerable value creation its non wireless business segment coupled with value unlocking in its tower subsidiary, we reiterate RCOM as 'Buy' on these levels.

## Result highlights

- For FY08 RCOM recorded a 31.8% YoY increase in its consolidated net revenues at Rs.190.7bn while the EBITDA surged from Rs.57.2bn in FY07 to Rs.82.0bn, thus growing by 43.3%. The EBITDA margins saw a marked improvement from 39.5% to 43.1% during the period. For FY08, the net profit surged 70.8% from Rs.31.6bn in FY07 to Rs.54.0bn, with the net margins improving from 21.8% to 28.3%.

Table 1: Revenue breakup

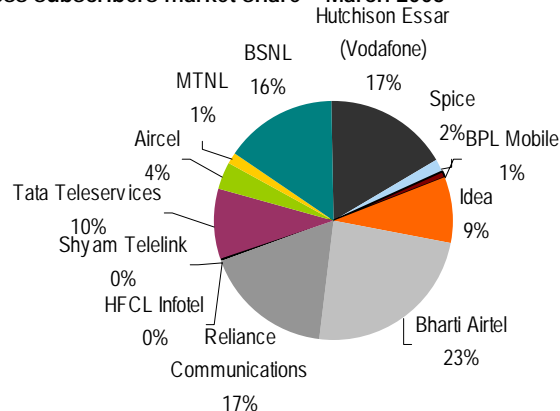
(Rs. m)

Year-end: March	Q4FY07	Q4FY08	YoY (%)	FY07	FY08	YoY (%)	FY09E
Wireless	29,692	41,608	40	107,276	152,135	42	229,315
Global	12,938	15,257	18	51,771	54,751	6	62,926
Broadband	3,299	5,100	55	11,440	17,867	56	28,913
Others	947	683		3,872	4,305	11	5,644

Source: Company reports; IDBI Capital Market Services

- The company's network witnessed a record net addition of 4.83m subscribers during Q4FY08, thus taking its total wireless subscriber base to 45.79m as at March, 2008 with a market share of 17.9%. During Q3FY07 the company commenced operations in 3 new circles of Himachal Pradesh, UP – East and Rajasthan where it garnered a 6% combined market share as at March 2008.

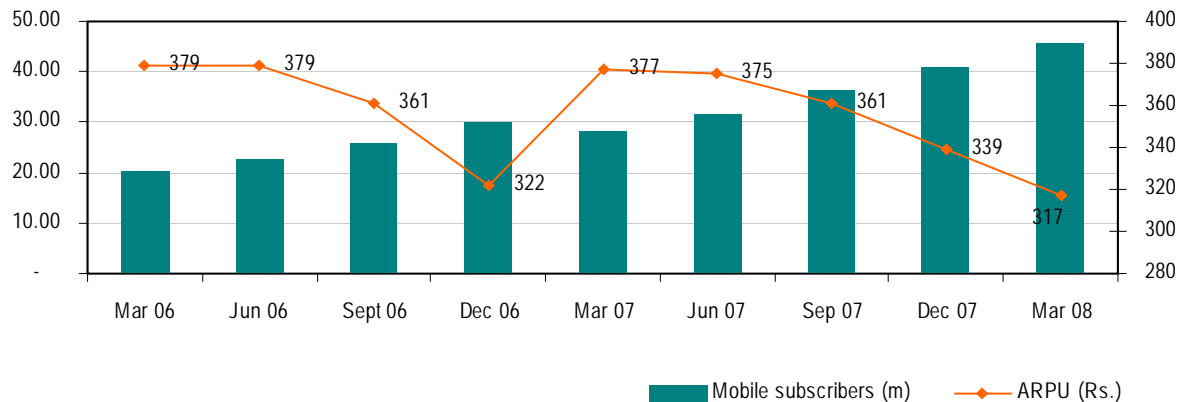
Figure 1: Wireless subscribers market share – March 2008



Source: Company reports; IDBI Capital Market Services

- There was a marginal decline of 6.5% QoQ in ARPU at Rs.317, along with the Average Minutes of Usage per user (AMoU) declining 4% QoQ, from 449 in December, 2007 to 430 in March 2008. The total wireless minutes of use (MoU) increased 7.6% QoQ from 52.5bn minutes in December 2007 to 56.5bn units in March 2008.

Figure 2: RCOM – Wireless subscriber base and ARPU



Source: Company reports; IDBI Capital Market Services

Other important points

- RCOM's global business unit which had a 24% contribution to the group's topline, recorded revenues of Rs.1.5bn for Q4FY08, with a 17.9% YoY growth. This was largely on account of a 2.9% increase in NLD (National Inter Circle) minutes traffic at Rs.5.9bn for the period.
- In the broadband segment, the company had a net addition of 0.13m lines during Q4FY08, taking the total access lines to 1.03m as at March 2008 and the ARPL (Average Revenue per Line) at Rs.1,760.
- Going forward we expect the non wireless business segments with exponential growth potential and high EBITDA margins, to become the key value driver for RCOM.
- In spite of increased competition, RCOM was able to maintain its wireless subscriber churn rate (blended) at 1.4% in March 2008.
- Recently, RCOM has received requisite Government approvals and spectrum to roll-out GSM services in an additional 14 circles wherein it expects to launch GSM services by the end of calendar 2008, making it the only player in the country offering both GSM and CDMA (Dual Technology) services on a nationwide basis. Presently its CDMA services are offered in 20 circles and GSM services are offered in 8 circles, with 6 circles being common to both CDMA and GSM.
- For FY09 the management has given a CAPEX guidance of US\$ 6-6.5bn which includes its nationwide rollout of GSM operations in phased manner.

Table 1: Financial snapshot

(Rs. m)

Year-end: March	Q4 FY07	Q4 FY08	YoY Change (%)	FY 07	FY 08	YoY Change (%)	FY 09E
Net revenues	39,369	53,109	35	144,683	190,677	32	277,778
EBITDA	16,351	23,169	42	57,209	81,991	43	116,308
EBITDA margins (%)	42	44		40	43		42
Provision for taxation	148			609	2,836		7,130
Reported net profit	10,243	16,275	59	31,637	54,011	71	64,173
Net profit margins (%)	26	31		22	28		23
EPS (Rs.)	5.0	7.9	57	15.5	24.9		31
No. of shares (m)	2,045	2,064		2,045	2,064		2,064
CMP (Rs.)				580	580		580
PE (x)				37.4	23.3		18.7

Source: Company reports; IDBI Capital Market Services

## Valuation

RCOM's quarterly results depict that the company is well poised to achieve our targets in revenues as well as profits terms. With the nationwide rollout of its GSM operations in FY09-FY10 and considerable value creation its non wireless business segment coupled with value unlocking in its tower subsidiary, we keep our target price unchanged at Rs.783. At CMP of Rs.580, we rate RCOM as a 'Buy'.

### Equity Sales/Dealing

S. K. Gupta	(91-22) 6637 1153	sk.gupta@idbicapital.com
Manish Agarwal	(91-22) 66371152/54	manish.agarwal@idbicapital.com
Ankur Agarwala	(91-22) 66371155	ankur.agarwala@idbicapital.com
Manoj Shettigar	(91-22) 66371157	manoj.shettigar@idbicapital.com
Rachit Shah	(91-22) 66371153	rachit.shah@idbicapital.com
Manisha Rathod	(91-22) 66371156	manisha.rathod@idbicapital.com
Charushila Parkar	(91-22) 66371154	charushila.parkar@idbicapital.com
Samit Sanyal	(91-22) 66371154	samit.sanyal@idbicapital.com

### Production & Database

S. Narasimhan Rao	(91-22) 66371165	narasimhan.rao@idbicapital.com
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IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)

Registered Office: 5th floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 6637 1212 Fax: (91-22) 2285 0785 Email: info@idbicapital.com

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