

22<sup>nd</sup> July 2009**HOLD**

Price	Target Price
<b>Rs262</b>	<b>Rs250</b>
<b>Sensex</b>	<b>14,843</b>

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(12)	20	54	(44)
Rel. to Sensex	(15)	(12)	(9)	(47)

Source: Bloomberg

**Stock Details**

Sector	Telecom
Reuters	RLCM.BO
Bloomberg	RCOM@IN
Equity Capital (Rs mn)	10320
Face Value (Rs)	5
52 Week H/L (Rs)	541/131
Market Cap (Rs bn)	540/11,117
Daily Avg Vol (No of shares)	13162335
Daily Avg Turnover (US\$ mn)	77.9

**Shareholding Pattern (%)**

(30th Jun.'09)	
Promoters	67.3
FII/NRI	10.8
Institutions	9.2
Private Corp.	2.8
Public	10.0

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**Reliance Communications**Event  
Update**External tenant to regain tower value**

RCOM has signed Etisalat DB as first external tenant for its tower business in a 10 year contract at healthy capex recovery of 13-14%. The deal involves provisioning of passive and transmission infrastructure at 30,000 sites in 15 circles and is expected to generate revenues of Rs10-12bn from FY12E on steady state basis. We believe that this deal would regain the value of tower business which wasn't considered in absence of any external tenant. We value the accretion from this deal at Rs25/ share and hence increase our target price on the stock from Rs225 to Rs250 per share. Retain HOLD rating.

Reliance Communications has signed-up Etisalat DB as its first external tenant for sharing passive infrastructure and transmission network. According to the contract, RCOM would provide 30,000 towers along with BTS to BTS transmission connectivity in 15 circles where Etisalat has been awarded licenses and spectrum to provide wireless services. The contract spread over 10 years would generate an aggregate Rs100bn in revenues with annual run-rate of Rs10-12bn on a steady state basis. As per RCOM management, Etisalat is expected to deploy its network equipments from next 2 to 18 months after which RCOM would have steady flow of revenues.

The deal signed by RCOM would generate approximately Rs100bn revenues over next 10 years from passive and transmission infrastructure sharing (BTS to BTS connectivity). Over and above that RCOM would also provide other services such as wholesale bandwidth, long distance carriage, network equipment hosting and tenancy for 3G, if any, which would be over and above the stated revenue potential of Rs100bn.

**Pricing at healthy capex recovery of 13-14%**

According to RCOM management the deal signed is at prevailing rental rates of ~Rs30,000 per month and has escalation built in. The pricing is at 13-14% capex recovery, which for a large 2nd tenant is very healthy, in our view. Further the contract does not involve passing of any benefits on signing up additional tenant apart from the routine sharing benefit of pass through expense. Moreover the revenues generated would be on the sharing of already deployed infrastructure of RCOM and hence would have minimal incremental capex and opex.

**Value accretion of Rs25 per share from the contract**

We value the accretion from the deal signed between RCOM-Etisalat at Rs25 per share based on DCF based value of opportunity discounted at WACC of 10%. We have assumed average rentals of Rs28,000 per month in the first year with 2% escalation after every 3 years and have assumed 10% of revenues as operating costs and capex of Rs100,000 per tower for provisioning an extra slot on the towers. We have also factored for 50% of terminal value in our DCF value of the opportunity as we believe that there exists high probability of the contract getting extended beyond 10 years, due to practical difficulties involved in shifting the network.

**Revise target price to Rs250, Retain HOLD rating**

In absence of any external tenants, we had earlier valued RCOM purely on core business in at Rs225 per share. With external tenant in place, we increase our target price on the stock by Rs25 per share based on accretion from the deal signed with Etisalat. Hence we increase our target price on the stock from Rs225 per share to Rs250 per share. At CMP of Rs262, stock trades at 7.7x FY10E EV/EBIDTA. Retain HOLD rating.

	Net	EBITDA	ROCE	EV/	P/BV	EPS			
YE-Mar	Sales	(Core)	(%)	PAT	(%)	EBITDA	(Rs)	(Rs)	P/E
FY08	190,678	81,990	43.0	55,097	12.6	7.8	2.1	26.7	9.8
FY09E	229,411	92,875	40.5	61,551	9.7	7.9	1.7	29.8	8.8
FY10E	270,351	106,248	39.3	49,186	8.6	7.7	1.5	23.8	11.0
FY11E	311,743	123,139	39.5	53,096	8.7	6.6	1.3	25.7	10.2

## Value accretion of Rs25/share based on DCF

We have valued the value accretion from the deal with Etisalat on DCF with following assumptions, (1) Average rentals of Rs28,000 for the first year and an escalation of 2% after every 3 years (2) operating expenses at only 10% of revenues as there is minimal incremental expense involved on the already up and running infrastructure (3) tax rate of 30% (4) Capex of Rs100,000 per tower for making provision for new tenant on the tower infrastructure (5) WACC of 10%

Year	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Towers	5,000	20,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Average Rental	28,000	28,000	28,000	28,560	28,560	28,560	29,131	29,131	29,131	29,714	29,714
Revenues	840	6,720	10,080	10,282	10,282	10,282	10,487	10,487	10,487	10,697	10,697
O & M chg @ 5%	(42)	(336)	(504)	(514)	(514)	(514)	(524)	(524)	(524)	(535)	(535)
Other costs @ 5%	(42)	(336)	(504)	(514)	(514)	(514)	(524)	(524)	(524)	(535)	(535)
EBIDTA	756	6,048	9,072	9,253	9,253	9,253	9,439	9,439	9,439	9,627	9,627
Tax	(227)	(1,814)	(2,722)	(2,776)	(2,776)	(2,776)	(2,832)	(2,832)	(2,832)	(2,888)	(2,888)
Optng cash	529	4,234	6,350	6,477	6,477	6,477	6,607	6,607	6,607	6,739	6,739
Capex	(500)	(1,500)	(1,000)								
FCF	29	2,734	5,350	6,477	6,477	6,477	6,607	6,607	6,607	6,739	6,739
Per share value (Rs)											
WACC		10%									
PV FY10-20		35,907	17								
Terminal growth		2%									
Terminal value (Rs mn)		85,923									
PV of terminal value (Rs mn)		33,127									
50% of terminal value (Rs mn)		16,564									
Total value accretion (Rs mn)		52,471	25								

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