Citi Research

Equities

10 November 2012 │ 12 pages Wireless Telecommunication Services (GICS) │ Telecommunications Services - Wireless (Citi)

Asia Pacific │ India

Reliance Communications (RLCM.BO)

2Q – Global Segment Hurts EBITDA

- Company Update
- Target Price Change
- Estimate Change

- **2Q EBITDA slightly below** – 2Q13 EBITDA at Rs16.4bn (-1%qoq; +2%yoy) came in slightly below estimates primarily on weaker-than-expected Global business. Wireless trends were in line with peers - EBITDA declined qoq due to seasonality. Losses in "Other" segment, which has been relatively sticky, unexpectedly contracted. PAT at Rs1.3bn (-30%qoq; -59%yoy) was hit by higher interest outgo.
- **Wireless was stable** – RPM was flat qoq. 6-7% of the subscribers have migrated to higher tariffs following the 25% hike in Sep. 3Q could see some benefit but the full impact will be visible only from 1Q14. Margins too were flat qoq. RCOM, after a long time, disclosed non-voice rev% at 21%, which is higher than the GSM incumbents due to its legacy CDMA business (read data dongles). Data growth is also supported by its 4.8m 3G subs (3% of base).
- **Global was weak; "Others" did well** – Global business topline was lackluster, likely on weak global macro. Segmental EBITDA too declined 5%qoq on weak topline and higher license fees (6% to 7%). Losses in "others" (DTH, owned stores), which have remained high, fell 30% qoq.
- **Balance sheet details** – Leverage remains high with FY13E Net debt/EBITDA expected at 5x. The company has however been focusing on deleveraging, which is reflected in the sharp reduction in its capex intensity in the last two years (7% capex/sales in FY12/13E).
- **Attractive assets available below replacement cost** — RCOM provides decent risk-adjusted returns with news flow of potential business tie-up/asset sale being the key stock trigger. While high leverage is a risk, its asset base remains attractive and we estimate replacement cost at Rs76. FY13-15E EBITDA is cut 3-5% to factor 2Q trends. SOTP-based TP is at Rs72 (Rs70) as we roll-fwd to Mar-14E (Sep-13E), keeping multiple unchanged (5.5x). Maintain Buy/High Risk.

Buy/High Risk	**1H**
Price (09 Nov 12)	Rs57.40
Target price	Rs72.00
from Rs70.00	
Expected share price return	25.4%
Expected dividend yield	0.4%
Expected total return	**25.9%**
Market Cap	Rs118,475M
	US$2,179M

Price Performance
(RIC: RLCM.BO, BB: RCOM IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2011A	14,937	7.24	-69.2	7.9	0.3	3.6	0.9
2012A	9,913	4.80	-33.6	12.0	0.3	2.4	0.4
2013E	9,366	4.54	-5.5	12.6	0.3	2.2	0.4
2014E	15,487	7.50	65.4	7.7	0.3	3.6	0.4
2015E	21,552	10.44	39.2	5.5	0.3	4.8	0.4

Source: Powered by dataCentral

Gaurav Malhotra, CFA
+91-22-6631-9885
gaurav.a.malhotra@citi.com

Arthur Pineda
+65-6657-1174
arthur.pineda@citi.com

Jitender Tokas,CFA
jitender.tokas@citi.com

RLCM.BO: Fiscal year end 31-Mar

Price: Rs57.40; TP: Rs72.00; Market Cap: Rs118,475m; Recomm: Buy/High Risk

Profit & Loss (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue	205,577	203,454	219,795	235,876	249,722
Cost of sales	-179,800	-178,702	-186,621	-195,751	-203,722
Gross profit	25,777	24,752	33,174	40,125	46,000
Gross Margin (%)	12.5	12.2	15.1	17.0	18.4
EBITDA (Adj)	**65,316**	**64,535**	**70,318**	**78,819**	**85,886**
EBITDA Margin (Adj) (%)	31.8	31.7	32.0	33.4	34.4
Depreciation	-39,539	-39,783	-37,144	-38,694	-39,885
Amortisation	0	0	0	0	0
EBIT (Adj)	**25,777**	**24,752**	**33,174**	**40,125**	**46,000**
EBIT Margin (Adj) (%)	12.5	12.2	15.1	17.0	18.4
Net interest	-10,723	-15,901	-23,315	-22,117	-19,718
Associates	0	0	0	0	0
Non-op/Except	0	0	0	0	0
Pre-tax profit	**15,054**	**8,851**	**9,859**	**18,008**	**26,282**
Tax	-117	1,062	-493	-2,521	-4,731
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**14,937**	**9,913**	**9,366**	**15,487**	**21,552**
Net Margin (%)	7.3	4.9	4.3	6.6	8.6
Core NPAT	14,937	9,913	9,366	15,487	21,552

Per share data	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Reported EPS (Rs)	7.24	4.80	4.54	7.50	10.44
Core EPS (Rs)	7.24	4.80	4.54	7.50	10.44
DPS (Rs)	0.50	0.25	0.25	0.25	0.25
CFPS (Rs)	4.45	17.62	21.23	33.01	36.87
FCFPS (Rs)	-57.91	12.40	13.94	26.22	29.84
BVPS (Rs)	196.22	200.44	204.70	211.92	222.08
Wtd avg ord shares (m)	2,064	2,064	2,064	2,064	2,064
Wtd avg diluted shares (m)	2,064	2,064	2,064	2,064	2,064

Growth rates	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue (%)	-7.6	-1.0	8.0	7.3	5.9
EBIT (Adj) (%)	-37.2	-4.0	34.0	21.0	14.6
Core NPAT (%)	-69.2	-33.6	-5.5	65.4	39.2
Core EPS (%)	-69.2	-33.6	-5.5	65.4	39.2

Balance Sheet (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Cash & cash equiv.	53,189	62,301	67,184	98,604	139,885
Accounts receivables	39,840	39,429	42,595	45,712	48,395
Inventory	5,172	5,000	5,000	5,000	5,000
Net fixed & other tangibles	729,409	700,403	678,307	653,623	628,264
Goodwill & intangibles	47,473	47,473	47,473	47,473	47,473
Financial & other assets	72,143	61,848	60,586	59,833	60,299
Total assets	**947,226**	**916,453**	**901,145**	**910,244**	**929,317**
Accounts payable	78,731	38,626	14,532	8,725	6,827
Short-term debt	216,928	216,928	216,928	216,928	216,928
Long-term debt	201,071	201,071	201,071	201,071	201,071
Provisions & other liab	37,259	37,259	37,259	37,259	37,259
Total liabilities	**533,989**	**493,884**	**469,791**	**463,984**	**462,085**
Shareholders' equity	404,992	413,715	422,501	437,407	458,378
Minority interests	8,245	8,854	8,854	8,854	8,854
Total equity	**413,237**	**422,569**	**431,355**	**446,261**	**467,232**
Net debt	**364,811**	**355,698**	**350,815**	**319,396**	**278,114**
Net debt to equity (%)	88.3	84.2	81.3	71.6	59.5

Valuation ratios	**2011**	**2012**	**2013E**	**2014E**	**2015E**
PE (x)	7.9	12.0	12.6	7.7	5.5
PB (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	7.3	8.1	7.3	6.3	5.3
FCF yield (%)	-100.9	21.6	24.3	45.7	52.0
Dividend yield (%)	0.9	0.4	0.4	0.4	0.4
Payout ratio (%)	7	5	6	3	2
ROE (%)	3.6	2.4	2.2	3.6	4.8

Cashflow (Rsm)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
EBITDA	65,316	64,535	70,318	78,819	85,886
Working capital	-56,017	-29,226	-25,999	-8,170	-5,048
Other	-117	1,062	-493	-2,521	-4,731
Operating cashflow	**9,182**	**36,371**	**43,826**	**68,128**	**76,106**
Capex	-128,840	-15,070	-15,048	-14,010	-14,526
Net acq/disposals	0	0	0	0	0
Other	0	0	0	0	0
Investing cashflow	**-128,840**	**-15,070**	**-15,048**	**-14,010**	**-14,526**
Dividends paid	-1,161	-581	-581	-581	-581
Financing cashflow	**87,353**	**-16,482**	**-23,895**	**-22,697**	**-20,298**
Net change in cash	**-32,305**	**4,820**	**4,883**	**31,420**	**41,282**
Free cashflow to s/holders	**-119,535**	**25,594**	**28,778**	**54,117**	**61,580**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click here.

Powered by: dataCentral

Quarterly summary

Figure 1. Quarterly Summary

Rs m	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Q/Q%	Y/Y%
Net Revenues	50,402	50,551	53,100	53,192	52,020	(2.2)	3.2
Access and IUC	(4,106)	(3,883)	(3,128)	(3,129)	(4,259)	36.1	3.7
Other operating exp	(25,056)	(25,355)	(28,382)	(28,128)	(26,126)	(7.1)	4.3
License Fees	(5,189)	(5,172)	(5,268)	(5,433)	(5,253)	(3.3)	1.2
EBITDA	16,051	16,141	16,323	16,502	16,382	(0.7)	2.1
PBT	3,234	2,579	837	1,875	1,323	(29.4)	(59.1)
PAT	3,220	2,438	2,030	1,914	1,323	(30.9)	(58.9)

Source: Company and Citi Research

Earnings call takeaways

1. Segmented its markets into two categories – 900MHz circles and 1800MHz circles. In the 900MHz circles, where it is relatively more established, RCOM intends to behave more like an incumbent. However, RCOM started GSM operations in its 1800MHz circles in 2008-10. In these markets, it intends to be more aggressive and aims to win over high-value subs from incumbents.

2. RCOM has already implemented increased prepaid tariffs of 1.5p/s across all its circles. Moreover, it has also rationalized its Special Tariff Vouchers to ensure that the impact of hikes is not diluted. According to management ~6-7% of the existing sub base has already moved to the higher base tariff and expects the full migration by 1QFY14.

3. Management noted that tariff hikes of 2011 took places in a 14-player market. In contrast, today we effectively have a 5-6 player market. This is reflective of reduction in competitive intensity and should be supportive of sustainable tariff hikes. According to the company, competition has selectively started raising tariffs.

4. The company has rationalized retail margins across circles according to market conditions. While the management did not disclose the quantum of benefit from lower retail margins, it did indicate that amount of cost reductions were in line with those seen for other large operators.

5. Churn during the quarter shot up to 10% from its normal range of 4-5%. This was due to removal of inactive subs. Management expects churn to stabilize around 4% going forward.

6. The company continues to wait for opportune time to list FLAG telecom or dilute stake in tower assets to help deleverage its balance sheet.

Figure 2. Wireless Summary

Rs m	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Remarks
Wireless Revenue	44,170	44,471	45,055	45,270	44,223	Decline due to lower usage on account seasonality
Net revenue	31,963	32,201	32,924	34,161	32,551	
Wireless EBITDA	11,756	11,823	12,022	12,093	11,795	
Wireless EBITDA margin (%)	*26.6*	*26.6*	*26.7*	*26.7*	*26.7*	Margins steady for 3 qtrs in a row
ARPU	101	100	99	98	102	Subscriber clean up helps increase ARPU
MoU	227	224	227	228	236	Healthy increase; primarily due to removal of inactive subs
Pre-paid as % of net adds	*95.7*	*100.8*	*96.9*	*97.3*	*100.0*	
Minutes of usage (bn min)	98.9	99.9	103.0	105.1	102.5	Decline broadly in line with GSM incumbents
Revenue per min (Rs)	0.45	0.45	0.44	0.43	0.43	Steady for 2 qtrs
EBITDA per min (Rs)	0.12	0.12	0.12	0.12	0.12	

Source: Company and Citi Research

Figure 3. Global business and broadband summary

Rs m	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Remarks
NLD mins (m)	16,924	15,882	15,444	14,746	15,023	
ILD mins (m)	5,043	4,771	4,996	5,344	5,397	Continues to grow
Global Business Revenue	17,429	18,057	18,948	19,069	18,901	Includes higher margin broadband segment
Global Business EBITDA	3,768	3,919	4,122	4,145	3,869	
Margins (%)	21.6	21.7	21.8	21.7	20.5	Impacted by sluggish topline and higher license fees
Net retention per LD min (Rs)	0.18	0.18	0.18	0.18	0.18	
Broadband Business						
Towns active (wireline only)	44	44	44	44	44	
Buildings directly connected (nos)	1,133,924	1,145,263	1,156,710	1,158,023	1,153,838	Some rationalization of network

Source: Citi Research

Figure 4. Data usage metrics

Data Metrics	Jun-12	Sep-12	Q/Q%
Non-voice revenue (Rs mn)	9,145	9,198	1%
Non-voice revenue %	*20.2%*	*20.8%*	
Total data subs (mn)	24	26	8%
% of total subs	*16%*	*19%*	
3G subs	4	5	20%
% of total subs	*3%*	*4%*	
Total data volume (mn MB)	15,840	17,400	10%
Data usage per customer (MB)	240	232	-3%

Source: Company reports

Figure 5. Balance Sheet Details

Rs m	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Gross block	814,503	821,324	820,902	821,227	929,484	991,667	995,639	1,025,993	1,018,552
Capital WIP	173,938	199,644	181,912	180,953	92,105	83,036	50,230	50,425	47,471
Capex									
Wireless	6,021	16,820	5,780	2,008	2,127	1,720	2,598	2,264	1,190
Global	*1,841*	*400*	*530*						
Broadband	*595*	*340*	*270*						
Global Enterprise	2436	740	800	1544	1,219	958	1559	1176	2790
Others	830	1,580	10	49	157	876	173	248	270
Total	**9,287**	**19,140**	**6,590**	**3,601**	**3,503**	**3,554**	**4,330**	**3,688**	**4,250**
Net debt	**291,896**	**324,470**	**320,485**	**319,754**	**319,036**	**367,627**	**358,393**	**356,488**	**367,234**

Source: Company and Citi Research

Earnings revision

Figure 6. Earnings revision

	2013E	2014E	2015E
EBITDA (Rs m)			
Old	74,072	82,347	89,376
New	70,318	78,819	85,886
Change	-5.1%	-4.3%	-3.9%
EPS (Rs)			
Old	5.9	8.7	11.4
New	4.5	7.5	10.4
Change	-23.6%	-14.0%	-8.3%

Source: Citi Research estimates

TP at Rs72

RCOM’s target price is based on SOTP of the core business and towerco value -

1. Core business value continues to be benchmarked off Bharti’s imputed domestic business EV/EBITDA multiple and increases marginally to Rs72 from Rs70 despite the EBITDA cut as we roll-forward to 5.5x Mar-14E EV/EBITDA v/s Sep-13E earlier.

2. Towerco value remains unchanged at Rs20

Reliance Communications

Company description

RCOM is an integrated player in the Indian telecoms sector. It was listed on the Indian stock exchanges following the de-merger of Reliance Industries. RCOM is the second-largest player in the mobile segment, has an 80,000km-long India-wide optic-fiber network and owns the FLAG submarine cable network. RCOM has three business units: 1) Wireless, which includes a nationwide wireless network on CDMA and GSM; 2) Global Business comprising wholesale voice and data; and 3) Broadband for both retail and enterprise.

Investment strategy

We rate RCOM as Buy/High Risk (1H) with a target price of Rs72. The company has been hit by a combination of deterioration in its business and high leverage (dual network strategy and 3G). On the positive side, the wireless business has been stable - rev/min has stabilized around 43p/min (in-line with GSM incumbents' rev/min) - and margins seem to have settled around 27% levels. However, tariff growth remains a notch below that of Idea and Bharti and remains key to improving business momentum. The Global Enterprise Business Unit (GEBU) is levered to global macro and the slowdown under way will likely impact it through: (a) pricing pressure and (b) delayed/reduced corporate spend, with a weak rupee providing some offset. Given the decent risk adjusted returns on stabilizing business and potential deleveraging, we rate it Buy/High Risk.

Valuation

Our target price of Rs72 comprises (i) core business value of Rs52/sh, based on 5.5x Mar-14E EV/EBITDA; at a discount to Bharti's implied target multiple; plus (ii) towerco value accretion of Rs20/sh based on long-term external tenancy of 0.35x. We believe a discount to Bharti on the core business valuation is justified on account of the inherent risks of dual network and higher leverage. Our towerco net value accretion of Rs20/sh is based on the following assumptions: 1) Long-term tenancy of 2.00x with captive tenancy of 1.65x; 2) Capex recovery of 12%; 3) WACC of 11.3% and terminal growth rate of 3%. Note that the incremental value accretion to RCOM is calculated after netting off the contribution from the captive tenancy. Thus, it only reflects the value of the external revenues.

Risks

We assign a High Risk rating to RCOM given that the stock is deemed to be relatively volatile by our quantitative risk-rating model (based on stock price movements in the past year). Lower than expected hit from the spectrum payments and newsflow around corporate action (stake sale/business tie-up) remain the key upside risks to our target price and investment thesis on RCOM. Key downside risks that could prevent the stock from reaching our target price include: 1) Further deterioration in the core business; 2) Business disruption/balance sheet hit by higher-than-expected spectrum payments; and 3) Inability to deleverage through asset sale or tie-up for asset lease.

Appendix A-1

Analyst Certification

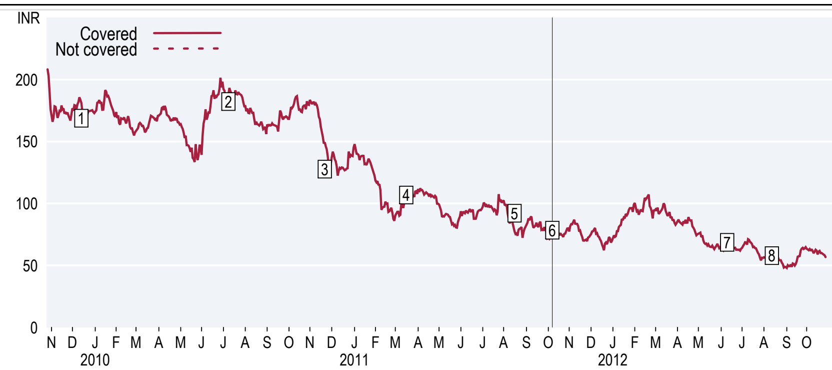
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Reliance Communications (RLCM.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	12-Dec-09	3M	*160.00	183.65
2	8-Jul-10	3M	*165.00	187.95
3	22-Nov-10	3M	*155.00	149.30
4	16-Mar-11	*1H	*127.00	102.95
5	16-Aug-11	1H	*117.00	77.40
6	7-Oct-11	Stock rating system changed		
7	11-Jun-12	1H	*85.00	65.40
8	13-Aug-12	1H	*70.00	55.70

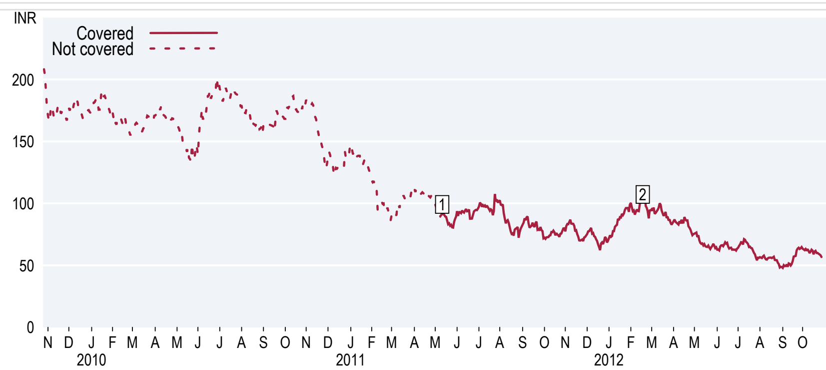
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Communications (RLCM.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	91.55
2	17-Feb-12	*REM LP	-	104.30

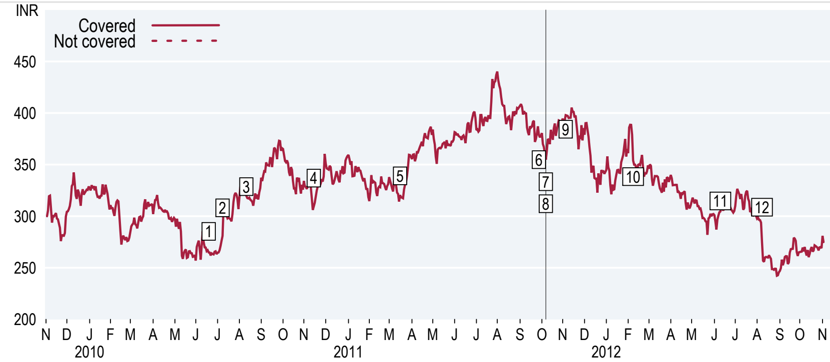
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bharti Airtel (BRTI.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	18-Jun-10	2L	*303.00	264.85
2	8-Jul-10	2L	*300.00	280.85
3	11-Aug-10	2L	*350.00	319.70
4	15-Nov-10	*1L	*400.00	309.50
5	16-Mar-11	1L	*415.00	320.45
6	28-Sep-11	1L	*453.00	378.75
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	453.00	354.80
9	4-Nov-11	1	*452.00	397.95
10	8-Feb-12	1	*425.00	354.00
11	11-Jun-12	1	*420.00	304.55
12	8-Aug-12	1	*325.00	274.40

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bharti Airtel (BRTI.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010

	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	366.35
2	13-Sep-12	*REM MP	-	253.65

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Reliance Communications. This position reflects information available as of the prior business day.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Bharti Airtel.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Reliance Communications, Bharti Airtel in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Bharti Airtel.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Reliance Communications, Bharti Airtel.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Reliance Communications, Bharti Airtel.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 4 Oct 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
% of companies in each rating category that are investment banking clients	50%	47%	45%	59%	47%	50%

Guide to Citi Research Fundamental Research Investment Ratings:
Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited	Gaurav Malhotra, CFA; Jitender Tokas,CFA
Citigroup Global Markets Singapore PTE LIMITED	Arthur Pineda

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 09 November 2012 03:30 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Reliance Communications. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.
Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.
This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client’s individual preferences as to the frequency and manner of receiving communications from analysts, the client’s risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST