

## Is 50% drop in share price the end? There is the lure of underlying value – but will this value be realised?

July 13, 2011

<b>Rating</b> Remains	<b>Reduce</b>
<b>Target price</b> Reduced from 120	INR 90
<b>Closing price</b> July 12, 2011	INR 97
<b>Potential downside</b>	-7.2%

### Action: REDUCE with revised target price of INR90

RCOM has been a significant underperformer in the past 18 months. The stock is down 45% since 2010 (vs market which is up 5%) with a 35% decline YTD (market down 10%). At current levels, there is the lure of 'underlying' value (it is trading at 0.5x book value). However, given disappointments over past failed 'value-unlocking transactions', continued weak execution and as well as closer scrutiny from regulators on various policy/spectrum matters, we remain cautious and maintain our REDUCE rating. Shoring up investor confidence will take time, and a potential re-rating is more likely to be led by: 1) tower spin-off; and/or 2) bringing in a strategic partner – RCOM appears committed to this, but we await developments to this end. On the other hand, RCOM has been successful refinancing its 3G debt with China Development Bank, alleviating some concerns; nonetheless, its net debt to adjusted EBITDA of 5x as at 4Q11 is high and could limit its ability to engineer a turnaround, in our view. In wireless, the transition from free to paid minutes could be completed in the next two quarters. In fixed line, consolidation of its Global and Enterprise segments for scale and synergies may also offer a source of upside.

### Valuation/Catalyst: Balance sheet of utmost importance

In our scenario analysis, we arrive at a valuation range of INR80-154, which we think could be a possible trading range too. Our DCF based target price of INR90 assumes margin recovery to 35% in FY12F (from adjusted margins of 32% in FY11). For wireless, we look for a margin rise of 200bps in FY12. Key catalysts include tower sale, growth in wireless and margin improvement.

### Anchor themes

The subscriber growth cycle is by no means over; however, returns on incremental subscribers are uncertain. 3G/data should offer further growth opportunities.

### Nomura vs consensus

We have not included any forex gains or losses at this stage for FY12F. We are 10% below consensus on our PT.

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31 Mar	FY11		FY12F		FY13F		FY14F	
	Actual	Old	New	Old	New	Old	New	
Currency (INR)								
<b>Revenue (mn)</b>	231,076	225,565	225,453	252,251	248,360		269,689	
<b>Reported net profit (mn)</b>	13,454	18,836	17,380	24,881	23,714		26,025	
<b>Normalised net profit (mn)</b>	12,516	17,869	16,466	23,968	22,833		25,165	
<b>Normalised EPS</b>	6.1	8.7	8.0	11.6	11.1		12.2	
<b>Norm. EPS growth (%)</b>	-32.2	4.2	31.6	34.1	38.7		10.2	
<b>Norm. P/E (x)</b>	16.0	N/A	12.1	N/A	8.8	N/A	7.9	
<b>EV/EBITDA</b>	5.8	N/A	6.5	N/A	5.4	N/A	4.8	
<b>Price/book (x)</b>	0.6	N/A	0.5	N/A	0.5	N/A	0.5	
<b>Dividend yield (%)</b>	0.5	N/A	2.2	N/A	5.9	N/A	6.5	
<b>ROE (%)</b>	3.6	4.5	4.8	5.7	6.2		6.5	
<b>Net debt/equity (%)</b>	89.3	68.0	81.2	59.3	70.2		60.1	

Source: Nomura estimates

**Key company data:** See page 2 for company data, and detailed price/index chart.

**Rating:** See report end for details of Nomura's rating system.

See Appendix A-1 for analyst certification and important disclosures. Analysts employed by non US affiliates are not registered or qualified as research analysts with FINRA in the US.

# Key data on Reliance Communications

## Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	222,503	231,076	225,453	248,360	269,689
Cost of goods sold	-68,688	-80,867	-79,742	-88,116	-95,914
Gross profit	153,815	150,208	145,711	160,243	173,775
SG&A	-112,411	-124,434	-112,178	-117,628	-128,171
Employee share expense	0	0	0	0	0
Operating profit	41,404	25,775	33,533	42,615	45,604
EBITDA	78,870	90,813	78,303	88,675	94,859
Depreciation	-37,466	-65,038	-44,770	-46,060	-49,255
Amortisation	0	0	0	0	0
EBIT	41,404	25,775	33,533	42,615	45,604
Net interest expense	11,863	-10,724	-11,506	-11,634	-10,709
Associates & JCEs					
Other income	-376	123	0	0	0
Earnings before tax	52,891	15,174	22,026	30,981	34,895
Income tax	-4,453	-118	-3,304	-5,577	-6,979
Net profit after tax	48,438	15,056	18,722	25,405	27,916
Minority interests	-1,396	-1,602	-1,343	-1,690	-1,891
Other items	-28,573	-939	-914	-882	-860
Preferred dividends	0	0	0	0	0
Normalised NPAT	18,469	12,516	16,466	22,833	25,165
Extraordinary items	28,573	939	914	882	860
Reported NPAT	47,042	13,454	17,380	23,714	26,025
Dividends	-1,754	-1,032	-4,345	-11,857	-13,012
Transfer to reserves	45,288	12,422	13,035	11,857	13,012

## Valuation and ratio analysis

FD normalised P/E (x)	10.8	16.0	12.1	8.8	7.9
FD normalised P/E at price target (x)	13.4	19.8	15.0	10.8	9.8
Reported P/E (x)	4.2	14.8	11.5	8.4	7.7
Dividend yield (%)	0.9	0.5	2.2	5.9	6.5
Price/cashflow (x)	2.8	21.7	4.1	2.6	2.2
Price/book (x)	0.5	0.6	0.5	0.5	0.5
EV/EBITDA (x)	5.1	5.8	6.5	5.4	4.8
EV/EBIT (x)	9.7	20.3	15.2	11.3	9.9
Gross margin (%)	69.1	65.0	64.6	64.5	64.4
EBITDA margin (%)	35.4	39.3	34.7	35.7	35.2
EBIT margin (%)	18.6	11.2	14.9	17.2	16.9
Net margin (%)	21.1	5.8	7.7	9.5	9.6
Effective tax rate (%)	8.4	0.8	15.0	18.0	20.0
Dividend payout (%)	3.7	7.7	25.0	50.0	50.0
Capex to sales (%)	34.8	45.5	14.2	17.6	17.2
Capex to depreciation (x)	2.1	1.6	0.7	0.9	0.9
ROE (%)	12.4	3.6	4.8	6.2	6.5
ROA (pretax %)	4.9	3.1	4.0	5.2	5.5

## Growth (%)

Revenue	-2.9	3.9	-2.4	10.2	8.6
EBITDA	-15.1	15.1	-13.8	13.2	7.0
EBIT					
Normalised EPS	-51.6	-32.2	31.6	38.7	10.2
Normalised FDEPS	-51.6	-32.2	31.6	38.7	10.2

## Per share

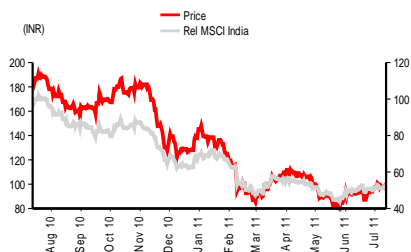
Reported EPS (INR)	22.79	6.52	8.42	11.49	12.61
Norm EPS (INR)	8.95	6.06	7.98	11.06	12.19
Fully diluted norm EPS (INR)	8.95	6.06	7.98	11.06	12.19
Book value per share (INR)	187.90	173.22	181.14	190.52	197.38
DPS (INR)	0.85	0.50	2.11	5.74	6.30

Source: Nomura estimates

## Notes

We still give the benefit of the doubt and expect FY12F margins to recover to 35% (from 32% in FY11)

## Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (INR)	4.5	-9.6	-49.2
Absolute (USD)	4.5	-10.2	-46.9
Relative to index	4.6	-4.2	-48.6
Market cap (USDmn)	4,468.2		
Estimated free float (%)	30.0		
52-week range (INR)	195.4/74.6		
3-mth avg daily turnover (USDmn)	14.89		
Major shareholders (%)			
AAA communications	63.4		
LIC	5.9		

**Cashflow (INRmn)**

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	78,870	90,813	78,303	88,675	94,859
Change in working capital	-5,750	-78,160	-17,392	3,939	13,087
Other operating cashflow	-1,499	-3,455	-11,900	-17,211	-18,636
Cashflow from operations	71,621	9,198	49,011	75,403	89,310
Capital expenditure	-77,489	-105,135	-32,007	-43,599	-46,451
Free cashflow	-5,868	-95,937	17,004	31,804	42,859
Reduction in investments	0	0	0	0	0
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	0	0	0	0	0
Cashflow after investing acts	-5,868	-95,937	17,004	31,804	42,859
Cash dividends	-1,651	-1,754	-1,032	-4,345	-11,857
Equity issue	0	0	0	0	0
Debt issue	-88,047	126,284	0	-20,000	-20,000
Convertible debt issue	0	0	0	0	0
Others	32,916	-24,016	0	0	0
Cashflow from financial acts	-56,782	100,514	-1,032	-24,345	-31,857
Net cashflow	-62,650	4,577	15,972	7,459	11,002
Beginning cash	112,434	49,784	54,361	70,333	77,792
Ending cash	49,784	54,361	70,333	77,792	88,794
Ending net debt	197,689	319,396	303,424	275,965	244,963

Source: Nomura estimates

**Notes**

FY12F capex outlook appears very conservative

**Balance sheet (INRmn)**

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	49,784	54,361	70,333	77,792	88,794
Marketable securities	0	0	0	0	0
Accounts receivable	33,380	40,017	43,238	42,868	44,332
Inventories	5,446	5,172	5,046	5,559	6,036
Other current assets	76,741	62,323	62,323	62,323	62,323
Total current assets	165,351	161,873	180,939	188,541	201,485
LT investments	0	0	0	0	0
Fixed assets	715,395	729,408	713,735	711,274	709,418
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	0	0	0	0
Total assets	880,746	891,281	894,674	899,815	910,903
Short-term debt	0	0	0	0	0
Accounts payable	198,855	126,860	113,169	114,782	127,512
Other current liabilities	39,121	24,901	24,295	26,764	29,062
Total current liabilities	237,976	151,761	137,464	141,545	156,574
Long-term debt	247,473	373,757	373,757	353,757	333,757
Convertible debt	0	0	0	0	0
Other LT liabilities	0	0	0	0	0
Total liabilities	485,449	525,518	511,221	495,302	490,331
Minority interest	7,472	8,245	9,588	11,278	13,169
Preferred stock	0	0	0	0	0
Common stock	10,320	10,320	10,320	10,320	10,320
Retained earnings	377,505	347,198	363,546	382,915	397,082
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	387,825	357,518	373,866	393,235	407,402
Total equity & liabilities	880,746	891,281	894,674	899,815	910,903

**Notes**

Balance sheet gearing a key concern

**Liquidity (x)**

Current ratio	0.69	1.07	1.32	1.33	1.29
Interest cover	na	2.4	2.9	3.7	4.3

**Leverage**

Net debt/EBITDA (x)	2.51	3.52	3.88	3.11	2.58
Net debt/equity (%)	50.97	89.34	81.16	70.18	60.13

**Activity (days)**

Days receivable	72.3	58.0	67.6	63.3	59.0
Days inventory	28.9	24.0	23.4	22.0	22.1
Days payable	1,128.8	735.1	550.8	472.1	461.0
Cash cycle	-1,027.6	-653.1	-459.8	-386.9	-380.0

Source: Nomura estimates

# Maintain REDUCE

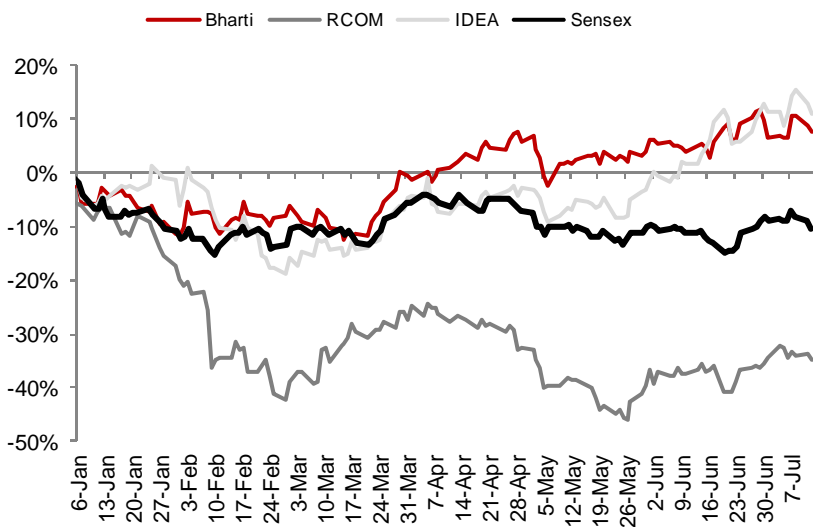
We maintain our REDUCE rating on RCOM, despite a 45% decline in price since 2010 (vs market index which is up 5%) and a 35% decline YTD (market down 10%). Our revised target price is INR90. RCOM has struggled under the weight of weak execution (earnings revision of over 50%) as well as closer scrutiny from regulators on various policy/spectrum matters. Investor confidence will need time to recover, in our view, but we also think there will be a floor at around INR70-80 – the stock is already trading at 0.5x book value.

RCOM also appears willing and committed to unlocking asset value by potentially selling stakes in various businesses (according to company’s press releases dated 31<sup>st</sup> May, 2011 and 6<sup>th</sup> June 2010). However, this may not be forthcoming anytime soon, but could be a positive catalyst nevertheless. RCOM has been successful in terms of refinancing its 3G debt with China Development Bank, alleviating some concerns; nonetheless, its net debt to annualized EBITDA (adjusted for accounting changes) of 5x as at 4Q11 is high and could limit its ability to engineer a turnaround, in our view.

In wireless, the transition from free to paid minutes could be completed in the next two quarters, post which growth in minutes and revenue could resume. In fixed line, consolidation of its Global and Enterprise segments for scale and better alignment of cost structure, and potentially benefits from this, could also come through.

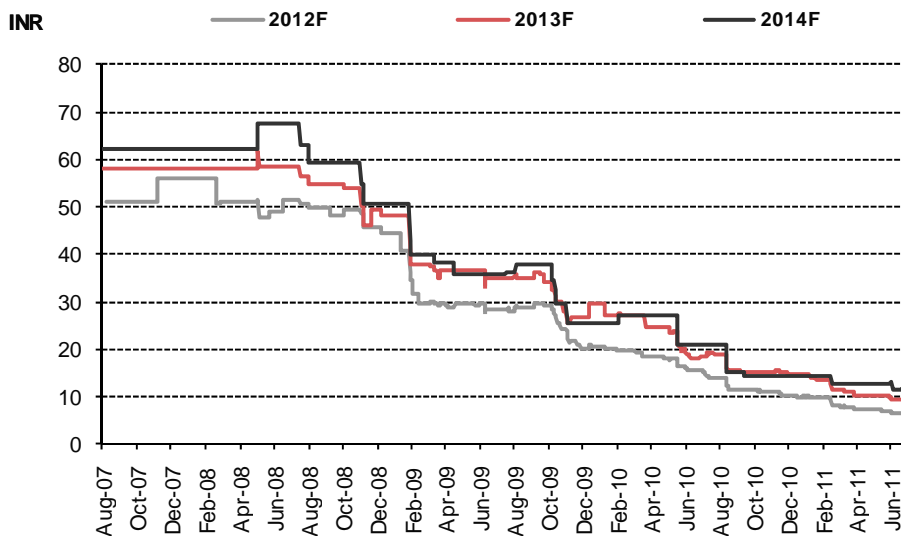
In our scenario analysis, we arrive at a valuation range of INR80-154, which we think could be a possible trading range too. We note that this analysis is sensitive to margin assumptions primarily. Our DCF based target price of INR90 (previously INR120) assumes margin recovery to 35% in FY12F (from adjusted margins of 32% in FY11). For wireless, we look for margin rise of 200bps in FY12. For the longer-term, our margins are now capped at 34-35% vs. 36-37% previously.

**Fig. 1: Price performance since 2010**



Source: Bloomberg, Nomura research

Fig. 2: RCOM - Consensus EPS revision



Source: Bloomberg, Nomura research

## Key operating trends

- **In its wireless business**, RCOM is realigning its portfolio i.e. by moving away from its free minutes strategy to paid minutes – this is now expected to be completed in the next couple of quarters. This strategy has helped to keep pricing steady, however, RCOM's volume and revenue growth has lagged that of peers in the past few quarters. Once this realignment is complete, RCOM expects to chase both minutes and revenue growth. We are generously looking for 8% growth in wireless in FY12 (revenues declined by 2% in FY11).
- **In fixed line as well**, growth has struggled – with a revenue/EBITDA decline of 7-18% in FY11. In 3Q11, RCOM also undertook a realignment of its fixed businesses – the Global business (which owns submarine cables and international enterprise business) and Broadband business (domestic enterprise business) into a single segment for scale and synergies and this also presents an opportunity for improvement.
- RCOM made several announcements last year in the direction of 1) monetizing assets to reduce gearing and 2) bringing in a strategic partner for RCOM – neither has fructified. Recent press reports, however, suggest more suitors for the tower business (source: *Reliance Communications may receive offers from PEs for its tower biz; stock down, Economic Times, 10<sup>th</sup> June 2011*) and we think RCOM could be more committed to executing on this front, this time around.

Fig. 3: Segmental outlook - annual

	2010A	2011A	2012E	2013E
<b>REVENUE SUMMARY</b>				
Wireless	169,156	165,763	179,531	199,541
Global	81,583	100,520	80,790	88,869
Broadband	28,385	26,473	25,093	25,704
Total revenue	<b>222,503</b>	<b>231,076</b>	<b>225,453</b>	<b>248,360</b>
Adjusted revenue (for A/c chgs)	<b>222,503</b>	<b>205,626</b>	<b>225,453</b>	<b>248,360</b>
<b>%Growth</b>				
Wireless	-3%	-2%	8%	11%
Global	20%	23%	-20%	10%
Broadband	12%	-7%	-5%	2%
Total revenue growth	<b>-3%</b>	<b>4%</b>	<b>-2%</b>	<b>10%</b>
Adj. rev growth	<b>-3%</b>	<b>-8%</b>	<b>10%</b>	<b>10%</b>
<b>%Contribution to total</b>				
Wireless	76%	72%	80%	80%
Global	37%	44%	36%	36%
Broadband	13%	11%	11%	10%
<b>EBITDA SUMMARY</b>				
Wireless	55,981	47,371	54,717	60,815
Global	17,491	39,795	17,547	19,124
Broadband	11,474	9,485	8,966	9,184
Total EBITDA	<b>78,870</b>	<b>90,813</b>	<b>78,303</b>	<b>88,675</b>
Adjusted EBITDA	<b>78,870</b>	<b>65,363</b>	<b>78,303</b>	
<b>%Chg YoY</b>				
Wireless	-16%	-15%	16%	11%
Global	8%	128%	-56%	9%
Broadband	-1%	-17%	-5%	2%
EBITDA growth	<b>-15%</b>	<b>15%</b>	<b>-14%</b>	<b>13%</b>
<b>Margins</b>				
Wireless	33%	29%	30%	30%
Global	21%	40%	22%	22%
Broadband	40%	36%	36%	36%
<b>EBITDA Margins</b>	<b>35.4%</b>	<b>39.3%</b>	<b>34.7%</b>	<b>35.7%</b>
<b>Adjusted Margins</b>	<b>33.9%</b>	<b>31.8%</b>	<b>34.7%</b>	<b>35.7%</b>
<b>%Contribution between segments</b>				
Wireless	66%	49%	67%	68%
Global	21%	41%	22%	21%
Broadband	14%	10%	11%	10%

Note – Adjusted revenue, EBITDA, growth and margin adjusts for one-time accounting impact in FY11

Source: Company report, Nomura estimates

Fig. 4: Scenario analysis for RCOM based on SoTP

	2010A	2011A	2012E
<b>Revenues</b>			
Mobile	169,156	165,763	179,531
Global	81,583	75,070	80,790
Broadband & Data	28,385	26,473	25,093
Others	11,796	14,078	13,953
Eliminations	(68,417)	(75,757)	(73,914)
<b>Total revenues</b>	<b>222,503</b>	<b>205,626</b>	<b>225,453</b>
<b>EBITDA</b>			
Mobile	55,981	47,371	54,717
Global	17,491	14,795	17,547
Broadband & Data	11,474	9,485	8,966
Others	(5,634)	(4,984)	(2,093)
Eliminations	(442)	(854)	(833)
<b>Total EBITDA</b>	<b>78,870</b>	<b>65,813</b>	<b>78,303</b>
<b>Our current margins</b>			
Mobile	33%	29%	30%
Global	21%	20%	22%
Broadband & Data	40%	36%	36%
Others	-48%	-35%	-15%
Eliminations	1%	1%	1%
<b>Total Margin</b>	<b>35%</b>	<b>32%</b>	<b>35%</b>
	<b>Current FY12F margins</b>	<b>Low end FY12F margins</b>	<b>High end FY12F margins</b>
Mobile	30%	29%	35%
Global	22%	18%	22%
Broadband & Data	36%	35%	38%
Others	-15%	-20%	-5%
Eliminations	1%	0%	0%
<b>Total Margin</b>	<b>35%</b>	<b>32%</b>	<b>40%</b>
<b>Implied FY12F EBITDA</b>			
Mobile	54,717	52,064	62,836
Global	17,547	14,623	17,774
Broadband & Data	8,966	8,783	9,535
Others	(2,093)	(2,791)	(698)
Eliminations	(833)	-	-
<b>Total EBITDA</b>	<b>78,303</b>	<b>72,679</b>	<b>89,447</b>
<b>Assumed EV/EBITDA multiples</b>			
Mobile		7.2	7.5
Global		7.2	7.5
Broadband & Data		6.5	7.5
Others		6.0	6.0
Eliminations		5.0	5.0
<b>Implied multiple</b>	<b>7.1</b>	<b>7.2</b>	<b>7.5</b>
<b>Implied EV</b>			
Mobile		374,860	471,268
Global		105,286	133,304
Broadband & Data		57,351	71,516
Others		(16,743)	(4,186)
Eliminations		-	-
<b>Total EV</b>	<b>554,191</b>	<b>520,753</b>	<b>671,901</b>
Net debt	354,396	354,396	354,396
Equity value	199,795	166,357	317,505
<b>- per share</b>	<b>97</b>	<b>81</b>	<b>154</b>

Note: INR97 is price as of 12<sup>th</sup> July 2011. Our 2011 numbers are adjusted for one-time accounting changes

Source: Nomura estimates

**Fig. 5: Implied multiples based on FY13 estimates**

	2011A	2013E	CAGR	
<b>Revenues</b>				
Mobile	165,763	199,541	10%	
Global	75,520	88,869	8%	
Broadband & Data	26,473	25,704	-1%	
Others	14,078	15,670	6%	
Eliminations	(75,757)	(81,424)	4%	
<b>Total revenues</b>	<b>206,076</b>	<b>248,360</b>	<b>10%</b>	
	2011A	2013E	EV/EBITDA	Implied EV (INRmn)
<b>EBITDA</b>				
Mobile	47,371	60,815	6.5	392,258
Global	14,795	19,124	5.0	95,619
Broadband & Data	9,485	9,184	6.0	55,102
Others	(4,984)	470	6.0	2,821
Eliminations	(854)	(918)	6.1	(5,599)
<b>Total EBITDA</b>	<b>65,813</b>	<b>88,675</b>	<b>6.1</b>	<b>540,200</b>
<b>Margins</b>				
Mobile	29%	30%		
Global	20%	22%		
Broadband & Data	36%	36%		
Others	-35%	3%		
Eliminations	1%	1%		
<b>Total Margin</b>	<b>32%</b>	<b>36%</b>		
Share Count				2,064
Net Debt				354,396
Equity Value				185,804
<b>- per share</b>				<b>90</b>

Source: Nomura estimates



Fig. 6: Quarterly summary

<b>INR mn</b>	<b>1Q10</b>	<b>2Q10</b>	<b>3Q10</b>	<b>4Q10</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11</b>
Wireless	47,931	40,100	40,225	40,900	41,528	41,613	40,644	41,978
Global	18,844	22,643	19,818	20,278	18,137	18,391	19,233	44,758
Broadband	6,842	7,700	7,045	6,798	6,763	6,620	6,184	6,906
Others	3,031	2,760	3,160	2,845	3,348	3,980	3,107	3,643
Total Gross Revenue	76,648	73,203	70,248	70,821	69,776	70,604	69,168	97,285
Eliminated Revenue	(15,196)	(16,178)	(17,150)	(19,893)	(18,684)	(19,422)	(19,127)	(18,524)
<b>Reported Revenue</b>	<b>61,452</b>	<b>57,026</b>	<b>53,098</b>	<b>50,928</b>	<b>51,092</b>	<b>51,182</b>	<b>50,041</b>	<b>78,760</b>
- % Change QoQ	0%	-7%	-7%	-4%	0%	0%	-2%	57%
- % Change YoY	15%	1%	-9%	-17%	-17%	-10%	-6%	55%
Wireless	18,489	13,132	12,545	11,815	11,989	12,100	11,792	11,490
Global	4,515	5,227	4,194	3,555	3,317	3,390	3,966	29,122
Broadband	2,994	3,199	2,755	2,526	2,477	2,480	2,267	2,261
Others	(1,381)	(1,244)	(1,250)	(1,759)	(1,350)	(1,340)	(1,345)	(949)
Adjustment	(92)	(116)	(117)	(117)	(113)	(37)	-	(704)
<b>EBITDA</b>	<b>24,525</b>	<b>20,198</b>	<b>18,127</b>	<b>16,020</b>	<b>16,320</b>	<b>16,594</b>	<b>16,680</b>	<b>41,220</b>
- % Change QoQ	3%	-18%	-10%	-12%	2%	2%	1%	147%
- % Change YoY	9%	-12%	-23%	-33%	-33%	-18%	-8%	157%
<b>EBITDA Margin</b>	<b>40%</b>	<b>35%</b>	<b>34%</b>	<b>31%</b>	<b>32%</b>	<b>32%</b>	<b>33%</b>	<b>52%</b>
PBT	19,475	6,475	13,650	13,292	2,276	4,244	5,046	3,609
<b>Reported NPAT</b>	<b>16,366</b>	<b>7,404</b>	<b>11,079</b>	<b>12,195</b>	<b>2,508</b>	<b>4,458</b>	<b>4,803</b>	<b>1,686</b>
- % Change QoQ	13%	-55%	50%	10%	-79%	78%	8%	-65%
<b>Underlying NPAT</b>	<b>10,272</b>	<b>10,232</b>	<b>7,224</b>	<b>4,076</b>	<b>4,705</b>	<b>4,482</b>	<b>3,665</b>	<b>1,800</b>
- % Change QoQ	-9%	0%	-29%	-44%	15%	-5%	-18%	-51%
- % Change YoY	-23%	-25%	-44%	-64%	-54%	-56%	-49%	-56%
<b>WIRELESS OPERATIONAL DATA</b>								
Wireless Subs (mn)	79.62	86.12	93.80	102.42	110.81	117.30	125.65	135.72
Monthly MoUs (Min)	365	340	330	318	295	276	251	241
Reported Gross ARPU (INR)	210	161	149	139	130	122	111	107
Revenue per Minute (INR)	0.58	0.47	0.45	0.44	0.44	0.44	0.44	0.44

Note: 4Q11 saw impact of a/c changes

Source: Company report, Nomura research

Fig. 7: Earnings revisions

<b>Reported (INR mn)</b>	<b>2012E</b>	<b>2013E</b>
<b>New forecasts</b>		
Revenues	225,453	248,360
EBITDA	78,303	88,675
EBIT	33,533	42,615
NPAT	17,380	23,714
<b>Old forecasts</b>		
Revenues	225,565	252,251
EBITDA	78,007	91,546
EBIT	35,021	45,616
NPAT	18,836	24,881
<b>Change</b>		
Revenues	0%	-2%
EBITDA	0%	-3%
EBIT	-4%	-7%
NPAT	-8%	-5%
<b>Normalised (INR mn)</b>		
<b>New forecasts</b>		
Revenues	225,453	248,360
EBITDA	78,303	88,675
EBIT	32,458	41,540
NPAT	16,466	22,833
<b>Old forecasts</b>		
Revenues	225,565	252,251
EBITDA	78,007	91,546
EBIT	33,946	44,541
NPAT	17,869	23,968
<b>Change</b>		
Revenues	0%	-2%
EBITDA	0%	-3%
EBIT	-4%	-7%
NPAT	-8%	-5%

Source: Nomura estimates

**Valuation Methodology and risks**

Our target price of INR90 is DCF-based (previously INR120, also DCF based), with WACC of 10.9% and terminal growth rate of 3%. Cashflows are discounted back to FY17F.

Key risks include 1) stronger-than-anticipated execution, 2) better-than-anticipated margin recovery and 3) M&A transactions.

# Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Reliance Communications	RCOM IN	INR 97	12-Jul-2011	Reduce	Not rated	

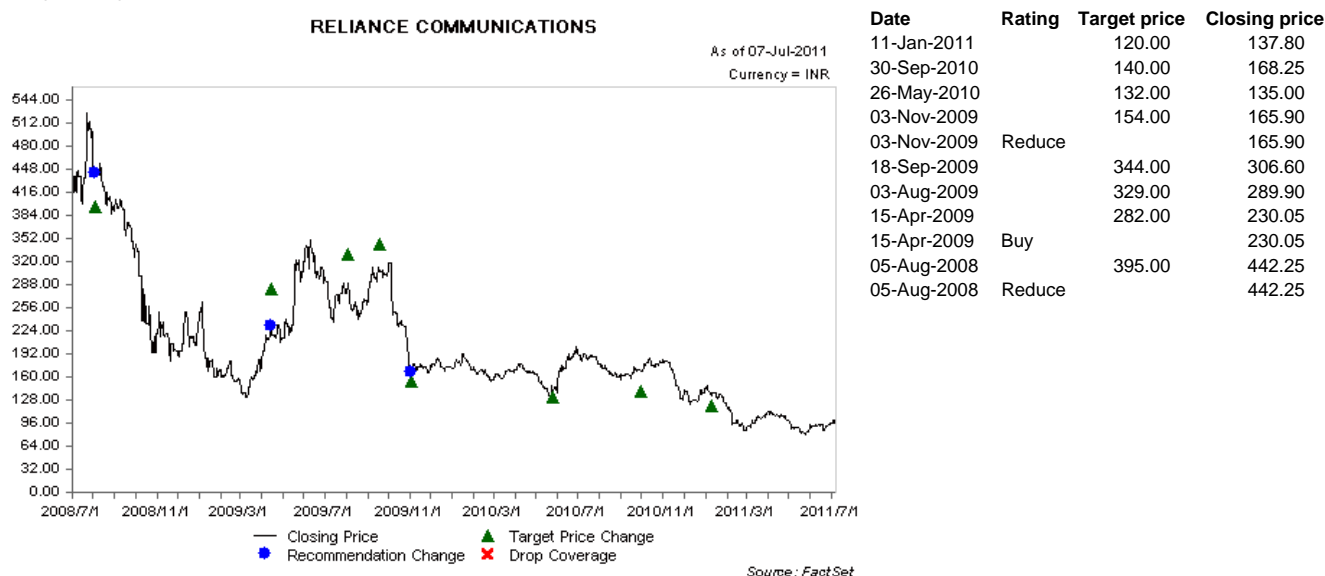
### Previous Rating

Issuer name	Previous Rating	Date of change
Reliance Communications	Buy	03-Nov-2009

### Reliance Communications (RCOM IN)

INR 97 (12-Jul-2011) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our DCF-based target price of INR90 is driven by a WACC of 10.9% and a terminal growth rate of 3%. Cashflows are discounted back to FY17F.

**Risks that may impede the achievement of the target price** Key risks include 1) stronger-than-anticipated execution, 2) better-than-anticipated margin recovery and 3) M&A transactions.

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