

Reliance Communications Ltd (Q4 FY08)

May 02, 2008

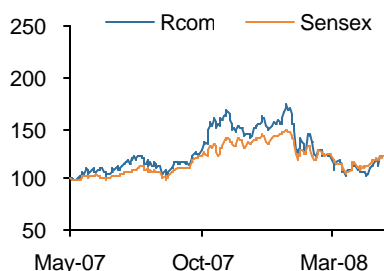
Stock data

Sensex:	17,287
CMP (Rs):	577
Target price (Rs):	741
Upside (%):	28.2
52 Week h/l (Rs):	845/447
Market cap (Rs cr)	119,093
6m Avg vol BSE&NSE ('000 nos):	7,106
No of o/s shares (mn):	2,064
FV (Rs):	5
Bloomberg code:	RCOM IN
Reuters code:	RCLM.BO
BSE code:	532712
NSE code:	RCOM

Shareholding pattern

March 2008	(%)
Promoters	66.1
FII's & institutions	22.1
Non promoter corp hold	2.0
Others	9.8

Share price trend



- Q4 total revenues up 9% qoq; subscriber adds at 4.8mn qoq
- Operating margins improve 40bps qoq on lower access charges
- PAT increased 9.5% qoq on exceptional and tax income; FY08 subscriber additions up 63.5%

Adds highest ever 4.8mn subs in Q4

Rcom added over 4.8mn subscribers in the quarter, its highest ever quarterly adds, while the 63.5% yoy increase in subscribers in FY08 led to a 32% yoy rise in full year revenues. Q4 total revenues increased 9% qoq led by robust 14.7% qoq jump in global business.

OPM for the quarter increased marginally by 40bps qoq due to significant decline in access charges (down by 420bps qoq). Sequential PAT for the quarter was higher 9.5% on improved margins qoq and exceptional income.

ARPU declines but RPM remains at historical average

Q4 ARPU declined 6.5% qoq (vs. flat for Bharti) but revenue per minute (RPM) remained at its historical quarterly average of Rs0.74 per minute. Minutes of Usage also maintained its quarterly declining trend.

GSM rollout in phased manner by end CY2008

In its post earnings call, Rcom indicated it has received startup 4.4MHz spectrum and GSM rollout would happen by end CY08 in a phased manner. This would bolster growth as CDMA investments have been nearly completed.

Financial highlights

Period	Q4 FY08	% qoq	FY08	% yoy
(Rs mn)	(3)		(12)	
Revenues	53,114	9.0	188,274	32.0
Op. profit	23,164	10.0	79,587	44.3
PBT	15,389	0.4	57,935	78.0
Tax	272		(2,836)	360.8
PAT	15,661	12.2	55,099	72.5
Extra. items	611		12,828	
Minority interest	(1,240)	456.1	(13,915)	
Adj. PAT	15,032	9.5	54,011	70.5
EPS (Rs)	29.1*		26.2	

Source: Company
* Annualized

Non-wireless operations to gain significance

Rcom has outlined a US\$11bn capex spend over a period of three years ending FY09 with US\$6bn spending in current fiscal. About 45% of the capex in FY09 would be on FLAG Telecom, global business and others. With capex intensity likely to decline next year, we believe non wireless business would provide healthy contribution over the next two to three years.

India Infoline Research Team

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Pan India dual network presence to sustain growth; BUY

Rcom is likely to add 36mn subscribers over the next two years on its nationwide dual network which, coupled with non-wireless operations, would drive a CAGR of 32.9% in sales and 31.9% in profit over the same period. We peg the value of tower arm, Reliance Infratel, at US\$6.1bn, or Rs113 per share of Rcom. Combined with the core wireless value of Rs628, we arrive at a target price of Rs741, an upside of 28.2% from current levels. Recommend BUY.

Rcom valuations

	Rs/share
Core CDMA business	628
RTIL	113
Target price	741

Source: India Infoline Research

Financials

y/e March, Rs mn	FY07	FY08P	FY09E	FY10E
	(15)	(12)	(12)	(12)
Revenues	171,904	188,274	253,961	332,638
yoy growth (%)		9.5	34.9	31.0
Operating profit	64,429	79,587	107,679	141,704
OPM (%)	37.5	42.3	42.4	42.6
PAT	35,319	54,012	63,930	93,905
Pre-exceptional PAT	36,358	55,099	65,011	95,082
yoy growth (%)		52.9	18.4	46.9
EPS (Rs)	17.3	26.2	31.0	45.5
P/E (x)	30.5	22.0	18.6	12.7
P/BV (x)	4.7	4.6	3.7	2.9
EV/EBITDA (x)	18.3	16.6	12.7	8.9
ROE (%)	15.4	21.1	20.1	22.9
ROCE (%)	9.3	10.8	11.9	15.6

Source: Company, India Infoline Research

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