Reliance Communications RLCM.NS RCOM IN

TELECOMS

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EQUITY RESEARCH

FCCB refinancing removes near-term concerns

Quick Note

January 17, 2012

Rating Remains	**Neutral**
Target price Remains	INR 90
Closing price January 16, 2012	INR 86

FCCB refinancing should alleviate near-term liquidity concerns, but longer-term questions remain?

- RCOM today announced that it has tied up with a group of banks to refinance its FCCBs of US$1.18bn. We believe this move should alleviate near-term liquidity concerns – given its stretched balance sheet with net-debt to EBITDA of 4.9x (as of 2Q12), there was little comfort that FCCB redemption could be met with internal cash accruals. This should also see some positive momentum in the stock, although we believe longer-term balance sheet concerns remain.
- RCOM has secured this loan from a group of banks including Industrial and Commercial Bank of China Ltd (ICBC), China Development Bank Corporation (CDB) and Export Import Bank of China (EXIM) and others. The refinanced loan has a maturity of 7 years and not much colour on the principal repayment schedule is available at the moment. In FY11, RCOM had an underlying net interest expense (not including forex gains or losses) of INR10bn, implying an interest rate of around 4%, we estimate (adjusting for 3G loans for which interest was capitalised). The FCCBs are now being refinanced at 5%.
- Operationally, some turnaround/stability in the wireless segment has been evident in the last couple of quarters – it has held wireless pricing steady, there is recovery in revenue growth, and revenue share appears to be stable vs declining previously. However, this hasn't been significant enough to translate into a share price driver.
- Notwithstanding this refinancing deal, RCOM's stretched balance sheet will be a longer-term concern. It could also curtail investment needed for the business. The company has been vocal about divesting a stake in one of its businesses, to de-lever its balance sheet. However, with little success so far. (*Source: Blackstone, "Carlyle set to buy Anil Ambani's RCOM towers", The Economic Times, 11 November*). In the absence of a material operational turnaround, any finalisation of a cash-injection deal could be a significant re-rating catalyst for the stock, we believe. Maintain Neutral.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Appendix A-1

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I, Sachin Gupta, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

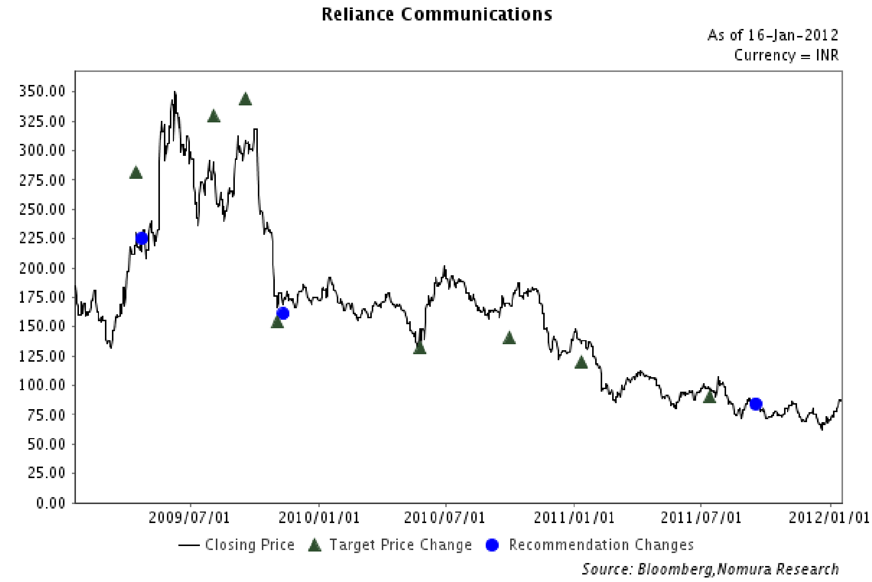
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Reliance Communications	RCOM IN	INR 86	16-Jan-2012	Neutral	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Reliance Communications	Reduce	08-Sep-2011

Reliance Communications (RCOM IN) **INR 86 (16-Jan-2012)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
08-Sep-11	Neutral		89.40
13-Jul-11		90.00	98.20
11-Jan-11		120.00	137.65
30-Sep-10		140.00	168.50
26-May-10		132.00	134.50
03-Nov-09	Reduce		165.80
03-Nov-09		154.00	165.80
18-Sep-09		344.00	306.35
03-Aug-09		329.00	290.00
15-Apr-09	Buy		229.95
15-Apr-09		282.00	229.95

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%. Cash flows are discounted back to FY17F.

Risks that may impede the achievement of the target price Key upside risks: stronger-than-anticipated execution; better-than-anticipated margin recovery; and M&A transactions. Key downside risks: weaker execution and further margin decline; inability to deleverage balance sheet.

Important Disclosures

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
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SECTORS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

STOCKS

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