

FCCB refinancing removes near-term concerns

Quick Note

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.

January 17, 2012

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

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Appendix A-1

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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	

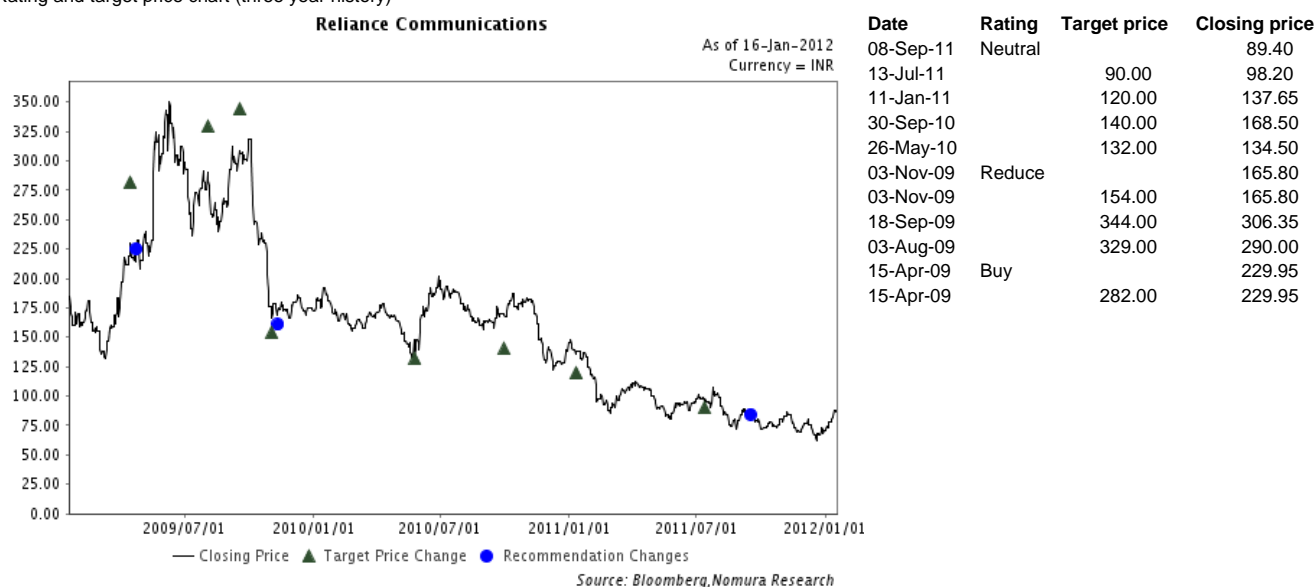
Previous Rating

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)



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.

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STOCKS

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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

STOCKS

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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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