

Reliance Communication

Performance highlights

(₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Net sales ^	4,824	4,792	0.7	4,865	(0.8)
EBITDA ^	1,383	1,357	1.9	1,529	(9.5)
EBITDA margin (%)	28.7	28.3	35bp	31.4	(276)bp
PAT	186	252	(26.1)	480	(61.2)

Source: Company, Angel Research; Note: ^ Excluding other income

For 3QFY2012, Reliance Communication (RCom) reported a muted set of results. The company's net sales grew by just 0.7% qoq even when 3Q is a seasonally strong quarter for telecom companies. RCom hiked voice tariffs on both on-net and off-net calls for GSM subscribers; and on CDMA, the company raised tariffs on only off-net calls. Since the hike has been undertaken largely on the GSM subscriber base, the impact of the same was less as compared to its peers, as the company is primarily CDMA based and, thus, tariff hike has not showed any signs of improvement in the APRU of RCom. **Due to lack of triggers except the monetization of its Infratel business, which can cut down its debt by more than half, we remain Neutral on the stock.**

Quarterly performance: RCom reported revenue of ₹4,824cr, up merely 0.7% qoq, led by poor performance across all its business segments. Wireless revenue came in at ₹4,447cr, up just 0.7% qoq on the back of qoq flat average revenue per minute (ARPM) at ₹0.45/min and a 1.3% qoq decline in minutes of usage (MOU) to 224min, whose fall was slightly arrested by subscriber growth of 2.0% qoq. Thus, ARPU slipped by 1.0% qoq to ₹100 in 3QFY2012 from ₹101 in 2QFY2012. Overall EBITDA margin improved by 35bp qoq to 28.7% as employee costs and access charges declined by 10.9% and 7.2% qoq, respectively. However, network operating expenses grew by 8.8% qoq (includes one-time cost of ₹90cr).

Outlook and valuation: Going forward, we expect RCom's mobile segment to record a 10.3% CAGR in its subscribers over FY2010–13E and ARPM to stabilize at ₹0.45/min in FY2013. Currently, the company is striving to reduce the debt level in its books and has again kept its stance of selling stake in its tower assets, which might help the company to deleverage its balance sheet and reduce debt and can be a positive trigger to the stock price. However, various other announcements of selling tower assets were made earlier as well, but none of them materialized. Also, RCom is trying to restructure debt in its books to reduce interest costs. We maintain our Neutral view on the stock.

Key financials (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	22,242	21,614	22,430	19,382	22,018
% chg	18.1	(2.8)	3.8	(13.6)	13.6
Net profit	5,926	4,704	1,346	714	896
% chg	44.6	(20.6)	(71.4)	(47.0)	25.6
EBITDA margin (%)*	38.6	33.5	37.5	29.4	33.2
EPS (₹)	24.4	23.0	6.5	3.5	4.3
P/E (x)	3.9	4.1	14.5	27.2	21.6
P/BV (x)	0.5	0.4	0.5	0.5	0.5
RoE (%)	14.0	10.8	3.3	1.7	2.1
RoCE (%)	5.7	4.7	2.4	2.0	2.9
EV/Sales (x)	2.1	2.0	2.3	2.8	2.3
EV/EBITDA (x)	5.5	6.1	6.1	9.7	6.9

Source: Company, Angel Research; Note: *Excluding other income

NEUTRAL

CMP	₹94
Target Price	-

Investment Period	-
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Stock Info	
Sector	Telecom
Market Cap (₹ cr)	19,391
Beta	1.5
52 Week High / Low	114/61
Avg. Daily Volume	2,462,598
Face Value (₹)	5
BSE Sensex	17,749
Nifty	5,382
Reuters Code	RLCM.BO
Bloomberg Code	RCOM@IN

Shareholding Pattern (%)	
Promoters	67.9
MF / Banks / Indian Fls	9.2
FII / NRIs / OCBs	8.1
Indian Public / Others	14.9

Abs. (%)	3m	1yr	3yr
Sensex	2.2	1.6	84.0
RCom	(2.2)	(15.2)	(52.3)

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Exhibit 1: 3QFY2012 – Financial performance (Consolidated, Indian GAAP)

(₹ cr)	3QFY12	2QFY12	% chg(qoq)	3QFY11	% chg (yoy)	9MFY12	9MFY11	% chg (yoy)
Net revenue ^	4,824	4,792	0.7	4,865	(0.8)	9,616	10,091	(4.7)
Operating expenditure	3,441	3,435	0.2	3,336	3.1	6,876	6,936	(0.9)
EBITDA ^	1,383	1,357	1.9	1,529	(9.5)	2,740	3,156	(13.2)
Dep. and amortization	978	1,054	(7.2)	1,034	(5.4)	2,032	1,920	5.8
EBIT ^	405	303	33.7	495	(18.2)	708	1,235	(42.7)
Interest charges	378	227	66.3	130	191.8	606	719	(15.8)
Exceptional items	-	-	-	-	-	-	-	-
Other income	228	248	-	139	-	476	136	-
PBT	255	324	(21.2)	505	(49.5)	578	652	(11.3)
Income tax	14	1	907.1	(21)	(165.9)	16	(138)	(111.2)
PAT	241	322	(25.2)	526	(54.2)	563	790	(28.8)
Share in earnings of associate	-	-	-	-	-	-	0	(100.0)
Minority interest	55	69.9	(21.9)	45.7	19.5	124.5	93.6	33.0
Adj. PAT	186	252	(26.1)	480	(61.2)	438	697	(37.1)
EPS (₹)	0.9	1.2	(26.2)	2.3	(61.2)	2.1	3.4	(37.1)
EBITDA margin (%)	28.7	28.3	35bp	31.4	(276)bp	28.5	31.3	(278)bp
EBIT margin (%)	8.4	6.3	280bp	10.2	(178)bp	7.4	12.2	(488)bp
PAT margin (%)	3.7	5.0	(131)bp	9.6	(591)bp	4.3	6.8	(247)bp

Source: Company, Angel Research; Note: ^ Excluding other income

Exhibit 2: 3QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimate	% var
Net sales ^	4,824	4,969	(2.9)
EBITDA margin (%) ^	28.7	29.1	(47)bp
PAT	186	144	29.3

Source: Company, Angel Research; Note: ^ Excluding other income

Weak revenue growth

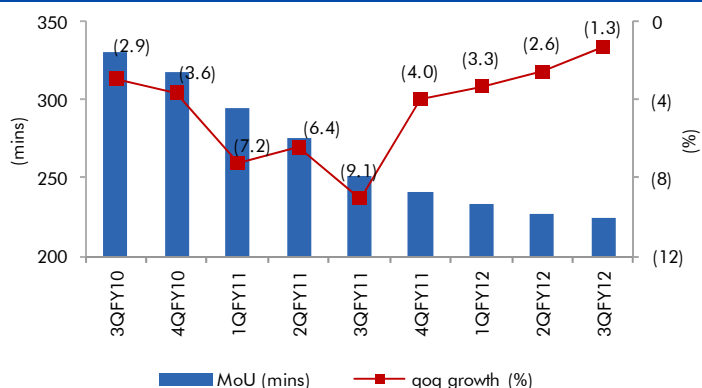
During 3QFY2012, RCom reported revenue of ₹4,824cr, up merely 0.7% qoq. Revenue performance of all the segments was subdued.

Exhibit 3: Revenue break-up (Segment wise)

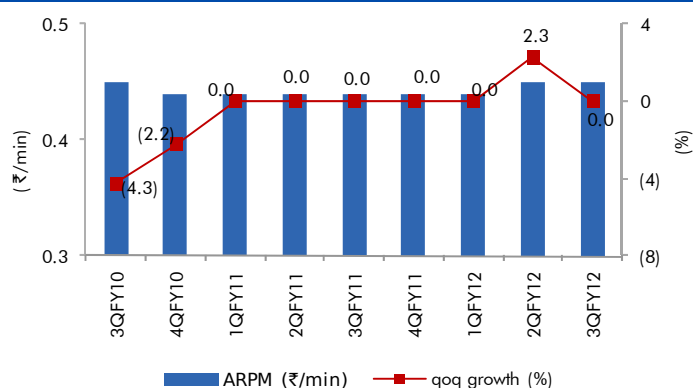
Segment (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Wireless	4,447	4,417	0.7	4,064	9.4
Global enterprise	2,352	2,335	0.7	2,542	(7.5)
Others	1	35	(96.5)	171	(99.3)
Eliminations	1,976	1,995	(1.0)	1,913	3.3
Net revenue ^	4,824	4,792	0.7	4,865	(0.8)

Source: Company, Angel Research; Note: ^ Excluding other income

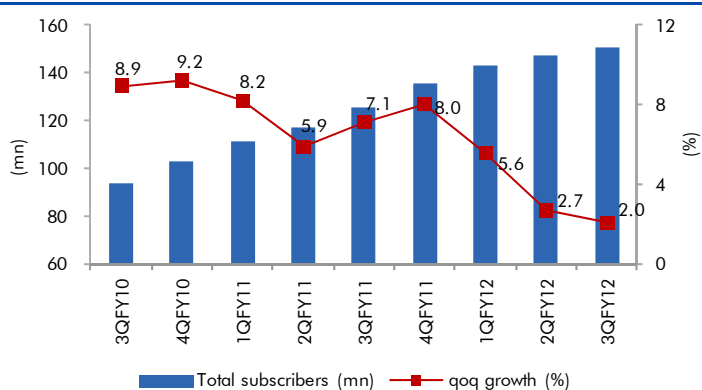
Wireless segment: The wireless segment registered revenue of ₹4,447cr, up only 0.7% qoq on the back of qoq flat ARPM at ₹0.45/min and a 1.3% qoq decline in MOU to 224min, whose fall was slightly arrested by subscriber growth of 2.0% qoq. Thus, ARPU slipped by 1.0% qoq to ₹100 in 3QFY2012 from ₹101 in 2QFY2012. The segment's EBITDA margin remained almost flat qoq at 26.6%.

Exhibit 4: Trend in MOU (qoq)


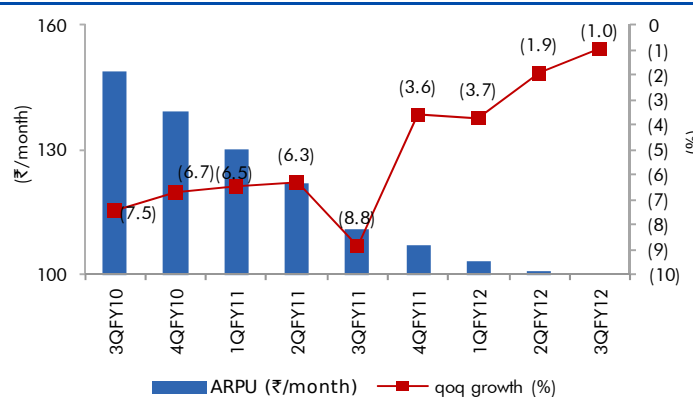
Source: Company, Angel Research

Exhibit 5: Trend in ARPM (qoq)


Source: Company, Angel Research

Exhibit 6: Trend in subscriber additions (qoq)


Source: Company, Angel Research

Exhibit 7: Trend in ARPU (qoq)


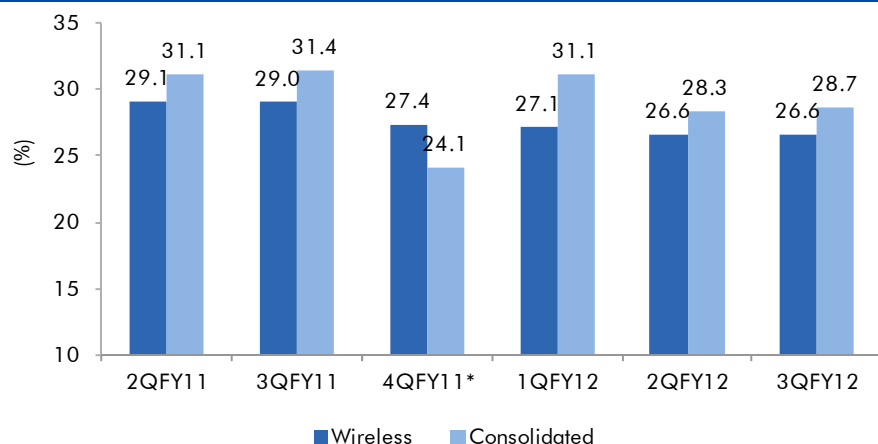
Source: Company, Angel Research

Global enterprise segment: RCom has combined its global and broadband business under one segment called global enterprise. During the quarter, the global enterprise segment witnessed just 0.7% qoq revenue growth with revenue coming at ₹2,352cr. EBITDA margin of this segment declined by 17bp qoq to 24.2%.

EBITDA margin improves slightly

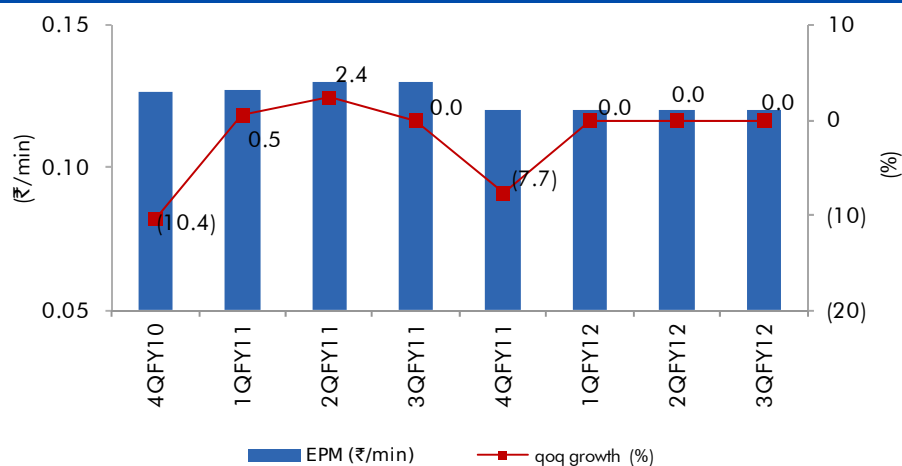
During the quarter, RCom's overall EBITDA margin improved by 35bp qoq to 28.7% as employee costs and access charges declined by 10.9% and 7.2% qoq, respectively. However, network operating expenses grew by 8.8% qoq to ₹1,496cr, which includes one-time cost of ₹90cr. EPM for the quarter stood flat qoq at ₹0.12/min.

Exhibit 8: Segment-wise EBITDA margin ^ trend (qoq)



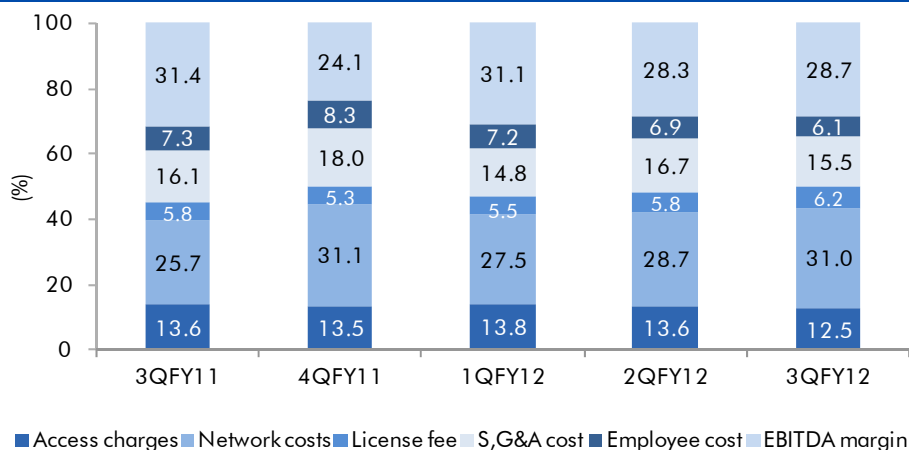
Source: Company, Angel Research; Note: ^ Excluding other income

Exhibit 9: Trend in EPM (qoq)



Source: Company, Angel Research

Exhibit 10: Opex break up



Source: Company, Angel Research

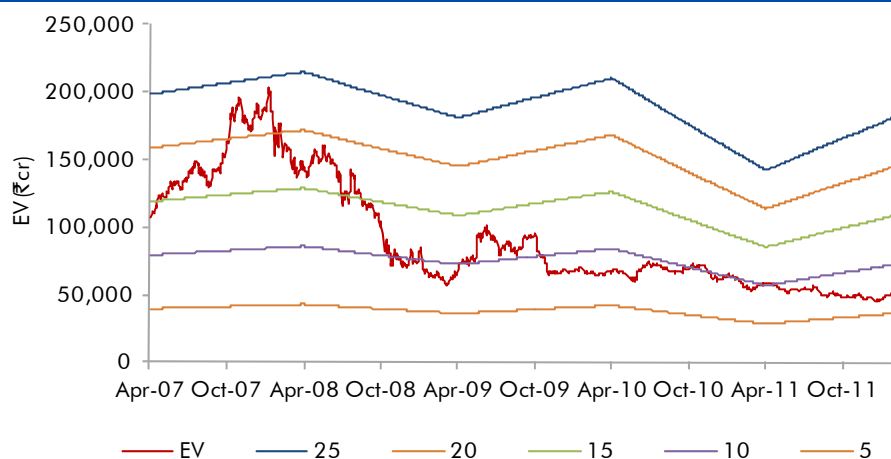
PAT came in at ₹186cr, down 26.1% qoq, primarily impacted by significantly higher interest cost of ₹378cr in 3QFY2012 vs. ₹227cr in 2QFY2012. However, PAT was aided by lower depreciation expenses (₹978cr in 3QFY2012 vs. ₹1,054cr in 2QFY2012) due to change in depreciation policy (to SLM) in its subsidiary – Reliance Telecom.

Outlook and valuation

RCom hiked voice tariffs on both on-net and off-net calls for GSM subscribers; and on CDMA, the company raised tariffs on only off-net calls. Since the hike has been undertaken largely on the GSM subscriber base, the impact of the same was less as compared to its peers, as the company is primarily CDMA based and, thus, tariff hike has not showed any signs of improvement in APRU of RCom. Going forward, we expect RCom's mobile segment to record a 10.3% CAGR in subscribers over FY2010–13E and ARPM to stabilize at ₹0.45/min in FY2013.

Currently, the company is striving to reduce the debt level in its books and has again kept its stance of selling stake in its tower assets, which might help the company to deleverage its balance sheet and reduce debt and can be a positive trigger to the stock price. However, various other announcements of selling tower assets were made earlier as well, but none of them materialized. Also, RCom is trying to restructure debt in its books to reduce interest costs. **We maintain our Neutral view on the stock.**

Exhibit 11: One-year forward EV/EBITDA



Source: Company, Angel Research

Exhibit 12: Key assumptions

	FY2010	FY2011	FY2012E	FY2013E	CAGR (%)
ARPM (₹/min)	0.49	0.44	0.45	0.45	0.9
MOU (min) – EOP	318	241	222	214	(5.8)
Subscriber base (mn) EOP	102.4	135.7	153.1	165.1	10.3

Source: Company, Angel Research

Exhibit 13: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR	FY2013E RoCE (%)	FY2013E RoE (%)
Bharti Airtel	Neutral	350	-	-	2.2	19.2	7.0	10.9	11.6
Idea Cellular	Neutral	93	-	-	2.2	29.9	6.7	10.0	7.3
RCom	Neutral	94	-	-	0.5	21.6	(18.0)	2.9	2.1

Source: Company, Angel Research

Profit and loss statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales*	22,242	21,614	22,430	19,382	22,018
Network expenditure	4,364	6,173	5,472	5,602	5,724
% of net sales	19.6	28.6	24.4	28.9	26.0
License fee	1,187	1,145	1,157	1,152	1,292
% of net sales	5.3	5.3	5.2	5.9	5.9
Access charges	2,382	2,138	2,648	2,615	2,829
% of net sales	10.7	9.9	11.8	13.5	12.8
Other expenses	5,718	4,907	4,750	4,323	4,871
Total expenditure	13,650	14,363	14,026	13,692	14,717
% of net sales	61.4	66.5	62.5	70.6	66.8
EBITDA*	8,592	7,251	8,404	5,689	7,302
% of net sales	38.6	33.5	37.5	29.4	33.2
Dep. and amortization	3,931	3,747	6,504	4,090	5,100
EBIT*	4,661	3,504	1,900	1,600	2,202
Interest charges	(787)	(1,186)	1,072	1,345	1,453
Other income, net	706	636	677	717	480
Exceptional items	-	38	(12)	-	-
Profit before tax	6,154	5,289	1,518	972	1,229
Provision for tax	(12)	445	12	34	173
% of PBT	(0.2)	8.4	0.8	3.5	14.1
PAT	6,166	4,843	1,506	938	1,056
Share in profits of associate	2	(2)	0	-	-
Minority interest	242	137	161	225	160
Adj. PAT	5,926	4,704	1,346	714	896
Diluted EPS (₹)	24.4	23.0	6.5	3.5	4.3

Note: *Excluding other income

Balance sheet (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Liabilities					
Share capital	1,032	1,032	1,032	1,032	1,032
Reserves and surplus	41,248	42,329	39,717	40,226	40,918
Total shareholders' funds	42,280	43,361	40,749	41,258	41,950
Minority interest	655	658	825	825	825
Total debt	39,162	29,715	37,376	37,440	34,440
Deferred tax liability	28	99	-	-	-
Total liabilities	82,126	73,834	78,950	79,523	77,215
Assets					
Gross block - fixed assets	75,510	78,665	82,090	83,590	85,090
Accumulated dep.	14,114	19,067	27,341	31,430	36,530
Net block	61,396	59,598	54,750	52,160	48,560
Capital WIP	11,310	11,656	18,191	23,630	23,162
Goodwill	5,222	4,998	4,998	4,998	4,998
Investments	9,566	4,160	109	100	100
Current assets					
Inventories	543	545	517	594	640
Sundry debtors	3,962	3,312	4,002	3,398	3,861
Cash and cash equivalents	1,683	819	5,327	1,610	3,506
Other current assets	1,771	2,073	1,146	2,567	2,300
Loans and advances	6,756	5,410	5,086	4,458	4,954
Total current assets	14,714	12,157	16,078	12,627	15,261
Less:- current liabilities	15,972	14,708	12,686	12,267	13,104
Less:- provisions	4,110	4,027	2,490	1,725	1,761
Total assets	82,126	73,834	78,950	79,523	77,215

Cash flow statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Pre tax profit from oper.	5,447	4,653	840	255	749
Depreciation	3,931	3,747	6,504	4,090	5,100
Pre tax cash from oper.	9,379	8,399	7,344	4,345	5,849
Minority interest	240	139	160	225	160
Other income	706	636	677	717	480
Net cash from operations	9,845	8,896	7,861	4,837	6,169
Tax	12	(445)	(12)	(34)	(173)
Cash profits	9,858	8,451	7,850	4,803	5,996
(Inc)/dec in					
Current assets	(3,328)	1,693	588	(266)	(737)
Current liabilities	4	(1,346)	(3,559)	(1,184)	874
Net trade WC	(3,324)	347	(2,971)	(1,451)	136
Cashflow from oper. actv.	6,533	8,797	4,878	3,352	6,132
(Inc)/dec in fixed assets	(24,324)	(2,295)	(8,191)	(6,939)	(1,032)
(Inc)/dec in intangibles	(1,656)	224	-	-	-
(Inc)/dec in deferred tax liab.	(75)	71	(99)	-	-
(Inc)/dec in investments	1,434	5,406	4,051	9	-
Cashflow frm investing actv.	(24,621)	3,406	(4,239)	(6,930)	(1,032)
Inc/(dec) in debt	13,341	(9,447)	7,660	64	(3,000)
Inc/(dec) in minority interest	(1,776)	3	166	1	-
Inc/(dec) in equity/premium	7,521	(3,419)	(3,836)	(0)	(0)
Dividends	193	205	121	205	205
Cashflow frm financing actv.	18,892	(13,067)	3,869	(140)	(3,205)
Cash generated/(utilised)	805	(864)	4,509	(3,718)	1,896
Cash at start of the year	878	1,683	819	5,327	1,610
Cash at end of the year	1,683	819	5,327	1,610	3,506

Key ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)				
P/E (on FDEPS)	4.1	14.5	27.2	21.6
P/CEPS	2.3	2.5	4.0	3.2
P/BVPS	0.4	0.5	0.5	0.5
Dividend yield	1.1	0.6	1.1	1.1
EV/Sales	2.0	2.3	2.8	2.3
EV/EBITDA	6.1	6.1	9.7	6.9
EV/Total assets	0.6	0.7	0.7	0.7
Per share data (₹)				
EPS	23.0	6.5	3.5	4.3
Cash EPS	40.9	38.0	23.3	29.1
Dividend	1.0	0.6	1.0	1.0
Book value	210	197	200	203
Dupont analysis				
Tax retention ratio (PAT/PBT)	0.9	0.9	0.7	0.7
Cost of debt (PBT/EBIT)	1.5	0.8	0.6	0.6
EBIT margin (EBIT/Sales)	0.2	0.1	0.1	0.1
Asset turnover ratio (Sales/Assets)	0.3	0.3	0.2	0.3
Leverage ratio (Assets/Equity)	1.7	1.9	1.9	1.8
Operating ROE	10.8	3.3	1.7	2.1
Return ratios (%)				
RoCE (pre-tax)	4.7	2.4	2.0	2.9
Angel RoIC	6.7	3.8	3.3	4.8
RoE	10.8	3.3	1.7	2.1
Turnover ratios (x)				
Asset turnover (fixed assets)	0.3	0.3	0.3	0.2
Receivables days	56	65	64	64
Payable days	374	330	327	325

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Disclosure of Interest Statement

RCOM

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)