

INDIA

Reliance Communications

16 March 2007

RCOM IN **Outperform**

Stock price as of 14 Mar 07	Rs	398.55
12-month target	Rs	650.00
Upside/downside	%	+63.1
Valuation	Rs	650.00
- DCF (WACC 12.1%)		

GICS sector	telecommunication services	
Market cap	Rs m	814,881
30-day avg turnover	US\$m	21.4
Market cap	US\$m	18,468
Number shares on issue	m	2,045

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	107.7	145.9	204.7	279.7
EBITDA	bn	25.0	57.4	84.2	119.0
EBITDA growth	%	0.0	129.3	46.6	41.4
EBIT	bn	8.0	32.3	51.2	75.0
EBIT Growth	%	nmf	301.7	58.5	46.5
Reported profit	bn	4.5	31.0	47.7	68.9
Adjusted profit	bn	4.8	31.5	47.7	68.9
EPS rep	Rs	2.18	15.17	23.35	33.70
EPS rep growth	%	0.0	596.9	53.9	44.4
EPS adj	Rs	2.36	15.40	23.35	33.70
EPS adj growth	%	nmf	552.8	51.6	44.4
PE rep	x	183.1	26.3	17.1	11.8
PE adj	x	168.9	25.9	17.1	11.8
ROA	%	2.5	7.8	8.8	10.4
ROE	%	4.1	19.2	20.3	23.5
EV/EBITDA	x	33.1	14.5	9.9	7.0
Net debt/equity	%	28.0	9.4	0.3	-11.8
Price/book	x	6.9	3.9	3.1	2.5

RCOM IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, March 2007 (all figures in INR unless noted)

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Getting ready for the second act

Event

- **Target price raised to Rs650, upside of 63.1%:** We are upgrading our revenue and EPS estimates for Reliance Communications significantly due to an upward revision in subscriber forecasts as well as higher margins. Our new target price is 30% higher than our previous target price of Rs500. Our new EPS forecasts are higher than consensus estimates by 9.5%, 7.6% and 16.2% for FY07E, FY08E and FY09E, respectively, underlining our bullishness on the stock.

Impact

- **Strong revenue growth on the back of planned pan-India GSM launch –** We expect RCOM to witness strong growth in subscribers and revenues with its pan-India launch of GSM services, expected to roll out in the later half of CY07. We forecast CAGR of 32.7% in revenue and 39.8% in EPS between FY07–10E. While the street believes RCOM may not secure GSM spectrum on 1800MHz, thereby scuttling its GSM launch in new circles, we feel RCOM stands on a fairly strong wicket on spectrum allocation. We expect RCOM's subscriber share to grow to 21.1% in Mar 10 compared to 20.4% in Feb 07.
- **EBITDA margin should expand thanks to better opex management –** RCOM has transferred its ~12,000 wireless towers into a 100% subsidiary, to enable enhanced sharing of passive infrastructure. The capex cost of the new GSM network rollout may be a lot less than other operators if done on a shared basis. We estimate EBITDA margin to increase to 42.8% in 4Q FY09E compared to 40.7% in 3Q FY07 and expect it to improve gradually thereafter.
- **Global listing of FLAG should further unlock value –** Proposed listing of FLAG Telecom, currently a 100% subsidiary, could unlock significant value for RCOM. Based on one-year forward EBITDA estimates, we currently attribute EV of US\$455m to FLAG, using EV/EBITDA of 9.7x FY08E. If an IPO were to happen at EV of US\$1.5–2bn, that would act as a trigger for RCOM stock.
- **Stock relatively undervalued considering the growth in EPS –** On PEG, RCOM is trading at 0.54x compared to the Asian wireless average of 0.89x.

Earnings revision

- Our EPS estimates are revised upwards by 8.8% for FY07E, 3.2% for FY08E and 9.5% for FY09E, to Rs15.4, Rs23.3 and Rs33.7, respectively.

Price catalyst

- 12-month price target: Rs650.00 based on a DCF methodology.
- Catalyst: 1) Allocation of GSM spectrum on 1800MHz in 14 new circles 2) Improvement in subscriber additions on the back of pan-India GSM launch; 3) Global listing of FLAG Telecom; 4) EBITDA margin expansion thanks to sharing of passive infrastructure.

Action and recommendation

- We believe RCOM will Outperform the Indian broad market over the next 12 months backed by spectrum award, strong EPS growth and listing of FLAG.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 RCOM – business and segmental snapshot

Year-end March (Rs m)	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Revenues					
Wireless	73,637	107,708	156,745	227,842	284,739
Global	51,858	52,531	61,400	70,949	82,007
Broadband & Fixed	5,128	11,819	19,956	27,884	35,695
Others (Net)	(22,959)	(26,150)	(33,444)	(46,948)	(61,396)
Total Revenues	107,664	145,909	204,657	279,726	341,044
Business Mix (%)					
Wireless	68.4	73.8	76.6	81.5	83.5
Global (Long distance)	48.2	36.0	30.0	25.4	24.0
Broadband & Fixed	4.8	8.1	9.8	10.0	10.5
Others (Net)	(21.3)	(17.9)	(16.3)	(16.8)	(18.0)
Total	100.0	100.0	100.0	100.0	100.0
YoY growth (%)					
Wireless		46.3	45.5	45.4	25.0
Global (Long distance)		1.3	16.9	15.6	15.6
Broadband & Fixed		130.5	68.8	39.7	28.0
Total		35.5	40.3	36.7	21.9
EBITDA					
Wireless	22,490	39,688	58,855	88,978	115,357
Global (Long distance)	6,177	13,307	17,653	22,219	27,353
Broadband & Fixed	760	5,309	9,369	13,091	17,312
Others (Net)	(4,399)	(897)	(1,720)	(5,307)	(12,248)
Total EBITDA	25,028	57,408	84,158	118,981	147,773
Business Mix (%)					
Wireless	89.9	69.1	69.9	74.8	78.1
Global (Long distance)	24.7	23.2	21.0	18.7	18.5
Broadband & Fixed	3.0	9.2	11.1	11.0	11.7
Others (Net of Intersegment eliminations)	(17.6)	(1.6)	(2.0)	(4.5)	(8.3)
Total	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)					
Wireless	30.5	36.8	37.5	39.1	40.5
Global (Long distance)	11.9	25.3	28.8	31.3	33.4
Broadband & Fixed	14.8	44.9	47.0	47.0	48.5
Others (Net of Intersegment eliminations)	19.2	3.4	5.1	11.3	19.9
Overall EBITDA margin	23.2	39.3	41.1	42.5	43.3
YoY growth (%)					
Wireless		76.5	48.3	51.2	29.6
Global (Long distance)		115.4	32.7	25.9	23.1
Broadband & Fixed		598.3	76.5	39.7	32.2
Overall EBITDA		129.4	46.6	41.4	24.2
Capex (Rs m)					
Wireless		58,479	92,014	92,436	80,639
Global (Long distance)		13,495	13,500	12,150	10,333
Broadband & Fixed		4,500	5,400	5,130	4,874
Others		(20,047)	0	0	0
Total segment-wise capex		56,427	110,914	109,716	95,845
Capital work-in-progress		22,926	6,806	7,661	2,061
Total capex		79,352	117,720	117,377	97,906
YoY growth (%)					
Wireless			57.3	0.5	(12.8)
Global (Long distance)			0.0	(10.0)	(15.0)
Broadband & Fixed			20.0	(5.0)	(5.0)
Total segment-wise capex			96.6	(1.1)	(12.6)
Capital work-in-progress			(70.3)	12.6	(73.1)
Total capex			48.4	(0.3)	(16.6)

Source: Company data, Macquarie Research, March 2007

Getting ready for the second act

- We reiterate our Outperform rating on Reliance Communications (RCOM) and upgrade our 12-month target price from Rs500 to Rs650, an upside of 63.1% from current levels.
- We are changing our revenue estimates for RCOM by -3.2% for FY07E, -2.4% for FY08E and 4.1% for FY09E due to adjustments in our India subscriber forecast numbers. We are also revising our EPS estimates by 8.8% for FY07E, 3.2% for FY08E and 9.5% for FY09E to Rs15.4, Rs23.3 and Rs33.7 respectively, on the back of better than expected EBITDA margins. Higher margins will likely be led by opex saving from enhanced sharing of passive wireless infrastructure and phasing out of ADC in 4QFY08E. We also introduce FY10E financials and forecast EPS of Rs42.1 in FY10E.
- We have revised our 12-month target price on RCOM to Rs650, based on a three-stage DCF based valuation model. At our DCF led target price of Rs 650, the EV/EBITDA multiple works out to 15.8x FY08E EBITDA. We forecast FY07E-09E EBITDA CAGR of 44% and EPS CAGR of 47.9%. On the basis of EV/EBITDA adjusted for growth (EV/EBITDA divided by 2-year EBITDA CAGR), the stock currently trades at 0.33x FY07E EBITDA. At our 12 month target price of 650, this ratio works out to 0.49x FY08E EBITDA.

Fig 2 Reliance Communications – change in estimates

Particulars Amount in Rs m, unless otherwise stated	New Estimates			Old Estimates			Change (%)		
	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
India Wireless Subscribers incl. fixed wireless (m)	167.0	266.2	352.0	163.9	241.8	322.2	1.9	10.1	9.2
RCOM's Wireless Subscribers (m)	34.2	55.6	74.3	34.9	52.5	71.3	-1.8	5.9	4.2
RCOM's market share (%)	20.5	20.9	21.1	21.3	21.7	22.1	-0.8	-0.8	-1.0
Total Revenues	145,909	204,657	279,726	150,758	209,706	268,811	-3.2	-2.4	4.1
Total EBITDA	57,408	84,158	118,981	58,385	84,609	110,054	-1.7	-0.5	8.1
EBITDA margin (%)	39.3	41.1	42.5	38.7	40.3	40.9	0.6	0.8	1.6
Total Capex	22,926	6,806	7,661	64,812	77,729	94,873	-64.6	-91.2	-91.9
Diluted EPS (Rs)	15.4	23.3	33.7	14.2	22.6	30.8	8.8	3.2	9.5
Gross Mobile ARPU (Rs per month)	340	303	293	351	309	289	-3.2	-2.1	1.6
Mobility Revenues	107,708	156,745	227,842	112,135	163,321	214,240	-3.9	-4.0	6.3
Mobility EBITDA	39,688	58,855	88,978	40,910	61,233	82,738	-3.0	-3.9	7.5
Mobility EBITDA margin (%)	36.8	37.5	39.1	36.5	37.5	38.6	0.4	0.1	0.4
Mobility Capex	58,479	92,014	92,436	51,126	64,980	78,645	14.4	41.6	17.5
Broadband & Fixed Line Gross ARPL (Rs per month)	2,286	1,934	1,761	2,464	2,516	2,638	-7.2	-23.1	-33.3
Broadband & Fixed Line Revenues	11,819	19,956	27,884	11,751	17,104	25,894	0.6	16.7	7.7
Broadband & Fixed Line EBITDA	5,309	9,369	13,091	5,188	7,238	11,316	2.3	29.5	15.7
Broadband & Fixed Line EBITDA margin (%)	44.9	47.0	47.0	44.1	42.3	43.7	0.8	4.6	3.2
Broadband & Fixed Line Capex	4,500	5,400	5,130	4,600	4,600	5,060	-2.2	17.4	1.4
Long distance Revenues	52,531	61,400	70,949	54,541	65,569	76,427	-3.7	-6.4	-7.2
Long distance EBITDA	13,307	17,653	22,219	13,355	16,090	19,014	-0.4	9.7	16.9
Long distance EBITDA margin (%)	25.3	28.8	31.3	24.5	24.5	24.9	0.8	4.2	6.4
Long distance Capex	13,500	13,500	12,150	13,800	15,870	17,457	-2.2	-14.9	-30.4
Weighted Average Cost of Capital for DCF (%)	12.1			12.7					

Source: Macquarie Research, March 2007

Second highest wireless subscriber base in India – Huge growth potential

- RCOM has maintained its number two position in Indian wireless market with a total subscriber base of 32.4m subscribers in Feb 07 and an all-India market share of 20.4%. We estimate wireless penetration in India to increase rapidly over the next three years to reach 37% in March 2010E. We expect RCOM's subscriber base to grow strongly over the next three years thanks to its presence in both CDMA and GSM providing customers a range of options to choose from. We estimate RCOM's subscriber base to grow to 89.5m in Mar 10 from its current tally of 32.4m. We expect RCOM's revenue to grow equally strongly on the back of this solid growth in subscribers.

Fig 3 Subscriber forecast for Bharti and RCOM

Subscribers (m)	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Total wireless subscribers	96.2	167.0	266.2	352.0	425.0
Total net adds	38.1	70.9	99.1	85.8	73.0
Bharti (BHARTI IN, Rs729, Outperform, Target Price: Rs1,025)					
Bharti Total wireless	19.6	37.2	59.7	78.5	94.7
Market share (%)	20.4	22.2	22.4	22.3	22.3
Net Adds	8.6	17.6	22.5	18.8	16.1
Market share of net adds (%)	22.5	24.8	22.7	22.0	22.1
RCOM					
RCOM CDMA wireless	18.3	29.9	41.9	48.5	53.5
RCOM GSM wireless (old)	1.9	4.4	7.7	11.8	15.5
RCOM GSM wireless (new)	0.0	0.0	6.0	14.0	20.6
RCOM Total wireless	20.2	34.2	55.6	74.3	89.5
Market share (%)	21.0	20.5	20.9	21.1	21.1
Net Adds					
RCOM CDMA wireless	6.2	11.6	12.0	6.7	4.9
RCOM GSM wireless (old)	0.8	2.5	3.4	4.1	3.7
RCOM GSM wireless (new)	0.0	0.0	6.0	8.0	6.6
RCOM total wireless net adds	7.0	14.0	21.4	18.8	15.2
Market share of net adds (%)	18.4	19.8	21.5	21.9	20.8

Source: Company data, Macquarie Research, March 2007

Non-mobility business also growing strongly

Wireless continues to remain the mainstay of continued growth of RCOM. However, we believe non-mobility businesses will add significantly to RCOM's profit in the coming years. We forecast revenue from these businesses to grow at a CAGR of 22.3% between FY07–10E while we estimate an EBITDA CAGR of 33.9% in the same period. Significant opportunities presented by FLAG Telecom (100% subsidiary of RCOM, global listing expected soon) provide further upsides to our current estimates.

ARPU already at low levels; expected to hold up better than industry

RCOM's ARPU is quite low at Rs328 per month primarily due to various talk-time subsidies showered by RCOM on its new CDMA customer sign-ups. We believe that ARPUs will not fall significantly from these levels as the company rolls out its GSM network, since GSM ARPUs have traditionally been higher than those in CDMA for the industry. In the Sep 06 quarter, GSM ARPU for the industry was at Rs337 while that for CDMA was at Rs215.

ARPUs for GSM services are expected to be higher for RCOM in absence of talk-time subsidies/free minute schemes that are currently required to push CDMA wireless talk plans. A shift in focus to GSM should help in restricting the fall in ARPUs going forward for RCOM. We estimate gross ARPU of Rs290 in 4Q FY09E, down 11.6% from current levels.

EBITDA margin expansion likely to drive profit growth

- We estimate strong growth in EBITDA for RCOM in the next three years led by strong growth in revenues and continued EBITDA margin expansion. We expect EBITDA margin to increase from 40.7% in 3QFY07 to 43.3% in FY10E, an increase of 260bps. We believe phasing out of Access Deficit Charges (ADC) and lower interconnect charges in the coming years should help bring down the operating cost for the company, even after passing through a majority of the cost cuts to subscribers in the form of lower tariffs.
- **Improving efficiency from infrastructure sharing** – RCOM recently spun off its tower and related assets into a separate tower subsidiary with the aim of enhanced sharing of passive infrastructure. As per our estimates, sharing of towers can lead to EBITDA margin expansion of ~1.5% for RCOM. Sharing of active infrastructure (if allowed by regulators) can result in further expansion of EBITDA margins.

Strong EPS growth in next three years; Solid stock upside in 12 months

We expect RCOM's EPS to witness a stupendous growth in next three years reaching Rs42.1 in FY10E from Rs15.4 in FY07E, implying a CAGR of 39.8%. We believe that RCOM's stock will move positively in next 12 months led by strong mobile subscriber growth, significant margin expansion from network infrastructure sharing resulting in strong earning growth. We believe the stock is cheap based on our DCF based valuation, supported by growth adjusted valuation multiples. We have set a price target of Rs650 for RCOM, upside of 63.1% from current levels. Global listing of FLAG Telecom can provide further upside triggers to our valuation.

Key risks

Key risks to our valuation and rating include

- An unexpected slowdown in subscriber growth in India
- A bid for 3G spectrum at a cost significantly higher than the base/reserve price of Rs10.1bn on a nationwide basis
- Aggressive capex allocation for a nation-wide 3G rollout plan in the near term
- Risk from aggressive and outsized expansion plans of players like Bharti, Vodafone Essar (formerly Hutch Essar), BSNL, Aircel and Spice.

In the longer term, disruptive technological changes in the wireless space may hamper growth and may require a huge capex allocation for deployment of new technology.

Valuations to hold; significant upside

- We have revised our 12-month target price on RCOM to Rs650, based on a three-stage DCF based valuation model. We believe a DCF based valuation captures the full potential of the business over the next 8–10 years; given that RCOM is currently in a high-growth phase as wireless penetration in the country is a very low providing huge opportunity for growth.

Fig 4 Reliance Communications – DCF model, fiscal year end March

Year-end March (Rs m)	2007E	2008E	2009E	2010E	2011E	2012E
EBITDA	57,408	84,158	118,981	147,773	172,790	190,094
Tax expense	(765)	(3,308)	(7,656)	(12,287)	(17,836)	(23,271)
Change in working capital	29,341	55,959	44,020	54,139	30,614	30,607
Cash flow from operations	85,983	136,809	155,344	189,625	185,568	197,429
Capital expenditure	(80,217)	(117,720)	(117,377)	(97,906)	(89,325)	(87,930)
Free cash flow	695	19,089	37,967	91,719	96,242	109,500
Growth (% YoY)	NA	NA	99%	142%	5%	14%

Discount rate (%) 12.1%

1. Present value of cash flow till 2012

Total PV of free cash flow till 2012 {a} 245,947

Sensitivity of 12-month DCF to WACC and Terminal Growth

Assuming terminal growth rate of 3%, if WACC and 2013-2020 growth rate changes

2. Present value of cash flow from 2013–2020

Growth from 2013 to 2020 10.0%

PV of free cash flow from 2013-20 {b} 473,490

		WACC				
		10.0%	11.0%	12.1%	13.0%	14.0%
Interim Growth	8.0%	812	693	590	528	469
	9.0%	856	728	619	553	490
	10.0%	903	766	650	579	512
	11.0%	953	807	682	606	535
	12.0%	1,005	849	716	636	560

3. Terminal value calculation

Growth from 2020 to perpetuity (%) 3.0%

FCF in FY2020 234,722

Exit FCF multiple (X) 11.3

Terminal value 2,648,165

Implied Exit EV/EBITDA Multiple (X) 6.5

PV of terminal value {c} 623,702

Total company value {a} + {b} + {c} 1,343,139

Net debt/(cash) 14,806

Value to equity holders 1,328,333

Value to equity holders (Rs/share) 650

Current price 399

Stock price upside/(downside) 63.1%

Assuming growth rate from 2013-2020 remains 10%, if terminal growth rate changes

		WACC				
		10.0%	11.0%	12.1%	13.0%	14.0%
Terminal Growth	2.0%	835	719	617	554	493
	2.5%	867	741	632	566	502
	3.0%	903	766	650	579	512
	3.5%	945	795	669	593	523
	4.0%	993	827	691	610	535

Source: Macquarie Research, March 2007

Note that our earnings forecasts and resultant valuation factor in benefits from sharing of passive infrastructure (lower capex per subscriber than our earlier estimates). However, we are not factoring in any upside resulting from any potential sale of part stake in its 100%-owned wireless infrastructure subsidiary, Reliance Telecom Infrastructure Limited.

DCF inputs more conservative than Bharti – lower interim growth and higher beta

- We have assumed a discount rate of 12.1% for RCOM's DCF analysis. We estimate RCOM's cost of equity at 15.1% derived from a risk-free rate of 7.75%, equity risk premium of 7% and beta of 1.05 (higher compared to Bharti's beta of 0.99). Pre-tax cost of debt is taken at 7.50%. We have also assumed a higher interim free cashflow growth of 10% (FY2013–20) as compared to 12% for Bharti, as we believe Bharti will continue to be a market leader and will be able to grow its revenues and profits faster than RCOM.

Fig 5 Key DCF assumptions

	Bharti	RCOM
Parameters		
WACC (%)	11.5	12.1
Risk free rate of return = Rf (%)	7.75	7.75
Equity risk premium (%)	7.00	7.00
Beta	0.99	1.05
Cost of equity = Re (%)	14.6	15.1
Cost of debt = Rd (%)	7.5	7.5
FCF growth from 2013 to 2020 (%)	12.0	10.0
FCF growth from 2020 to perpetuity (%)	3.0	3.0
DCF value	1,025	650

Source: Macquarie Research, March 2007

RCOM currently trades at an EV/EBITDA multiple of 9.7x and a PER multiple of 17.1x FY08E earnings. At our 12 months target price of Rs650, RCOM will trade at an EV/EBITDA of 10.8x (~10% discount to Bharti's target EV/EBITDA multiple of 12.1x) and a PER of 19.3x FY09E earnings. We believe this valuation to be fair and expect stock price to move positively over the next 12 months.

Fig 6 RCOM – target price sensitivity to target EV/EBITDA and PER multiple

Price Target - Assumptions	FY08E	FY09E
EV/EBITDA Target Multiples		
10x EBITDA	411	601
10.85x EBITDA	446	650
12x EBITDA	494	718
PER Target Multiples		
18x EPS	420	607
18.54x EPS	433	625
19.3x EPS	451	650
20x EPS	467	674

Source: Macquarie Research, March 2007

On EV per subscriber basis as well, RCOM seems poised to grow at a fast pace in next 12 months. RCOM's mobility EV/Subscriber currently stands at US\$388. At our 12 months target price of Rs650, RCOM's mobility EV/Subscriber (Mar-08) would stand lower at US\$376, suggesting a huge upside potential.

Asian peer group comparison – only relevant on growth adjusted basis

- We believe that absolute valuation comparisons between Indian wireless stocks and Asian peers are irrelevant. They are at a different stage in the lifecycle of the telecom industry and have completely different growth outlooks, owing to the different levels of telecom penetration and market maturity.
- The Asian wireless universe (excluding Bharti and RCOM) will likely grow its EPS at a CAGR of just 19.2% and EBITDA at a CAGR of 14.1%. We believe the relevant metrics to measure relative valuation are EV/EBITDA adjusted for EBITDA CAGR (EV/EBITDA divided by two-year EBITDA CAGR) and PEG (PER divided by 2-year EPS CAGR) multiples. We note that RCOM trades at an "EV/EBITDA by EBITDA CAGR" multiple of just 0.33x compared to the Asian average of 0.45x. On a PEG basis, RCOM trades at a multiple of just 0.54x, one of the lowest among the Asian wireless universe.

Valuation comparison with Asian peers

Fig 7 Macquarie – Asia wireless telecom valuation table

Company Name	Bloomberg Ticker	Rating	14-Mar Price (lcy)	Market Cap (US\$ m)	EV/EBITDA			EV/ EBITDA by EBITDA	Price Earnings Ratio (PER)			PEG	Return on Equity		
					Mar-07E	Mar-08E	Mar-09E	CAGR 2007E-09E	Mar-07E	Mar-08E	Mar-09E	2007E-09E	Mar-07E	Mar-08E	Mar-09E
Bharti Airtel*	BHARTI IN	Outperform	729.05	31,324	18.9	11.6	8.5	0.42	32.7	19.9	14.7	0.66	37.2	40.9	37.5
Reliance Communications*	RCOM IN	Outperform	398.55	18,468	14.5	9.7	6.5	0.33	25.9	17.1	11.8	0.54	19.2	20.3	23.5
China Mobile	941 HK	Outperform	67.15	171,790	7.5	6.8	6.2	0.99	20.6	17.5	15.4	1.31	21.7	22.2	22.1
China Unicom	762 HK	Underperform	9.19	14,917	4.2	4.0	3.7	1.02	19.2	17.3	14.9	1.45	7.6	7.9	8.6
SK Telecom	017670 KS	Neutral	195500	16,817	4.3	4.1	4.1	6.76	10.0	8.3	7.9	0.83	18.6	20.2	18.7
KT Freetel	032390 KS	Underperform	24700	5,121	3.4	3.1	3.1	-10.56	12.1	10.2	10.0	1.21	9.6	10.4	9.8
LG Telecom	032640 KQ	Outperform	10950	3,217	4.8	4.5	4.1	0.89	12.8	7.9	6.7	0.33	17.4	22.7	22.1
Far EasTone	4904 TT	Outperform	37.45	4,391	5.0	5.5	5.9	-0.94	11.1	12.2	12.6	-1.81	17.5	16.0	16.1
Taiwan Cellular	3045 TT	Underperform	33.75	5,109	6.2	7.0	7.1	-2.07	10.3	12.1	13.2	-0.86	18.3	15.3	14.3
MobileOne	M1 SP	Neutral	2.17	1,409	6.9	7.3	7.4	-3.25	12.9	13.5	13.6	-5.44	39.1	40.4	38.0
AIS	ADVANC TB	Underperform	72.00	6,437	5.5	5.0	4.6	0.89	12.2	11.1	10.1	1.22	22.3	23.9	28.5
TAC	TAC SP	Neutral	4.20	1,924	5.9	4.9	4.2	0.48	13.3	9.4	7.2	0.36	12.7	13.8	14.4
Maxis	MAXIS MK	Outperform	11.40	8,227	7.8	7.7	5.8	0.70	14.6	14.8	11.8	1.32	31.0	27.8	30.2
Digi.Com	DIGI MK	Outperform	17.00	3,642	7.2	6.4	6.0	1.22	17.7	13.9	12.7	0.97	38.8	53.3	50.4
Indosat	ISAT IJ	Outperform	5800	3,436	5.9	4.8	3.9	0.40	19.4	15.6	11.1	0.61	11.1	13.1	17.1
Globe	GLO PM	Outperform	1335	3,656	5.6	5.3	5.0	1.33	15.1	15.0	13.1	2.00	21.5	20.3	21.8
Average					7.4	6.3	5.5	0.45	19.6	15.6	13.2	0.89			

December year end for all companies except Bharti and RCOM, For eg, Mar-07E=Dec06, Mar08E=Dec07E, Mar09E=Dec08E; lcy: Local Currency

Source: Macquarie Research, March 2007

Wireless – maintaining its No. 2 two position

- **RCOM continues to maintain its No. 2 position** in Indian wireless market aided by a strong retail distribution network and high network coverage. With a population coverage of 54% (similar to Bharti's coverage of 54% currently), it continues to witness a strong growth in subscriber net adds. Profitability of the division has also improved significantly and EBITDA margin of wireless segment now is comparable to that of Bharti. We believe that RCOM would be able to maintain margin similar to Bharti in coming years as network efficiencies are realised.
- **Strong subscriber growth but still lagging Bharti:** RCOM is a close second to Bharti with a subscriber base of 32.4m and an all-India market share of 20.4%. RCOM is the only operator in the country providing its services on both CDMA and GSM platform. It has a CDMA presence in 21 circles and GSM presence in 8 circles in India with dual network availability in six circles. Interestingly, RCOM is market leader in only three circles in India and in all of these three circles, RCOM has a dual network strategy. RCOM plans to roll out its GSM services in all 23 circles in FY08. We believe the launch will help RCOM capture more market share. However, it will continue to lag Bharti both in terms of total subscribers as well as net additions. We estimate RCOM's subscriber base to grow at a CAGR of 39% over the next three years to reach 89.5m in Mar'10.
- **Strong revenue growth:** We expect RCOM's wireless revenue to grow strongly on the back of robust subscriber growth. We forecast wireless revenue to grow to Rs285bn in FY2010 translating to a CAGR of 38.3% in FY07E-FY10E.
- **Expanding EBITDA margin:** We expect wireless EBITDA margin to improve by around 190bps, increasing from 37.4% in 3QFY07 to 39.3% in 4QFY09 on the back of access deficit charges (ADC) being phased out and cost savings due to infrastructure sharing arrangements.
- **GSM launch to increase the capex burden:** We expect mobility capex to increase in next two years as RCOM gets ready for its GSM launch. Even accounting for capex savings from sharing of infrastructure, we believe total wireless capex for the company would increase significantly. We now estimate a wireless capex of Rs92bn, both in FY08E and FY09E compared to our earlier estimates of Rs65bn for FY08E and Rs79bn for FY09E.

Fig 8 RCOM – wireless segment revenue model

Year-end March	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Gross Mobile revenues	73,637	107,708	156,745	227,842	284,739
CDMA Wireless	48,769	68,182	95,502	114,631	126,228
(% of Mobile Revenues)	66.2%	63.3%	60.9%	50.3%	44.3%
GSM Wireless (Existing)	6,393	10,618	21,051	35,100	45,525
(% of Mobile Revenues)	8.7%	9.9%	13.4%	15.4%	16.0%
GSM Wireless (New)		0	6,202	38,657	68,236
(% of Mobile Revenues)		0.0%	4.0%	17.0%	24.0%
Fixed Wireless	18,475	28,908	33,991	39,455	44,750
(% of Mobile Revenues)	25.1%	26.8%	21.7%	17.3%	15.7%
Access, Interconnect & License Charges	27,717	32,623	45,147	62,658	74,564
(% of revenues)	37.6%	30.3%	28.8%	27.5%	26.2%
Other Operating Expenses	23,429	35,397	52,743	76,206	94,818
(% of revenues)	31.8%	32.9%	33.6%	33.4%	33.3%
EBITDA	22,490	39,688	58,855	88,978	115,357
EBITDA Margin	30.5%	36.8%	37.5%	39.1%	40.5%
Depreciation	9,603	17,472	24,544	34,023	41,041
(% of Cumulative Capex)	6.5%	8.5%	8.2%	8.7%	8.7%
EBIT	12,880	22,216	34,311	54,955	74,316
EBIT Margin	17.5%	20.6%	21.9%	24.1%	26.1%
Wireless Capex		58,479	92,014	92,436	80,639
Cumulative Capex	147,993	206,472	298,486	390,922	471,561
YoY Growth					
YoY Growth in Revenues		46.3%	45.5%	45.4%	25.0%
CDMA Wireless		39.8%	40.1%	20.0%	10.1%
GSM Wireless (Existing)		66.1%	98.3%	66.7%	29.7%
GSM Wireless (New)				523.3%	76.5%
Fixed Wireless		56.5%	17.6%	16.1%	13.4%
YoY Growth in EBITDA		76.5%	48.3%	51.2%	29.6%
YoY Growth in EBIT		72.5%	54.4%	60.2%	35.2%

Source: Macquarie Research, March 2007

Global services – operating leverage coming into play

- We expect RCOM's Global segment revenue and EBITDA to grow strongly on back of continued leadership in ILD segment and strong operating leverage. Increased contribution from high margin data business will also contribute to the EBITDA margin (26.6% in Dec 06).
- We expect revenue to grow to Rs70.9bn in FY09E from Rs52.5bn in FY07E. We estimate EBITDA margin expansion of 470bps in next two years and expect an EBITDA margin of 31.3% in FY09E translating to EBITDA of Rs22.2bn in FY09 compared to Rs13.3bn in FY07E.

FLAG Telecom – value waiting to be unlocked

- RCOM recently announced its plan for a global listing of FLAG Telecom. FLAG is currently the world's largest private undersea cable system spanning 65,000 route kms. The company plans to build the world's largest IP network over submarine cable system termed as FLAG NGN. The planned investment of Rs70bn over the next 3 years will entail a massive expansion in FLAG's network to 115,000 route kms, thereby increasing its coverage to over 5bn people (~85% of the global population).
- **FLAG NGN will comprise of 4 systems:**
 - ⇒ **FLAG NGN System 1 : Asia** – India, Malaysia, Singapore, Indonesia, Vietnam, Philippines, Brunei, Hong Kong
 - ⇒ **FLAG NGN System 2: Africa** – Kenya, Mozambique, Republic of South Africa, Tanzania, Madagascar, Mauritius
 - ⇒ **FLAG NGN System 3: Mediterranean** – Greece, Cyprus, Turkey, Malta, Libya, Lebanon
 - ⇒ **FLAG NGN System 4: Trans-Pacific** – US West Coast, Japan, China and Hong Kong
- FLAG is primarily a fixed cost business with cash inflows spread over a period of ~20 years, while costs stacked upfront. We estimate a significant increase in FLAG's profit, with an increase in traffic in the coming years, even while operating costs remain sticky, giving rise to significant operating leverage.

Incremental value of US\$1.5bn may be unlocked if FLAG valued at US\$2bn

- We estimate an EBITDA of Rs2.1bn in FY08 from the data business (FLAG) of RCOM. Using the current EV/EBITDA multiple of 9.7x FY08E, this translates into an EV of Rs20.2bn (US\$455m) for FLAG Telecom, based on 1 year forward EBITDA multiple.
- We believe the enterprise valuation of US\$455m for FLAG Telecom is very low given that revenues and EBITDA will pick up strongly in the coming years as demand for bandwidth grows and new customers sign up.
- This is also a high-quality annuity-like business with regular stream of cash flows guaranteed for 10-15 years. Media reports suggest that RCOM will dilute 20-24% of its stake in FLAG to raise US\$500m. This translates to a total equity value of ~US\$2bn for FLAG telecom. With its global listing, we expect significant value unlocking for RCOM, if indeed FLAG's valuation is pegged at US\$2bn.
- We currently have not factored in the benefits from global listing of FLAG, thus providing further upside triggers to our target price from a potential global listing of FLAG.

Fig 9 FLAG's EV attributed to RCOM based on 1-year forward EBITDA estimates

	FY08E
FLAG's EBITDA (in Rs m)	2,079
Current EV/EBITDA multiple	9.7
Enterprise Valuation of FLAG (in Rs m)	20,155
Enterprise Valuation of FLAG (in US\$ m)	455
Source: Macquarie Research, March 2007	

Fig 10 RCOM – global segment revenue model

Global Services - Consolidated	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Gross Revenues	51,858	52,531	61,400	70,949	82,007
Access, Interconnect & License charges (% of revenues)	28,556 55.1%	23,649 45.0%	28,398 46.2%	30,993 43.7%	34,972 42.6%
Other Expenses (% of revenues)	17,125 33.0%	15,576 29.7%	15,350 25.0%	17,737 25.0%	19,682 24.0%
EBITDA	6,177	13,307	17,653	22,219	27,353
EBITDA Margin	11.9%	25.3%	28.8%	31.3%	33.4%
Depreciation % of gross block		4,857 5.6%	4,790 4.8%	5,432 4.8%	6,145 5.0%
EBIT		8,450	12,863	16,787	21,208
EBIT Margin		16.1%	20.9%	23.7%	25.9%
Capex		13,500	13,500	12,150	10,328
Capex as % of Revenues	142%	26%	22%	17%	13%
Cumulative capex	73,423	86,923	100,423	112,573	122,901
YoY growth (%)					
YoY Growth in Revenues		1.3%	16.9%	15.6%	15.6%
YoY Growth in EBITDA		115.4%	32.7%	25.9%	23.1%
YoY Growth in EBIT			52.2%	30.5%	26.3%

Source: Macquarie Research, March 2007

Broadband – strong growth in revenue, stronger in profits

- RCOM has aggressively increased its broadband network reach in recent quarters. The company increased number of connected buildings to 380,000 in Dec 06 from ~100,000 in the beginning of the fiscal year. Number of access lines has also doubled in the first nine months of this fiscal year, increasing from 256,000 lines in Mar 06 to 530,000 in Dec 06. However the growth has come at a cost of reducing average revenue per line (ARPL). We expect ARPL to fall further as company increase its coverage to low revenue customers as well.
- EBITDA margin has increased, however, due to high operating leverage of the business. RCOM registered an EBITDA margin of 47% in 3QFY07. We expect segmental EBITDA margin to stabilise at current levels in coming few years improving overall EBITDA margin significantly.

Fig 11 RCOM – broadband segment revenue model

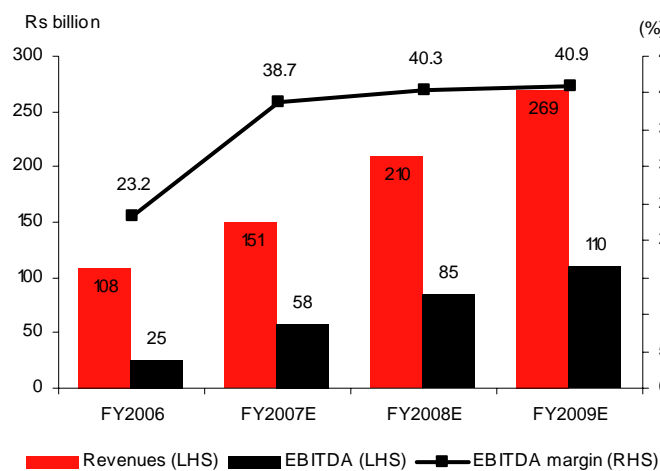
Year-end March (Rs m)	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Revenues	5,128	11,819	19,956	27,884	35,695
Access, Interconnect & License charges (% of revenues)		1,656 14.0%	2,554 12.8%	3,569 12.8%	4,462 12.5%
Other Expenses (% of revenues)		4,855 41.1%	8,032 40.3%	11,223 40.3%	13,921 39.0%
EBITDA	760	5,309	9,369	13,091	17,312
EBITDA Margin	14.8%	44.9%	47.0%	47.0%	48.5%
Depreciation % of gross block		1,543 5.1%	1,615 4.6%	1,705 4.2%	1,784 3.9%
EBIT		3,766	7,754	11,386	15,528
EBIT Margin		31.9%	38.9%	40.8%	43.5%
Average Revenue per Line (ARPL)	2,904	2,286	1,934	1,761	1,690
Capex		4,500	5,400	5,130	4,874
Cumulative Capex	25,500	30,000	35,400	40,530	45,404
YoY Growth					
YoY Growth in Revenue		130.5%	68.8%	39.7%	28.0%
YoY Growth in EBITDA		598.3%	76.5%	39.7%	32.2%
YoY Growth in EBIT			105.9%	46.8%	36.4%

Source: Macquarie Research, March 2007

Financials – positive surprises in profitability

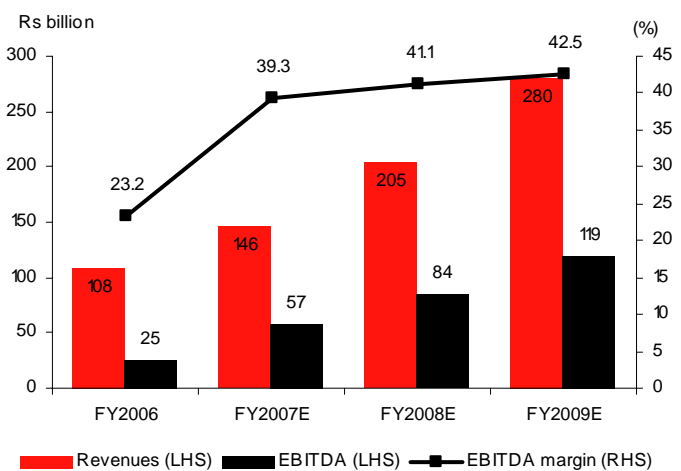
- We expect RCOM to witness a strong growth in next two years both in terms of revenue and EBITDA. We forecast EBITDA to grow at CAGR of 44% to Rs119bn in FY09E from Rs57bn in FY07E. The revenue should grow at a CAGR of 38% over the next two years to reach Rs280bn in FY09E from Rs146bn in FY07E.
- Our new revenue and EBITDA forecast for FY08E at Rs204.7bn and Rs84.1bn, however, is lower than our earlier estimate of Rs209.7bn and Rs84.7bn, respectively. We estimate a lower revenue and EBITDA primarily due to delay in launch of GSM services than our earlier estimate. However, we expect RCOM's revenue to grow at a fast pace post its GSM launch.
- We expect a strong growth in ROE and PAT margin of RCOM thanks to stupendous revenue and EBITDA growth. We estimate ROE of 23.5% in FY09E compared to our earlier estimate of 23%.

Fig 12 Revenue and EBITDA growth (old estimates)



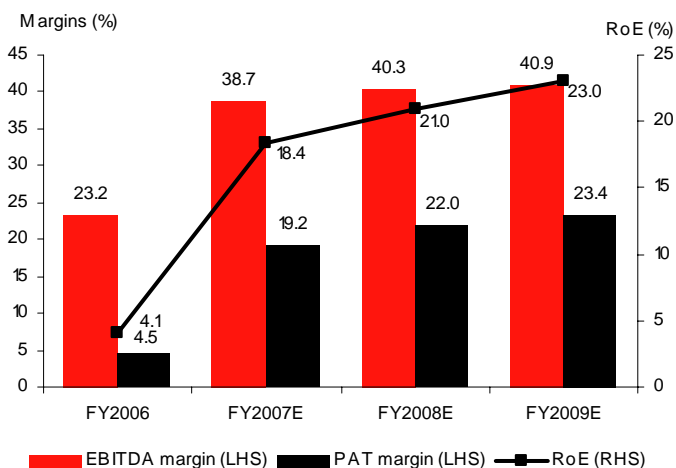
Source: Macquarie Research, March 2007

Fig 13 Revenue and EBITDA growth (new estimates)



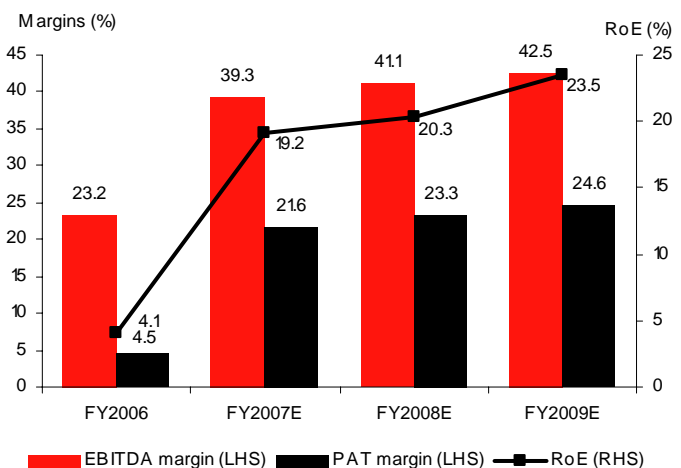
Source: Macquarie Research, March 2007

Fig 14 Margins and ROE (old estimates)



Source: Macquarie Research, March 2007

Fig 15 Margins and ROE (new estimates)



Source: Macquarie Research, March 2007

Fig 16 RCOM – annual income statement, fiscal year-end March

Particulars (Rs m)	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Revenues					
Wireless	73,637	107,708	156,745	227,842	284,739
Global Service revenues	51,858	52,531	61,400	70,949	82,007
Broadband & Telephone Service revenues	5,128	11,819	19,956	27,884	35,695
Others	3,213	3,733	3,394	3,402	3,402
Inter-segment eliminations	(26,172)	(29,883)	(36,838)	(50,351)	(64,798)
Total Revenues	107,664	145,909	204,657	279,726	341,044
Operating Expenses					
Access & Interconnect Charges	40,400	37,996	48,781	62,321	74,025
(% of total revenues)	37.5%	26.0%	23.8%	22.3%	21.7%
Network Operations Costs - (a)	15,350	16,941	23,261	30,770	37,515
(% of total revenues)	14.3%	11.6%	11.4%	11.0%	11.0%
Employee Cost - (b)	8,390	9,266	13,347	17,902	21,486
(% of total revenues)	7.8%	6.4%	6.5%	6.4%	6.3%
Selling & General Cost - (c)	18,492	24,298	35,110	49,752	60,246
(% of total revenues)	17.2%	16.7%	17.2%	17.8%	17.7%
Total Service Operating Expenses - (a+b+c)	42,232	50,505	71,718	98,425	119,246
(% of total revenues)	39.2%	34.6%	35.0%	35.2%	35.0%
Total Operating Expense	82,632	88,501	120,499	160,745	193,271
(% of total revenues)	76.8%	60.7%	58.9%	57.5%	56.7%
EBITDA	25,032	57,408	84,158	118,981	147,773
<i>EBITDA Margin</i>	23.2%	39.3%	41.1%	42.5%	43.3%
Net Interest	(2,891)	(49)	(161)	1,539	4,461
Depreciation	(16,990)	(25,101)	(32,953)	(43,956)	(53,935)
(% of total revenues)	15.8%	17.2%	16.1%	15.7%	15.8%
Profit Before Taxes (PBT)	5,151	32,258	51,044	76,564	98,299
(% of total revenues)	4.8%	22.1%	24.9%	27.4%	28.8%
Income tax expense / (benefit)	327	765	3,308	7,656	12,287
<i>Effective Tax Rate (%)</i>	6.3%	2.4%	6.5%	10.0%	12.5%
Profit After Taxes (PAT)	4,824	31,493	47,736	68,908	86,011
Extraordinary items	(374)	(480)			
Reported Net Profit	4,450	31,013	47,736	68,908	86,011
Adjusted Net Profit	4,824	31,493	47,736	68,908	86,011
<i>PAT Margin</i>	4.5%	21.6%	23.3%	24.6%	25.2%
Adjusted Diluted EPS	2.36	15.40	23.35	33.70	42.07
YoY Growth (%)					
Total Revenues		35.5	40.3	36.7	21.9
Access & Interconnection Charges		(6.0)	28.4	27.8	18.8
Network Operations			37.3	32.3	21.9
Employee Costs			44.0	34.1	20.0
Selling & General Costs			44.5	41.7	21.1
Operating Expenses		7.1	36.2	33.4	20.2
EBITDA		129.3	46.6	41.4	24.2
Adjusted Net Profit After Taxes		552.8	51.6	44.4	24.8
Adjusted Diluted EPS		552.8	51.6	44.4	24.8
Key parameters					
ROE (%)	4.1%	19.2%	20.3%	23.5%	23.9%
ROA (%)	2.5%	7.8%	8.8%	10.4%	11.3%
Fixed asset turnover (X)	0.50	0.41	0.46	0.54	0.61
Total asset turnover (X)	0.51	0.46	0.53	0.62	0.73

Source: Company data, Macquarie Research, March 2007

Fig 17 RCOM – balance sheet, fiscal year-end March

Particulars	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
ASSETS					
Cash and Cash equivalents	60,037	88,976	129,381	166,234	186,873
Inventories	4,076	3,006	4,370	5,615	9,344
Debtors	16,808	21,703	31,559	40,548	48,587
Other Current Assets	765	4,801	6,981	8,969	3,457
Loans and Advances	23,668	25,629	37,267	47,882	58,378
Total Current Assets	105,354	144,114	209,558	269,249	306,639
Fixed Assets					
Gross Block	230,531	379,055	489,969	599,685	695,530
Less: Depreciation	47,573	76,121	109,074	153,030	206,965
Net Block	182,958	302,934	380,895	446,655	488,565
Capital Work-in-progress	31,305	54,231	61,037	68,698	70,759
Goodwill		2,237	2,237	2,237	2,237
Total Fixed Assets	214,263	359,401	444,169	517,590	561,560
Investments	121	247	247	247	247
Total Assets	319,738	503,762	653,973	787,085	868,446
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities	89,956	135,366	195,057	244,973	296,525
Provisions	19,291	48,316	69,622	87,438	105,902
Total Current Liabilities	109,247	183,682	264,679	332,411	402,427
Secured Foreign Currency Loans	35,079	21,064	21,064	21,064	21,064
Secured Rupee Loans	52,106	47,389	47,389	47,389	47,389
Unsecured Loans	5,791	40,300	61,777	58,248	6,895
Total Debt	92,976	108,753	130,230	126,701	75,348
Minority interest		96	96	96	96
Stockholders' Equity	117,515	211,232	258,968	327,877	390,575
Share capital	10,223	10,223	10,223	10,223	10,223
Reserves	107,292	201,009	248,745	317,654	380,352
Total Liabilities and Stockholders' Equity	319,738	503,762	653,973	787,085	868,446
Ratios					
Net debt/equity	0.28	0.09	0.00	(0.12)	(0.29)
Gross Debt/Equity	0.79	0.51	0.50	0.39	0.19
WC/Revenues (%)	(3.62)	(27.12)	(26.93)	(22.58)	(28.09)
Net working capital days <Days of Gross Sales>	(13.20)	(98.98)	(98.31)	(82.42)	(102.52)

Source: Company data, Macquarie Research, March 2007

Fig 18 RCOM – cashflow statement, fiscal year-end March

Particulars	FY2006	FY2007E	FY2008E	FY2009E	FY2010E
Cash Flows from operating activities					
Net Profit / (Loss)	4,439	31,012	47,736	68,909	86,011
Add:					
Depreciation	16,987	25,100	32,953	43,956	53,935
Provision for Doubtful Debts	746	988			
Interest expense (net)	2,595	49	161	(1,541)	(4,461)
(Profit)/Loss on sale of assets / investments	(673)	(740)			
Tax expense / (income)	337	(691)			
Extraordinary items		330			
Exchange (gain) / loss	620	0			
Increase / (decrease) in working capital	17,304	29,341	55,959	44,894	53,266
Net cash provided by/ used in operating activities	42,355	85,388	136,809	156,218	188,751
Cash Flows from investing activities					
Capex	(39,238)	(80,217)	(117,720)	(117,377)	(97,906)
Sale of fixed assets / investments	3,066	151	0	0	0
Interest expense (net)	(2,595)	(135)	(161)	1,541	4,461
Net cash provided by/ used in investing activities	(38,767)	(80,201)	(117,881)	(115,836)	(93,445)
Cash Flows from financing activities					
Changes in Net Debt	(12,960)	23,751	21,477	(3,529)	(51,353)
Increase in share capital					
Dividends including dividend tax					(23,314)
Net cash provided by/ used in financing activities	(12,960)	23,751	21,477	(3,529)	(74,667)
Net (decrease) / increase in cash	(9,372)	28,938	40,405	36,853	20,639
Cash at the beginning of the period	69,409	60,038	88,976	129,381	166,234
Cash at the end of the period	60,037	88,976	129,381	166,234	186,874
Source: Company data, Macquarie Research, March 2007					

Reliance Communications Limited (RCOM IN, Outperform, Target price: Rs650.00)

Quarterly Results					Profit & Loss						
		3Q/07A	4Q/07E	1Q/08E	2Q/08E		2006A	2007E	2008E	2009E	
Revenue	m	37,553	40,595	44,637	48,219	Revenue	m	107,664	145,909	204,657	279,726
Gross Profit	m	21,698	23,177	25,511	27,972	Gross Profit	m	43,524	81,706	119,268	168,733
Cost of Goods Sold	m	15,856	17,418	19,126	20,247	Cost of Goods Sold	m	64,140	64,203	85,389	110,993
EBITDA	m	15,272	16,548	18,367	19,778	EBITDA	m	25,032	57,408	84,158	118,981
Depreciation	m	6,524	6,825	7,263	7,778	Depreciation	m	16,990	25,101	32,953	43,956
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	8,747	9,723	11,104	12,000	EBIT	m	8,042	32,307	51,205	75,025
Net Interest Income	m	657	346	-55	-67	Net Interest Income	m	-2,891	-49	-161	1,539
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	-30	-150	0	0	Exceptionals	m	-374	-480	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	9,374	9,919	11,049	11,933	Pre-Tax Profit	m	4,777	31,778	51,044	76,564
Tax Expense	m	-130	-302	-552	-716	Tax Expense	m	-327	-765	-3,308	-7,656
Net Profit	m	9,244	9,617	10,497	11,217	Net Profit	m	4,450	31,013	47,736	68,908
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	9,244	9,617	10,497	11,217	Reported Earnings	m	4,450	31,013	47,736	68,908
Adjusted Earnings	m	9,274	9,767	10,497	11,217	Adjusted Earnings	m	4,824	31,492	47,736	68,908
EPS (rep)		4.52	4.70	5.13	5.49	EPS (rep)		2.18	15.17	23.35	33.70
EPS (adj)		4.54	4.78	5.13	5.49	EPS (adj)		2.36	15.40	23.35	33.70
EPS Growth yoy (adj)	%	199.2	121.8	98.9	56.4	EPS Growth (adj)	%	nmf	552.8	51.6	44.4
						PE (rep)	x	183.1	26.3	17.1	11.8
						PE (adj)	x	168.9	25.9	17.1	11.8
EBITDA Margin	%	40.7	40.8	41.1	41.0	Total DPS		0.00	0.00	0.00	0.00
EBIT Margin	%	23.3	24.0	24.9	24.9	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	29.4	31.0	22.0	23.5	Weighted Average Shares	m	2,045	2,045	2,045	2,045
Revenue Growth	%	25.6	36.7	37.3	36.8	Period End Shares	m	2,045	2,045	2,045	2,045
EBIT Growth	%	85.6	93.7	69.6	64.6						
Profit and Loss Ratios					Cashflow Analysis						
		2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E	
Revenue Growth	%	nmf	35.5	40.3	36.7	EBITDA	m	23,685	55,060	80,850	111,324
EBITDA Growth	%	nmf	129.3	46.6	41.4	Tax Paid	m	0	0	0	0
EBIT Growth	%	nmf	301.7	58.5	46.5	Chgs in Working Cap	m	17,304	29,341	55,959	44,020
Gross Profit Margin	%	40.4	56.0	58.3	60.3	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	23.2	39.3	41.1	42.5	Other	m	1,366	988	0	0
EBIT Margin	%	7.5	22.1	25.0	26.8	Operating Cashflow	m	42,355	85,388	136,809	155,344
Net Profit Margin	%	4.1	21.3	23.3	24.6	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-39,238	-80,217	-117,720	-117,377
EV/EBITDA	x	33.1	14.5	9.9	7.0	Asset Sales	m	3,066	151	0	0
EV/EBIT	x	103.2	25.7	16.2	11.1	Other	m	-2,595	-135	-161	1,539
Balance Sheet Ratios						Investing Cashflow	m	-38,767	-80,201	-117,881	-115,838
ROE	%	4.1	19.2	20.3	23.5	Dividend (Ordinary)	m	0	0	0	0
ROA	%	2.5	7.8	8.8	10.4	Equity Raised	m	0	0	0	0
ROIC	%	nmf	21.0	20.7	26.0	Debt Movements	m	-12,960	23,751	21,477	-2,653
Net Debt/Equity	%	28.0	9.4	0.3	-11.8	Other	m	0	0	0	0
Interest Cover	x	2.8	659.2	318.3	nmf	Financing Cashflow	m	-12,960	23,751	21,477	-2,653
Price/Book	x	6.9	3.9	3.1	2.5	Net Chg in Cash/Debt	m	-9,372	28,938	40,405	36,853
Book Value per Share		57.5	103.3	126.7	160.4						
					Balance Sheet						
		2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E	
Cash	m	60,037	88,976	129,381	166,234	Cash	m	60,037	88,976	129,381	166,234
Receivables	m	16,808	21,703	31,559	40,548	Receivables	m	16,808	21,703	31,559	40,548
Inventories	m	4,076	3,006	4,370	5,615	Inventories	m	4,076	3,006	4,370	5,615
Investments	m	121	247	247	247	Investments	m	121	247	247	247
Fixed Assets	m	214,263	357,164	441,932	515,353	Fixed Assets	m	214,263	357,164	441,932	515,353
Intangibles	m	0	2,237	2,237	2,237	Intangibles	m	0	2,237	2,237	2,237
Other Assets	m	24,433	30,429	44,247	56,851	Other Assets	m	24,433	30,429	44,247	56,851
Total Assets	m	319,738	503,762	653,973	787,085	Total Assets	m	319,738	503,762	653,973	787,085
Payables	m	89,956	135,366	195,057	244,329	Payables	m	89,956	135,366	195,057	244,329
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	92,976	108,753	130,230	127,577	Long Term Debt	m	92,976	108,753	130,230	127,577
Provisions	m	19,291	48,316	69,622	87,208	Provisions	m	19,291	48,316	69,622	87,208
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	202,223	292,434	394,909	459,113	Total Liabilities	m	202,223	292,434	394,909	459,113
Shareholders' Funds	m	117,515	211,232	258,968	327,876	Shareholders' Funds	m	117,515	211,232	258,968	327,876
Minority Interests	m	0	96	96	96	Minority Interests	m	0	96	96	96
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	117,515	211,328	259,064	327,972	Total S/H Equity	m	117,515	211,328	259,064	327,972
Total Liab & S/H Funds	m	319,738	503,762	653,973	787,085	Total Liab & S/H Funds	m	319,738	503,762	653,973	787,085

All figures in INR unless noted.

Source: Macquarie Research, March 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – expected return >+5%
 Neutral – expected return from -5% to +5%
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	43.12%	58.91%	42.20%
Neutral	48.98%	22.92%	46.80%
Underperform	11.90%	18.17%	11.00%

For quarter ending 31 December 2006

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

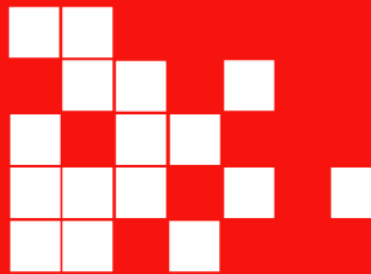
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Kenichi Ohtaka (Tokyo)	(813) 3512 7830

Index Sales

Margaret Hartmann	(612) 8232 9834
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Alternative Strategies

Convertibles - Roland Sharman	(852) 2823 4628
Depository Receipts - Robert Ansell	(852) 2823 4688
Derivatives - Vipul Shah	(852) 2823 3523
Futures - Tim Smith	(852) 2823 4637
Hedge Fund Sales - Darin Lester	(852) 2823 4736
Structured Products - Andrew Terlich	(852) 2249 3225