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Stock Rating  
**Overweight-V**

Industry View  
**In-Line**

November 15, 2006

## Reliance Communications Ltd.

### F2Q07 Update

**Quick Comment:** Reliance Communication Limited (RCL) released its key operating and financial data for the quarter ended F2Q07 in its quarterly report. The company had earlier announced its F2Q07 quarterly results on Oct 30, 2006. The operational data is in-line with our expectations. The key highlights of the quarterly report are as follows:

**Wireless division** witnessed a 6.6% fall in ARPUs to Rs 354; with MOUs shrinking by 6.4% to 461. However, the company could maintain its ARPM at Rs0.77/minute and control costs to maintain wireless margins. Absolute EBITDA was up 6.3% sequentially. Wireless churn dropped by 50bps sequentially to 1.9%, while non-voice revenues as a % of APRUs remained flat at 6.3%. The company added 200k wireless multimedia users and 15.2k wireless internet users in F2Q07. Capex for the wireless division increased by 76% sequentially to Rs14.99bn (US\$330mn).

**On the broadband front** RCOM increased the number of buildings on-net by 49% to 269,676 from 180,759 at the end of the prior quarter. The number of access lines increased to 425,000 from 322,000 at the end of the previous quarter. Wireline ARPUs increased by 13% YoY but declined by 8% sequentially to Rs2420/sub (US\$53.7).

**Global business:** In the ILD business, RCOM maintained its leading market share of more than 40% in the US-to-India retail customer calls segment. ILD traffic grew by 6% sequentially to 1.28bn minutes while the NLD traffic increased by 20% to 3.72bn for F2Q07. The contributory factor for the NLD growth was increase in traffic from external wholesale customers.

During the quarter the company incurred capital expenditure of Rs19.5bn (US\$430mn), of which 77% was in the wireless segment, 19% in the global segment and 1% in the broadband segment.

#### Key Ratios and Statistics

Reuters: RLCM.BO Bloomberg: RCOM IN

#### India Telecommunications

|                                   |                 |
|-----------------------------------|-----------------|
| Price target                      | Rs421.00        |
| Shr price, close (Nov 14, 2006)   | Rs399.45        |
| Mkt cap, curr (mn)                | Rs816,715       |
| 52-Week Range                     | Rs404.40-186.40 |
| Sh out, basic, curr (mn)          | 2,044.6         |
| EV, curr (mn)                     | Rs868,823       |
| Net debt/cap (07e) (%)            | 33.3            |
| ROE (07e) (%)                     | 21.6            |
| Sh out, basic, per-end (07e) (mn) | 2,045           |
| S'hldr eqty (07e) (mn)            | Rs142,895       |
| RNOA (07e) (%)                    | 17.5            |

e = Morgan Stanley Research estimates

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Exhibit 1

**RCOM: Quarterly Financial Performance**

| Rs mn                         | F2Q07            | F2Q06            | YoY Change    | F1Q07            | QoQ Change   |
|-------------------------------|------------------|------------------|---------------|------------------|--------------|
| (period ending)               | <b>30-Sep-06</b> | <b>30-Sep-05</b> | %             | <b>30-Jun-06</b> | %            |
| <b>Total Revenues</b>         | <b>35,260</b>    | <b>25,220</b>    | <b>39.8%</b>  | <b>32,501</b>    | <b>8.5%</b>  |
| Licence Fee and Access& IUC   | 9,068            | 10,320           | -12.1%        | 9,286            | -2.3%        |
| Network Operations            | 4,332            | 3,500            | 23.8%         | 3,816            | 13.5%        |
| Employees                     | 2,271            | 2,120            | 7.1%          | 2,157            | 5.3%         |
| SG&A                          | 6,063            | 5,010            | 21.0%         | 5,180            | 17.0%        |
| Total Cost                    | 21,734           | 20,950           | 3.7%          | 20,439           | 6.3%         |
| <b>EBIDTA</b>                 | <b>13,525</b>    | <b>4,270</b>     | <b>216.8%</b> | <b>12,062</b>    | <b>12.1%</b> |
| Net Interest                  | 56               | 650              | -91.4%        | 999              | -94.4%       |
| Depreciation and Amortisation | 6,237            | 3,790            | 64.6%         | 5,514            | 13.1%        |
| Cash profit from Operations   | 13,260           | 3,620            | 266.3%        | 10,640           | 24.6%        |
| PBT                           | 7,233            | (170)            | NM            | 5,549            | 30.3%        |
| Tax                           | 59               | 20               | 197.0%        | 272              | -78.2%       |
| PAT                           | 7,173            | (190)            | NM            | 5,277            | 35.9%        |
| Extra-Ordinary                | 150              | -                | NA            | 150              | 0.0          |
| <b>Normalised PAT</b>         | <b>7,023</b>     | <b>(190)</b>     | <b>NM</b>     | <b>5,127</b>     | <b>37.0%</b> |

Source: Company data, Morgan Stanley Research

Exhibit 2

**Financial Performance: RCOM vs Bharti Airtel**

| Sep-06                | Reliance     | Bharti       | Reliance vs Bharti |
|-----------------------|--------------|--------------|--------------------|
| Rs mn                 |              |              |                    |
| <b>Total Revenues</b> | 35,260       | 43,571       | -19.1              |
| <b>EBITDA</b>         | 13,525       | 17,025       | -20.6              |
| <b>PAT</b>            | 7,173        | 9,338        | -23.2              |
| <b>Revenues</b>       |              |              |                    |
| Wireless              | 25,744       | 33,022       | -22.0              |
| Global                | 13,158       | 8,362        | 57.4               |
| Broadband             | 2,710        | 5,244        | -48.3              |
| <b>EBITDA</b>         |              |              |                    |
| Wireless              | 9,294        | 12,179       | -23.7              |
| Global                | 3,199        | 3,021        | 5.9                |
| Broadband             | 1,215        | 1,069        | 13.7               |
| <b>OPM (%)</b>        |              |              |                    |
| Wireless              | 36.10        | 36.88        | -2.1               |
| Global                | 24.31        | 36.13        | -32.7              |
| Broadband             | 44.84        | 20.39        | 120.0              |
| <b>Overall</b>        | <b>38.36</b> | <b>39.07</b> | <b>-1.8</b>        |

Source: Company data, Morgan Stanley Research

Exhibit 3

**RCOM: Operational Data**

| Wireless                           | F2Q06     | F3Q06     | F4Q06     | F1Q07     | F2Q07     | Growth |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|--------|
|                                    | 30-Sep-05 | 31-Dec-05 | 31-Mar-06 | 30-Jun-06 | 30-Sep-06 | Q-o-Q  |
| Total Wireless Subs                | 14,917    | 17,043    | 20,212    | 22,522    | 25,979    | 15.35  |
| Market Share (CDMA) (%)            | 64.0      | 60.9      | 62.2      | 60.8      | 60.4      | -0.57  |
| Market Share (Wireless) (%)        | 20.8      | 20.3      | 20.5      | 20.2      | 20.1      | -0.18  |
| Net Additions                      | 1,677     | 2,126     | 3,168     | 2,311     | 3,457     | 49.61  |
| Share of Wireless Net Adds (%)     | 19.3      | 17.6      | 21.3      | 17.7      | 19.9      | 12.63  |
| Coverage                           |           |           |           |           |           |        |
| Census Towns Covered               | 3,545     | 3,684     | 3,824     | 3,881     | 6,000     | 54.60  |
| Towns/villages covered             | 219,453   | 235,971   | 242,814   | 245,728   | NA        | NM     |
| Pre-paid as % of total wireless    | 77.30     | 77.50     | 79.30     | 79.40     | 81.40     | 2.52   |
| Pre-paid as % of total net adds    | 78.30     | 79.20     | 89.00     | 80.00     | 94.60     | 18.25  |
| Wireless ARPU (Rs/sub)             | 417       | 410       | 379       | 379       | 354       | -6.60  |
| Wireless net ARPU (Rs/sub)         | 263       | 269       | 226       | 259       | 247       | -4.63  |
| Churn (%)                          | 1.80      | 2.20      | 2.10      | 2.60      | 1.90      | -26.92 |
| Total Wireless MOU (Bn mins)       | 23.97     | 26.22     | 29.69     | 31.44     | 33.52     | 6.62   |
| Wireless MOU per customer/month    | 568       | 547       | 532       | 491       | 461       | -6.11  |
| Wireless ARPM(Rs/min)              | 0.74      | 0.76      | 0.71      | 0.77      | 0.77      | -0.46  |
| Wireless Avg Opex Per              | 0.53      | 0.51      | 0.46      | 0.50      | 0.49      | -0.93  |
| Wireless Average Spread Per minute | 0.21      | 0.24      | 0.26      | 0.28      | 0.28      | 0.38   |
| SMS Revenue(% of ARPU)             | 1.4       | 1.3       | 1.7       | 1.8       | 1.9       | 5.56   |
| Non-voice Revenue(% of ARPU)       | 6         | 5.5       | 6.1       | 6.2       | 6.3       | 1.61   |
| Wireless Multimedia Users (mn)     | 4.2       | 5.3       | 6.4       | 7.9       | 8.1       | 2.53   |
| Wireless Internet Users('000)      | 295.2     | 302.0     | 320.4     | 354.6     | 369.8     | 15.22  |

Source: TRAI, COAI, Morgan Stanley Research;  
NA – Not Available

Exhibit 3

**RCOM Operational Data : Global Division**

| Global                | F2Q06 | F3Q06 | F4Q06 | F1Q07 | F2Q07 | Growth |
|-----------------------|-------|-------|-------|-------|-------|--------|
|                       |       |       |       |       |       | QoQ    |
| Total ILD minutes     | 1,082 | 1,183 | 1,188 | 1,214 | 1,287 | 6.01%  |
| Total NLD minutes     | 2,271 | 2,434 | 2,755 | 3,085 | 3,722 | 20.65% |
| ILD Rs/min            | 3.7   | 3.6   | 3.6   | 3.5   | 3.3   | -5.67% |
| DLD Rs/minute         | 2.94  | 3.09  | 2.84  | 2.03  | 1.87  | -7.92% |
| Long Distance net RPM | 0.62  | 0.69  | 0.77  | 0.67  | 0.67  | 0.00%  |

Source: Company data, Morgan Stanley Research

Exhibit 4

**RCOM Operational Data :Broadband Division**

| Broadband                          | F2Q06 | F3Q06 | F4Q06 | F1Q07 | F2Q07 | Growth |
|------------------------------------|-------|-------|-------|-------|-------|--------|
|                                    |       |       |       |       |       | QoQ %  |
| Circles Operational                | 18    | 18    | 18    | 18    | 18    | 0      |
| Towns active                       | 29    | 29    | 30    | 30    | 30    | 0      |
| Access lines('000)                 | 173   | 217   | 256   | 322   | 425   | 32     |
| Net Additions ('000)               | 173   | 44    | 39    | 66    | 103   | 56     |
| ARPL (Rs/line)                     | 2,150 | 2,386 | 2,742 | 2,618 | 2,420 | -8     |
| Buildings directly connected('000) | 31    | 58    | 102   | 181   | 270   | 49     |

Source: Company data, Morgan Stanley Research

### **Company Description**

Reliance Communications Limited was formed by the demerger and vesting of the telecommunications undertakings of Reliance Industries Limited. RCOM is India's largest integrated communications service provider in the private sector with over 29 million individual consumer, enterprise, and carrier customers as at September 30, 2006. It has pan-India operations and provides wireless, wireline and long distance voice, data, and internet communication services. It has an extensive international presence through the provision of long distance voice, data, and internet services and submarine cable network infrastructure globally.

### **Industry View: In-Line**

### **MSCI Country: India**

Asia Strategist's Recommended Weight: 2.5%  
MSCI Asia/Pac All Country Ex Jp Weight: 7.0%



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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
|                          | Count             | % of Total | Count                            | % of Total IBC | % of Rating Category |
| <b>Overweight/Buy</b>    | <b>801</b>        | <b>38%</b> | <b>309</b>                       | <b>44%</b>     | <b>39%</b>           |
| <b>Equal-weight/Hold</b> | <b>942</b>        | <b>45%</b> | <b>308</b>                       | <b>44%</b>     | <b>33%</b>           |
| <b>Underweight/Sell</b>  | <b>345</b>        | <b>17%</b> | <b>78</b>                        | <b>11%</b>     | <b>23%</b>           |
| <b>Total</b>             | <b>2,088</b>      |            | <b>695</b>                       |                |                      |

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**Stock Price, Price Target and Rating History (See Rating Definitions)**

Reliance Communications Ltd. (RLCM.BO) - As of 11/15/06 in INR  
 Industry : India Telecommunications



Stock Rating History: 11/2/03 : NA; 8/17/06 : O/I  
 Price Target History: 8/17/06 : 371; 10/19/06 : 421

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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| <b>Company (Ticker)</b>                | <b>Rating (as of)</b> | <b>Price (11/14/2006)</b> |
|--|-----------------------|---------------------------|
| <b>Vinay Jaising</b>                   |                       |                           |
| Bharti Airtel Limited (BRTI.BO)        | O (04/11/2002)        | Rs569.95                  |
| Mahanagar Telephone Nigam (MTNL.BO)    | O (05/25/2006)        | Rs133.60                  |
| Reliance Communications Ltd. (RLCM.BO) | O-V (08/17/2006)      | Rs399.45                  |
| Videsh Sanchar Nigam (VSNL.BO)         | U (10/22/2002)        | Rs441.95                  |

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