

BUY

Price	Rs561
Target Price	Rs763
Investment Period	12 months

Stock Info

Sector	Telecom
Market Cap (Rs cr)	1,15,833
Beta	1.2
52 WK High / Low	844/455
Avg Daily Volume	1845459
Face Value (Rs)	5
BSE Sensex	17,600
Nifty	5,228
BSE Code	532712
NSE Code	RCOM
Reuters Code	RLCM.BO
Bloomberg Code	RCOM IN

Shareholding Pattern (%)

Promoters	66.1
MF/Banks/Indian FIIs	9.0
FII/ NRIs/ OCBs	13.1
Indian Public/Others	11.8

Abs.	3m	1yr	3yr
Sensex (%)	(3.5)	26.9	184.1
RCOM (%)	(8.3)	17.6	N.A.

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Performance Highlights

- **Wireless Business powers Top-line:** Reliance Communications (RCOM) recorded a strong 35.5% yoy and an impressive 9.9% qoq Top-line growth in 4QFY2008. This was driven yet again by the company's Wireless Business unit, which recorded an impressive 40% yoy and 5% qoq growth in Gross Revenues. This business accounted for over 75% of RCOM's incremental revenues on a yoy basis. Sequentially, the contribution stood at nearly 51%. The company's mobile subscriber base touched 45.8mn at the end of the quarter, recording impressive net additions of 4.8mn over the quarter, vis-à-vis net adds of 4.6mn in 3QFY2008 and a negative 2mn subscribers in 4QFY2007 on account of a significant number of subscriber disconnections made to comply with the subscriber re-verification norms in that quarter. The net adds figure of 4.8mn is the highest-ever quarterly net addition made by RCOM. The company's average revenues per user (ARPU) witnessed a fall of 6.3% yoy and sequentially also, the fall was similar.

In other segments, RCOM's Global Business (long-distance services, carrier-related services and bandwidth capacity sales) grew by a decent 18% yoy, aided by an over-21% yoy growth in total minutes of usage (MoUs) and near-stable realisations in terms of revenues per minute (RPM, Rs1.97 v/s Rs2.03 in 4QFY2007). Sequentially, strong growth of nearly 15% qoq was witnessed, aided by a 12% qoq rise in RPMs. The Broadband Business clocked a robust 55% yoy growth during 4QFY2008, powered by an excellent 66% yoy increase in the number of Access Lines, which crossed 1mn. Sequentially also, the growth was impressive at 12%, with Access Lines growing by 14% qoq.

- **Margins move higher:** RCOM recorded a strong 184bp yoy expansion in EBITDA Margins on account of operating leverage, and lower Access Charges and Licence Fees as a percentage of Revenues. Sequentially also, there was a 90bp rise in Margins, due again to lower Access Charges and Licence Fees. Pertinently, on account of the Rs1,651cr payment made by RCOM to the Department of Telecommunications (DoT) for getting an all-India GSM licence in 3QFY2008, this cost item was higher in that quarter. The absence of this item seems to be the main reason behind the fall as a percentage of Sales in 4QFY2008.

- **Bottom-line soars on Margin expansion:** Owing to the Margin expansion, RCOM recorded strong Bottom-line growth of 46% yoy in 4QFY2008. Sequentially, Bottom-line grew by 9.5%.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	14,262	18,827	24,871	31,379
% chg	34.2	32.0	32.1	26.2
EBITDA Margin (%)	38.7	42.3	43.0	43.5
Net Profit	3,168	5,401	6,723	8,527
% chg	613.0	70.5	24.5	26.8
EPS (Rs)*	14.7	25.0	31.2	39.5
P/E (x)	38.2	22.4	18.0	14.2
RoE (%)	19.7	23.5	23.4	23.9
RoCE (%)	9.0	14.1	12.4	14.3
Sales/GFA (x)	0.4	0.4	0.3	0.4
EV/EBITDA (x)	21.3	15.8	12.8	10.2
ARPU (Rs/user/month)	370.8	343.6	319.5	300.3

Source: Company, Angel Research; * Calculated on fully diluted equity after the FCCB conversion

Wireless Business remains the growth driver in FY2008; surges 42% yoy...

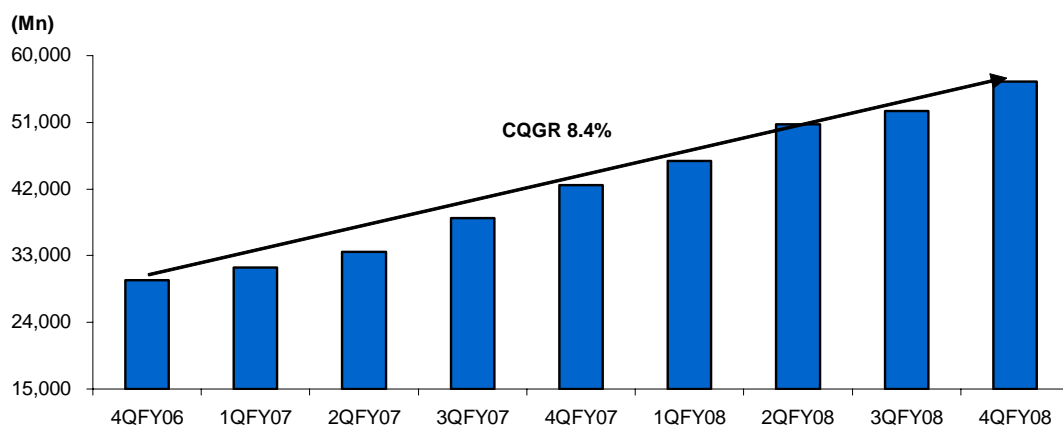
During FY2008, RCOM recorded a 32% yoy growth in its consolidated Top-line. The Wireless Business was yet again the key growth driver for RCOM. This business clocked a 42% yoy growth in Top-line in the fiscal. As expected, the strong growth in mobile subscriber additions was the major driver for the business. At the end of March 31, 2008, RCOM had a total of 45.8mn mobile subscribers, implying a yoy growth of 63.5%. The company added a total of 17.8mn mobile subscribers over the fiscal, it's highest-ever and this looks set to sustain in the medium term, with strong visibility.

Exhibit 1: Wireless Business Revenue break-up

	FY2007	FY2008	% chg yoy
Gross revenues (Rs cr)	10,728	15,214	41.8
Mobile subscriber base (Mn)	28.0	45.8	63.5
Gross Mobile ARPUs (Rs/user/month)	370.8	343.6	(7.3)
Total minutes of usage (Mn)	145,540	205,500	41.2
Revenues per minute (Rs)	0.74	0.74	0.4

Source: Company, Angel Research

Average revenues per user (ARPUs), as expected, continue to fall and stood at Rs343.6 per user per month in FY2008, a drop of 7.3% yoy. However, the company has been able to maintain its Revenues per Minute (RPM). In FY2008, RPMs witnessed a marginal 0.4% yoy increase to 74 paise. Pertinently, RCOM has phased out free minutes of use (MoUs) on its network over the past few quarters, resulting in higher RPMs. The company's total MoUs rose by a strong 41% yoy in FY2008.

Exhibit 2: Minutes of usage growth


Source: Company, Angel Research

...Broadband Business soars on growth in Access Lines; Global Business sluggish

RCOM's Broadband Business has seen robust growth in recent times. The company has seen the number of Access Lines grow by a robust 66% yoy, which crossed the 1mn-mark in FY2008. However, a significant 17% yoy fall was seen in Average Revenues per Line (ARPLs). Thus, Gross Revenues of the segment grew at a slower pace than the growth in Access Lines (56% yoy). It should be noted that the company has aggressively expanded its network over the past year, with the number of buildings connected growing by 61% yoy. Thus, it is likely that revenues from the newer customers will start kicking in going ahead, as investments made by the company start paying off.

Exhibit 3: Broadband Business – Soaring ahead

	FY2007	FY2008	% chg yoy
Gross revenues (Rs cr)	1,144	1,787	56.2
Access lines ('000)	620	1,031	66.3
Average revenues per line/month	2,176.8	1,803.7	(17.1)
Buildings directly connected	488,661	787,567	61.2

Source: Company, Angel Research

However, RCOM's Global Business Unit (Reliance Globalcom) was sluggish, clocking just a 6% yoy growth in Gross Revenues, as falling realisations (RPMs fell to Rs1.82 v/s Rs2.29 in FY2007, a fall of 21% yoy) countered decent growth in MoUs (33% yoy). RCOM intends to list Reliance Globalcom this fiscal, which will result in some value unlocking.

Exhibit 4: Global Business – Under-performing

	FY2007	FY2008	% chg yoy
Gross revenues (Rs cr)	5,177	5,475	5.8
Total minutes of usage (Mn)	22,562	30,045	33.2
Revenues per minute (Rs)	2.29	1.82	(20.6)

Source: Company, Angel Research

Scale benefits drive Margins

RCOM recorded a strong 361bp yoy increase in EBITDA Margins in FY2008, which was driven mainly by scale benefits and operating leverage. Major cost items viz., Access Charges and License Fees, declined as a percentage of Sales.

Higher Margins, Net Finance Income power Bottom-line

On account of the strong Margin expansion and an increase in Net Finance Income to Rs400cr, RCOM recorded a strong 70.5% yoy growth in Bottom-line for FY2008.

To launch full-fledged, country-wide GSM-based cellular services by end-FY2009

The most important development for RCOM in FY2008 was receipt of start-up GSM spectrum of 4.4 MHz for launch in the 14 circles where it does not hitherto have a presence in the GSM space (Chennai and Tamil Nadu being clubbed as one circle). This will enable RCOM to launch full-fledged GSM-based cellular services in these circles, riding on its existing cellular network infrastructure, incurring significant capex savings in the process. Thus, subscriber additions are likely to start accruing 1QFY2010 onwards.

To invest US \$6.25bn in FY2009

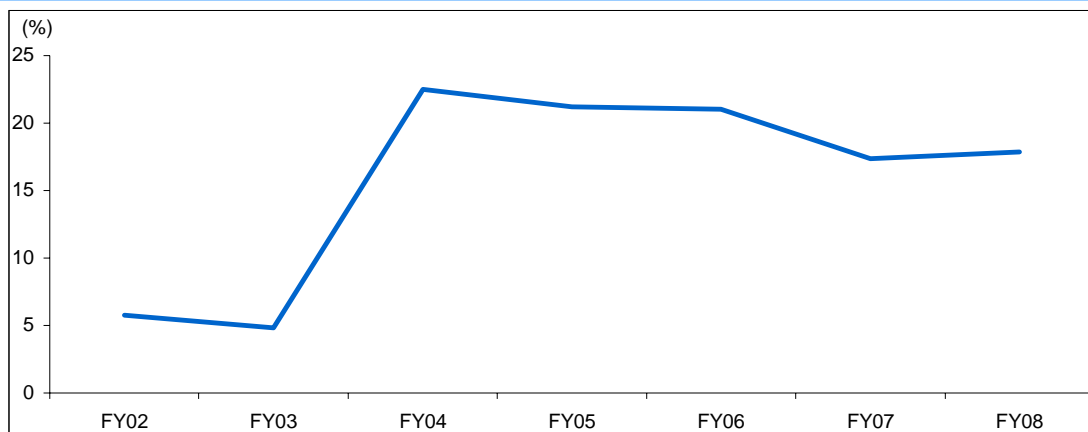
RCOM expects to invest US \$6.25bn towards capex in FY2009. The company has already placed orders for US \$1bn worth of GSM electronic equipment. Thus, it is expected to go ahead full-steam in its country-wide GSM roll-out, apart from new initiatives like DTH and IPTV.

Declares 15% dividend

RCOM has declared 15% dividend for FY2008 (75 paise per share), translating into a dividend yield of 0.13%.

Marketshare performance

RCOM recorded a decent marketshare gain of 51bp over FY2008. At the end of the fiscal, the company's marketshare stood at 17.9% (excluding BSNL and MTNL CDMA-WLL subscribers). RCOM cornered an incremental share of 18.7% of industry net adds over the year. Overall, the company remains the second-largest wireless operator in the country, albeit well behind leader, Bharti Airtel.

Exhibit 5: Marketshare trends


Source: Company, COAI, AUSPI, Angel Research

Outlook and Valuation

Going forward, we expect RCOM to record a 29.1% CAGR growth in Topline over FY2008-10E, while Bottomline is expected to grow at a CAGR of 25.7% in the mentioned period. We expect the key Wireless Business unit to remain the growth driver and this business is expected to grow at a CAGR of nearly 35% over the mentioned period. The company's mobile subscriber base is expected to clock a near-40% CAGR over the period to hit 89.4mn by FY2010. We expect RCOM's GSM subscriber base to touch 22.5mn in FY2010, clocking a CAGR of over 79% over the period, driven by accelerated growth in FY2010 on account of the country-wide GSM roll-out. The CDMA subscriber base, on the other hand, is expected to clock a 31% CAGR over the period to hit 66.9mn by FY2010.

At the CMP, the stock is trading at 14.2x FY2010E EPS, FY2010E EV/EBITDA of 10.2x and an EV/subscriber of US \$381.6 on our FY2010E mobile subscriber base. We expect RCOM to continue to record strong growth. A host of value-unlocking initiatives such as the potential listing of the towerco, Reliance Infratel and the global business, Reliance Globalcom, as also the full-fledged GSM roll-out, apart from newer initiatives like DTH and IPTV are likely to sustain stock price movements going forward. **We maintain a Buy on the stock, with a 12-month Target Price of Rs763, including Rs91 per share as the value of the towerco, Reliance Infratel.**

Exhibit 6: FY2008 performance

Y/E March (Rs cr)	FY2008 4Q	FY2007 4Q	% chg (yoy)	FY2008 3Q	% chg (qoq)	FY2008	FY2007	% chg
Net Revenues	5,250	3,874	35.5	4,776	9.9	18,827	14,262	32.0
Operating Expenditure	2,995	2,281	31.3	2,768	8.2	10,869	8,748	24.2
Operating Profit (EBITDA)	2,255	1,592	41.6	2,008	12.3	7,959	5,515	44.3
Other Income	61	63	(3.1)	98	(37.3)	240	206	16.8
Finance Charges (Net)	(8)	(19)		(152)		(400)	0	
Depreciation	786	638	23.2	725	8.3	2,805	2,465	13.8
Exceptional Items	61	3		-		1,283	(30)	
Income before Income Taxes	1,600	1,039	53.9	1,533	4.4	7,076	3,225	119.4
Tax	(27)	15	(282.3)	138	(119.8)	284	62	360.8
Minority Interest	124	(5)		22		1,390	(5)	
Share of Associates	0	1		0		1	1	
Net Income	1,503	1,029	46.1	1,373	9.5	5,401	3,168	70.5
Diluted EPS (Rs)	6.9	5.0	38.5	6.4	9.3	25.0	15.5	61.6
EBITDA Margin (%)	43.0	41.1		42.1		42.3	38.7	
Net Profit Margin (%)	28.6	26.6		28.7		28.7	22.2	
Mobile ARPUs (Rs/user/month)	319.7	341.3	(6.3)	341.3	(6.3)	343.6	370.8	(7.3)

Source: Company, Angel Research


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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)