

BUY CMP:176

Result Update

RELIANCE COMMUNICATION LTD

As on October 30th 2009.

Market Price (30/10/09)	175.95
Market Cap. (Rs. Cr.)	36316
52 Week High/Low	359/131
Face Value	5.00
Book Value per Share	188.00
Target Price	257.00

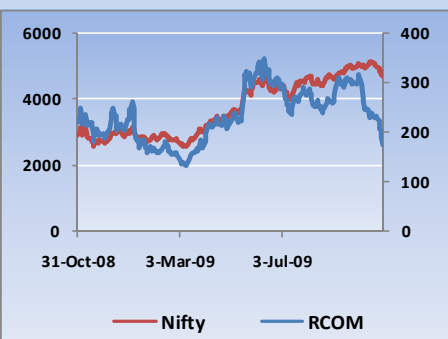
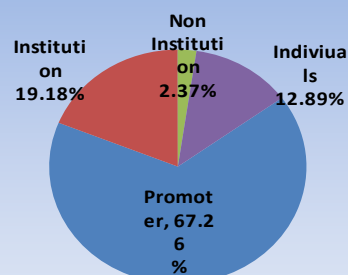
Codes

BSE Code	532712
ISIN No	INE330H01018
NSE Symbol	RCOM
Bloomberg Code	RCOM IN
Reuters Code	RLCM.BO

Previous & Current Reports BUY

Reco Date	Reco Price	Target
22 nd Sep 2009	306.00	403.00
16 th Oct 2009	234.00	330.00

Shareholding Pattern As On Sep 2009



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KEY HIGHLIGHTS

- Consolidated net sales for 2QFY10 grew 1% Y-o-Y but fell 7% Q-o-Q to Rs 57026 million. RCOM had strong net additions of 6.5 million subscribers in the mobile services segment for 2QFY10, a growth of 8.16% Q-o-Q.
- Consolidated EBITDA for 2QFY10 degrew 12% Y-o-Y and 18% Q-o-Q to Rs 20199 million, with margins falling to 35.42% as against 39.91% in the last quarter.
- Consolidated EBIT degrew 6% Y-o-Y and 2% Q-o-Q to Rs 13055 million, with margins improving to 22.89% as against 21.77% in the last quarter mainly due to large fall in depreciation due to increase in useful life of the equipment.
- Interest (net) came in at Rs 6551 million as against gain of Rs 6205 million in the previous quarter. RCOM has MTM loss Rs 2830 million
- Capex for 2QFY10 was Rs 9823 as against Rs 9753 million for the previous quarter, indicating that the capex cycle for RCOM has peaked.
- ARPU for the quarter stood at Rs 161 a drop of 23.33% Q-o-Q. MOU for the quarter came in at 340 minutes a drop of 6.85% Q-o-Q.
- Adjusted PAT fell 52% Y-o-Y 55% Q-o-Q to Rs 7403 million for the quarter.

Valuation and Recommendation

We reiterate **BUY** with a price target of Rs 257. We believe RCOM is well positioned in all its business segments, especially in the mobile services segment over the long haul. Being one of the largest integrated players would aid RCOM to weather the stiff challenges faced by the sector in the short term due to overcapacity. We believe with the advent of 3G and MNP would aid RCOM to improve its business performance over the next few quarters. With capex intensity decreasing and TRAI's move in the direction of consolidation are positive for RCOM. At a CMP of Rs 175 the stock is trading at an attractive EV/EBITDA of 6.32x FY09E and 6.14x FY10E, and a PE of 6.61x FY09E and 9.78x FY10E.

KEY FINANCIALS

Rs mn	FY07	FY08	FY09E	FY10E	FY11E
Net Sales	144683	190678	229411	243061	285665
YoY Growth (%)		31.79%	20.31%	5.95%	17.53%
EBITDA	57210	81989	92874	95495	115224
EBITDA Margin (%)	39.54%	43.00%	40.48%	39.29%	40.34%
Adjusted PAT	31639	54014	59077	36935	42168
PAT Margin (%)	22%	28%	26%	15%	15%
EPS (Rs)	15.48	26.17	28.62	17.89	20.43
PE (x)	11.31	6.69	6.11	9.78	8.57

Source: Company, Jaypee Research

OVERALL BUSINESS

On a consolidated basis RCOM reported results significantly below expectations. For 2QFY10 consolidated net sales came in at Rs 57026 million. On a consolidated basis the EBITDA margins were down by 449bps Q-o-Q to 35.42% for 2QFY10. The EBITDA for 2QFY10 came in at Rs 20199 million. The Adj PAT for 2QFY10 came in at Rs 7403 million, down 55% Q-o-Q.

MOBILE SERVICES BUSINESS

RCOM posted degrowth in revenue by 16% Q-o-Q and 8% Y-o-Y to Rs 40100 million on the back of strong subscriber addition but falling ARPU (due to increasing competition) and MOU. RCOM ARPU declined to Rs 161 a decline of 23.33% over the previous quarter. The MOU for the quarter declined 6.85% to 340 minutes as against 365 minutes for the previous quarter. The RPM fell to Rs 0.47, indicating strain because of increasing competition. The EBITDA margins for 2QFY10 fell to 32.75%, down from 38.57% in the previous quarter. Significant increase in network cost was the primary reason for the fall in margins. Network costs increased due to increase in fuel cost due to power cuts because of droughts leading to increased use of diesel. Fall in revenues for the wireless division have fallen due to reduced sales of CDMA handsets because the CDMA ecosystem has improved significantly and handset are available outside. The voice revenue in the wireless division has improved 4% Q-o-Q.

Global

The Global segment revenues were up 20% Q-o-Q and 34% Y-o-Y to Rs 22643 million. The margins fell 88bps to 23.08%. The reason for the margin fall was increased competition. The NLD minutes increased 8.27% Q-o-Q to 11205 million minutes but the ILD minutes fell 2% Q-o-Q to 2165 million minutes.

Broadband

The Broadband segment revenues were up 13% Q-o-Q and 28% Y-o-Y to Rs 7700 million. The margins fell 221 bps to 41.55% as against 43.76 in the previous quarter. The access lines increased 1.2% Q-o-Q and the ARPL increased 10.33% Q-o-Q to Rs 1794. RCOM is aggressively looking to increase its coverage.

OTHER HIGHLIGHTS OF THE CONFERENCE CALL

- **Difference in revenue reported:** The management clarified its stance regarding the difference in revenue reported to the exchanges and to TRAI. They said that certain revenues like high speed data card, VAS revenues and others although pertain to the wireless segment but do not attract license fees. The revenues reported to TRAI are meant for calculation of AGR therefore the revenue streams which do not attract license fees have not been reported.
- **Reliance Infratel:** The management indicated that they have started providing services to external tenants and would start booking revenues from external tenants from 3QFY10.
- **Capex:** The management maintained its guidance of Rs 10000 crore for FY10, but also indicated that the capex cycle has peaked out and that have spent only 20% of the indicated in the first 2 quarters. They also hinted at the fact that now the 3G auction costs would also be covered within the Rs 10000 crore capex, which was not the plan earlier.

Reliance Communication					
Rs million	Sep-09	Jun-09	Q-o-Q % Change	Sep-08	Y-o-Y % Change
Mobile Services	40100	47931	-16%	43356	-8%
(% of Total Gross Sales)	55%	63%		76.80%	
Global	22643	18844	20%	16915	34%
(% of Total Gross Sales)	31%	25%		29.96%	
Broadband	7700	6842	13%	6023	28%
(% of Total Gross Sales)	11%	9%		10.67%	
Others	2760	3031	-9%	2346	18%
(% of Total Gross Sales)	4%	4%		4.16%	
Total Gross Sales	73203	76648	-4%	68640	7%
<i>Less: Intersegment</i>					
<i>Eliminations</i>	16177	15196	6%	12190	33%
Total Net Sales	57026	61452	-7%	56450	1%
Access charges	4772	4811	-1%	5366	-11%
(% of Total Net Sales)	8%	8%		9.51%	
Licence fees	2913	3034	-4%	2958	-2%
(% of Total Net Sales)	5%	5%		5.24%	
Network operations costs	15919	13856	15%	10266	55%
(% of Total Net Sales)	28%	23%		18.19%	
Employee costs	3816	4112	-7%	4589	-17%
(% of Total Net Sales)	7%	7%		8.13%	
SG&A	9407	11114	-15%	10255	-8%
(% of Total Net Sales)	16%	18%		18.17%	
Total Operating Expenditure	36827	36927	0%	33434	10%
EBITDA	20199	24525	-18%	23015.8	-12%
(% of Total Net Sales)	35.42%	39.91%		41%	
Depreciation	7144	11144	-36%	9180	-22%
(% of Total Net Sales)	13%	18%		16%	
EBIT	13055	13381	-2%	13836	-6%
(% of Total Net Sales)	22.89%	21.77%		25%	
Interest (net)	6551	-6205	-206%	-2353	-378%
(% of Total Net Sales)	11%	-10%		-4%	
EBT	6504	19586	-67%	16188	-60%
(% of Total Net Sales)	11%	32%		29%	
Extra- Ord Items	-29	-111		-647	
PBT	6475	19475	-67%	15541	-58%
(% of Total Net Sales)	11%	32%		28%	
Tax	-1739	2267	-177%	-567	207%
(% of PBT)	-3%	4%		-4%	
PAT	8214	17208	-52%	16108	-49%
(% of Total Net Sales)	14%	28%		29%	
Minority Interest	811	842	-4%	800	1%
Adj PAT	7403	16366	-55%	15308	-52%
(% of Total Net Sales)	13%	27%		27%	

Source: Company, Jaypee Research

	Sep-09	Jun-09	Q-o-Q % Change	Sep-08	Y-o-Y % Change
Mobile Services					
Subscribers (mn)	86.11	79.62	8.16%	56.05	53.64%
ARPU (Rs)	161	210	-23.33%	271	-40.59%
MOU (minutes)	340	365	-6.85%	423	-19.62%
RPM (Rs)	0.47	0.58	-17.70%	0.64	-26.09%
Broadband Services					
Access Lines	1439000	1422000	1.20%	1259000	14.30%
ARPL (Rs)	1794	1626	10.33%	1668	7.55%
Buildings	1006807	967154	4.10%	857982	17.35%
Enterprise Services: NLD and ILD					
Minutes Carried NLD (mn minutes)	11205	10349	8.27%	7856	42.63%
Minutes Carried ILD (mn minutes)	2165	2209	-1.99%	1726	25.43%
<i>Source: Company, Jaypee Research</i>					

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