

Reliance Communications Ltd ----- Maintain UNDERPERFORM
4Q FY3/07 results preview

EPS: ◀▶ TP: ▶▶

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- Reliance Communications is expected to report its Mar-07 quarter results on 30 April.
- For the consolidated entity, we expect revenues of Rs40.9 bn (38% yoy), EBITDA margins of 41.5% (up 620 bps yoy) and net profit of Rs9.9 bn (124% yoy). Other income should also remain high on the back of rupee appreciation.
- Wireless business should remain the key driver in consolidated results, with 45% yoy revenue growth and 200 bps improvement in EBITDA margins yoy.
- Higher volumes of long distance traffic should compensate for lower tariffs in global business. This should drive revenue growth and margins.
- The broadband business should continue to grow strongly, driven by high subscriber adds and qoq flat ARPU.
- We believe that current consensus forecasts of ARPUs could be optimistic for corresponding subscriber forecasts. This could limit any upside in FY3/08 estimates. Maintain UNDERPERFORM .

Figure 2: Reliance Communications: 4QFY3/07 divisional estimates

Rs mn	Actual 4Q2006	Actual 3Q2007	CS Estimate 4Q2007	QoQ	YoY
Wireless					
Gross revenue	21,200	27,520	30,808	11.9%	45.3%
EBITDA	7,571	10,293	11,615	12.8%	53.4%
EBITDA margin (%)	35.7%	37.4%	37.7%		
Global					
Gross revenue	14,158	13,335	14,335	7.5%	1.2%
EBITDA	2,632	3,552	3,870	9.0%	47.1%
EBITDA margin (%)	18.6%	26.6%	27.0%		
Broadband					
Gross revenue	1,948	3,161	3,875	22.6%	98.9%
EBITDA	606	1,486	1,744	17.4%	187.8%
EBITDA margin (%)	31.1%	47.0%	45.0%		

Source: Company data, Credit Suisse estimates.

Figure 3: Reliance Communications: operational details, estimates

	Actual 4Q2006	Actual 3Q2007	CS Estimate 4Q2007	QoQ	YoY
Mobile subscribers ('000)	20,212	29,980	28,000	-6.6%	38.5%
Mobile ARPU (Rs)	379	328	354	8.0%	-6.5%
Mobile MoU	532	454	463	2.0%	-13.0%
Fixed line sub	2.56	5.30	6.53	23.2%	155.1%
Fixed line ARPU (Rs)	2,742	2,206	2,184	-1.0%	-20.4%

Source: Company data, Credit Suisse estimates.

Bbg/RIC	RCOM IN / RLCM.BO	Price (20 Apr 07, Rs)	456.40		
Rating (prev. rating)	U (U)	TP (Rs) (prev. TP)	385 (385)		
Shares outstanding (mn)	2,044.62	Est. pot. % chg. to TP	(16)		
Daily trad vol-6m avg (mn)	2.2	52-wk range (Rs)	515.10 - 194.70		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (Rs/US\$ bn)	933.2/ 21.6		
Free float (%)		Performance	1M 3M 12M		
Major shareholders	Reliance ADAG group 66.6%	Absolute	14.9 2.2 50.3		
		Relative	7.2 6.4 32.8		
Year	3/05A	3/06A	3/07E	3/08E	3/09E
Revenues (Rs mn)	0	107,663	147,398	215,554	287,286
EBITDA (Rs mn)		24,732	58,168	87,346	119,200
Net profit (Rs mn)		4,813	30,384	43,871	61,918
EPS (Rs)		2.2	14.9	21.5	30.3
- Change from prev. EPS (%)		n.a.	0	0	0
- Consensus EPS (Rs)		n.a.	14.8	22.1	30.0
EPS growth (%)		n.a.	584.5	44.4	41.1
P/E (x)		210.2	30.7	21.3	15.1
Dividend yield (%)		0.0	0.0	0.0	0.0
EV/EBITDA (x)		40.4	17.8	12.0	8.9
P/B (x)		7.9	6.3	4.9	3.7
ROE (%)		4.1	20.6	22.9	24.4
Net debt/equity (%)					

Note 1: Reliance Communications Ltd. offers integrated telephone services. The Company offers fixed line and wireless voice, data and video transmission services, and Internet access.

Figure 1: Reliance Communications: 4QFY3/07 consolidated estimates

Rs mn	Actual 4Q2006	Actual 3Q2007	CS Estimate 4Q2007	QoQ	YoY
Revenues	29,704	37,553	40,905	8.9%	37.7%
EBITDA	10,476	15,272	16,984	11.2%	62.1%
EBITDA margins	35.3%	40.7%	41.5%		
PBT	4,540	9,404	10,483	11.5%	130.9%
PAT	4,403	9,274	9,854	6.3%	123.8%

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 23 Apr 07)

Reliance Communication Ltd (RLCM.BO, Rs456.40, UNDERPERFORM, TP Rs385.00, MARKET WEIGHT)

Bharti Airtel Ltd (BRTI.BO, Rs845.55, UNDERPERFORM, TP Rs610.00, MARKET WEIGHT)

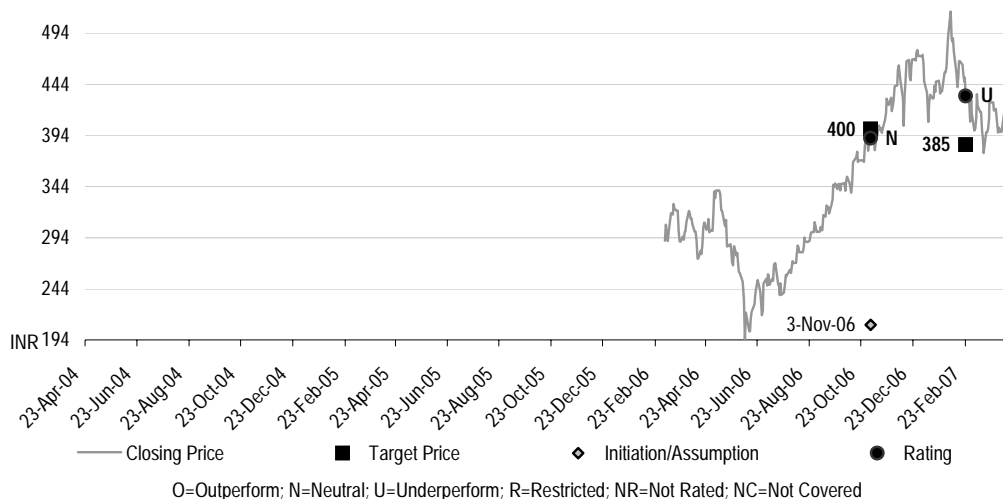
Disclosure Appendix

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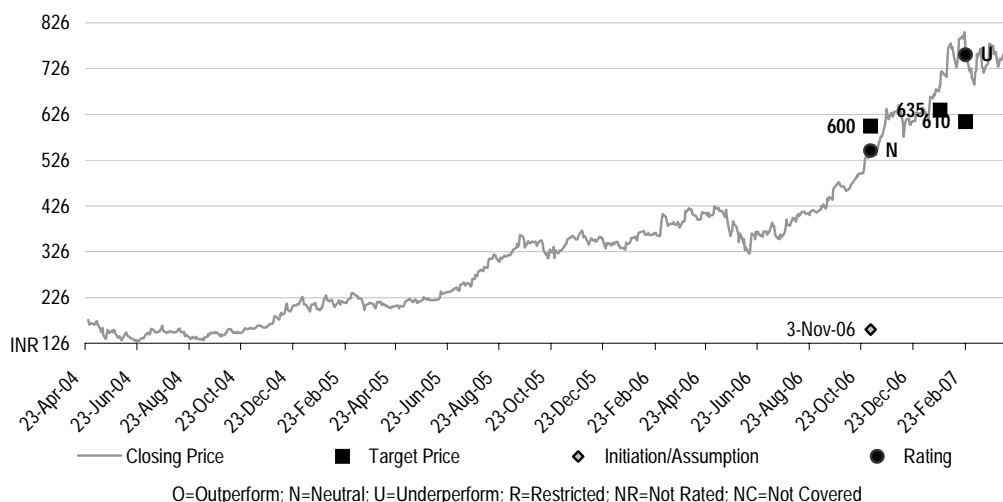
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3-Year Price, Target Price and Rating Change History Chart for RLCM.BO



RLCM.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
03-Nov-06	391	400	NEUTRAL	X
23-Feb-07	432.35	385	UNDERPERFORM	

3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



BRTI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
03-Nov-06	546.65	600	NEUTRAL	X
24-Jan-07	686.9	635		
23-Feb-07	756.1	610	UNDERPERFORM	

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Price Target: (12 months) for (RLCM.BO)

Method: Our 12-month target price of Rs385 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6 and beta of 1.2. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 3% terminal growth

Risks: Key risk to our target price of Rs385 for Reliance includes 1) execution risk of the shift to GSM network from CDMA network, 2) stronger than expected margin performance and 3) continuous uptrend in overall market

Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs610 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6.

Risks: Risks to our 12-month target price of Rs610 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

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