

# Highlights of analyst meet



## Merrill Lynch

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### Shrill pitch for tighter spectrum norms

Reliance Comm (RCom) shared with analysts the pitch it made earlier this week to the "expert committee on spectrum". RCom supports the TEC-recommended (GSM) spectrum criteria as a minimum threshold & said these criteria can be enhanced further by ~3x as TEC may not have considered some of the available optimization techniques. The Co is seeking 6.2Mhz start-up GSM spectrum & believes this will be adequate for its growth plans. RCom believes that both the TRAI & TEC norms are technically feasible in terms of site-configuration & inter-site distance. RCom sees room for 3-4 new GSM operators, & thinks the government could also re-farm available spectrum, as instanced in UK & US.

### We remain bullish on the sector despite policy hiccups

We maintain our bullish investment stance on the sector as earnings growth for the majors should stay robust over the next 12-months & untangling of recent disputes seems possible. While the government's review of spectrum norms is currently underway, risks of protracted litigation & rising political noise may pull all industry participants towards reconciliation.

### RCom points to high growth, good QoS, under-invt. by GSM

RCom said GSM majors had achieved significant subscriber growth despite overshooting Mar '06 spectrum thresholds; hence, the thresholds clearly need review. RCom also highlighted that 95% of the operators meet TRAI's prescribed quality of service benchmarks. Further, RCom's feedback from GSM vendors indicates under-deployment of innovative spectrum techniques by GSM majors.

### Potential capex saving of 10-15% due to excess spectrum

RCom estimates that excess spectrum (vs TEC criteria) of 2-3Mhz available with the GSM majors could imply ~10-15% site-savings & similar capex savings.

### Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	4,813	31,934	50,561	63,125	75,511
EPS	2.35	15.19	23.44	29.26	35.00
EPS Change (YoY)	NA	545.4%	54.3%	24.9%	19.6%
Dividend / Share	0	0.500	1.24	1.54	1.85
Free Cash Flow / Share	0.165	22.29	(12.59)	(23.87)	(34.83)

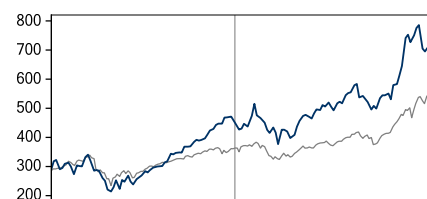
### Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	286.68x	44.42x	28.80x	23.06x	19.28x
Dividend Yield	0%	0.074%	0.183%	0.229%	0.274%
EV / EBITDA*	58.09x	25.03x	18.04x	13.52x	9.98x
Free Cash Flow Yield*	0.024%	3.29%	-1.87%	-3.54%	-5.16%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 4.

### Stock Data

Price	Rs674.85
Price Objective	Rs950.00
Date Established	1-Nov-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs371.25-Rs815.00
Mrkt Val / Shares Out (mn)	US\$34,836 / 2,052.2
Average Daily Volume	2,291,888
ML Symbol / Exchange	RLCMF / BSE
Bloomberg / Reuters	RCOM IN / RLCM.BO
ROE (2008E)	22.2%
Net Dbt to Eqty (Mar-2007A)	8.9%
Est. 5-Yr EPS / DPS Growth	30.0% / 20.0%
Free Float	33.3%



– RCVL – Bombay S.E. National Index

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Refer to important disclosures on page 5 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

# iQprofile<sup>SM</sup> Reliance Communication Ltd.

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
<b>(Rs Millions)</b>					
Sales	110,314	144,683	193,040	263,483	368,538
Gross Profit	24,652	57,206	79,362	105,926	143,439
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	7,665	32,553	51,084	71,985	92,322
Net Interest & Other Income	(2,515)	(4)	3,282	(706)	(7,057)
Associates	NA	NA	NA	NA	NA
Pretax Income	5,150	32,550	54,366	71,280	85,265
Tax (expense) / Benefit	(337)	(616)	(3,806)	(8,154)	(9,754)
Net Income (Adjusted)	4,813	31,934	50,561	63,125	75,511
Average Fully Diluted Shares Outstanding	2,045	2,102	2,157	2,157	2,157

## Key Cash Flow Statement Data

Net Income (Reported)	4,813	31,934	50,561	63,125	75,511
Depreciation & Amortization	16,987	24,653	28,278	33,940	51,117
Change in Working Capital	17,304	56,192	53,389	47,261	80,579
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	(121)	0	0	0
Cash Flow from Operations	39,104	112,658	132,228	144,327	207,207
Capital Expenditure	(38,767)	(67,086)	(158,059)	(193,313)	(278,678)
(Acquisition) / Disposal of Investments	0	(11,925)	(21)	0	0
Other Cash Inflow / (Outflow)	0	(17,570)	0	0	0
Cash Flow from Investing	(38,767)	(96,581)	(158,080)	(193,313)	(278,678)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	0	(1,196)	(2,920)	(3,639)	(4,348)
Cash Flow from Financing	0	(1,075)	(2,920)	(3,639)	(4,348)
Free Cash Flow	337	45,572	(25,831)	(48,986)	(71,472)
Net Debt	32,938	18,238	47,010	99,636	175,455
Change in Net Debt	36	(14,579)	28,772	52,625	75,820

## Key Balance Sheet Data

Property, Plant & Equipment	214,263	330,423	460,204	619,577	847,138
Other Non-Current Assets	121	11,925	11,946	11,946	11,946
Trade Receivables	16,808	18,316	23,432	31,982	44,734
Cash & Equivalents	60,038	137,200	98,937	70,727	66,087
Other Current Assets	28,508	40,747	27,425	37,432	52,357
Total Assets	319,738	538,611	621,943	771,664	1,022,262
Long-Term Debt	92,976	155,438	145,947	170,363	241,542
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	109,247	179,186	224,368	290,187	398,443
Total Liabilities	202,223	334,624	370,315	460,550	639,985
Total Equity	117,515	203,987	251,628	311,115	382,278
Total Equity & Liabilities	319,738	538,611	621,943	771,664	1,022,262

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	NA	10.3%	12.9%	14.5%	14.8%
Return On Equity	8.2%	19.9%	22.2%	22.4%	21.8%
Operating Margin	6.9%	22.5%	26.5%	27.3%	25.1%
EBITDA Margin	22.3%	39.5%	41.1%	40.2%	38.9%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	8.1x	3.5x	2.6x	2.3x	2.7x
Asset Replacement Ratio	2.3x	2.7x	5.6x	5.7x	5.5x
Tax Rate (Reported)	6.5%	1.9%	7.0%	11.4%	11.4%
Net Debt-to-Equity Ratio	28.0%	8.9%	18.7%	32.0%	45.9%
Interest Cover	3.0x	NM	NA	NM	13.1x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Description

Reliance Communication Ventures (RCVL) ranks among the largest private telecom operators in India. It has dominant wireless and long-distance businesses and is present in the fixed-line and broadband segments. RCVL also owns 100% of the global undersea cable FLAG. RCVL was listed in Mar '06 as a result of the de-merger of Reliance Industries. The Anil D. Ambani group is the promoter-shareholder of RCVL.

## Stock Data

Price to Book Value 5.5x

## Price objective basis & risk

### Reliance Communication (RLCMF; C-1-7; Rs675)

Our PO of Rs950/sh for Reliance Communication is driven by 1) ~Rs865/sh for RCom's core telecom biz implying an EV/EBITDA of ~15x 1-year forward based on the upper end of Bharti's trading pattern; 2) ~Rs70/sh for external tenants on RCom's tower subsidiary (RTIL) & 3) ~Rs15/sh towards land for which RCom has recently received SEZ approval.

Key risks stem from: 1) unexpected failure to execute in the tower-sharing business; 2) unexpected growth slowdown in the Indian wireless market, 3) unforeseen financial burden from likely 3G auctions.

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30 November 2007

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

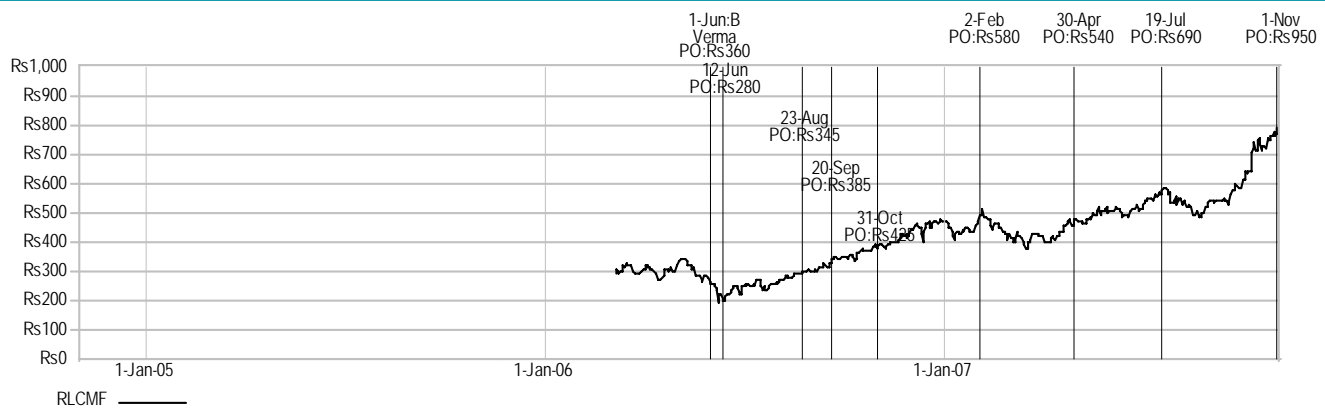
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B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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### Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	46.49%	Buy	19	26.76%
Neutral	81	43.78%	Neutral	18	26.09%
Sell	18	9.73%	Sell	4	30.77%

### Investment Rating Distribution: Global Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

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