



Not-rated

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**RCVL**

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**Leveraging the power of scale and technology**

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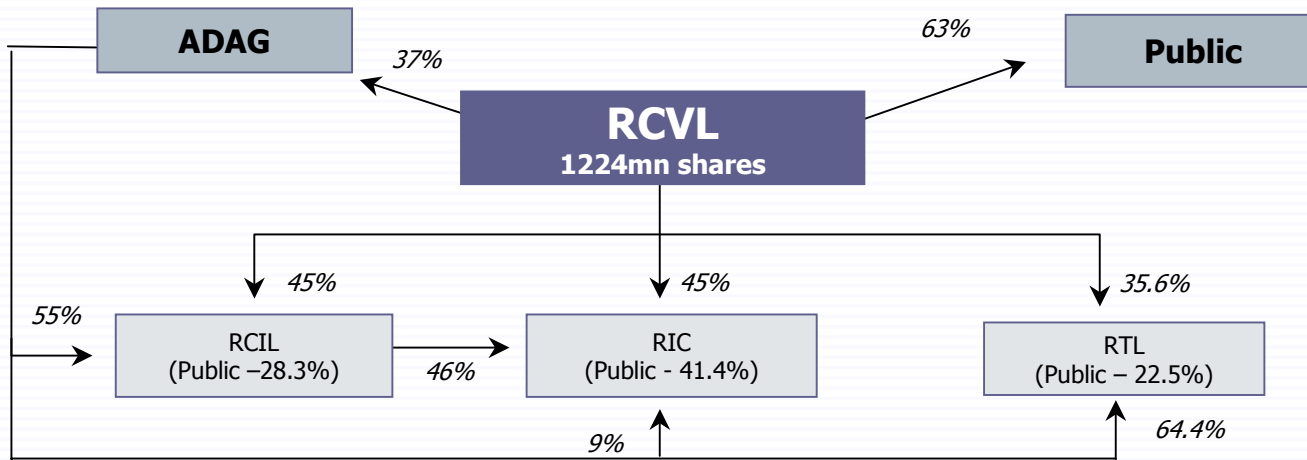
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# Current share holding structure



## Economic Interest

| in ⇨<br>Of ↓  | RCIL                          | RIC   | RTL                               |
|---------------|-------------------------------|---|-----------------------------------|
| <b>ADAG</b>   | $55\% + 37\% * 45\% = 71.7\%$ | $9\% + 55\% * 46\% + 37\% * 45\% + 37\% * 45\% * 46\% = 58.6\%$ | $64.4\% + 37\% * 35.6\% = 77.5\%$ |
| <b>Public</b> | $63\% * 45\% = 28.3\%$        | $63\% * 45\% + 63\% * 45\% * 46\% = 41.4\%$                     | $63\% * 35.6\% = 22.5\%$          |

- **Reliance Communication Infrastructure (RCIL) holds the entire network excluding the mobile network. This is leased to RIC on an IRU basis**
- **Reliance Infocom (RIC) holds the CDMA mobile business and the assets of FLAG/FALCON**
- **Reliance Telecom (RTL) holds the the GSM mobile assets and business**

# Consolidation will lead to dilution

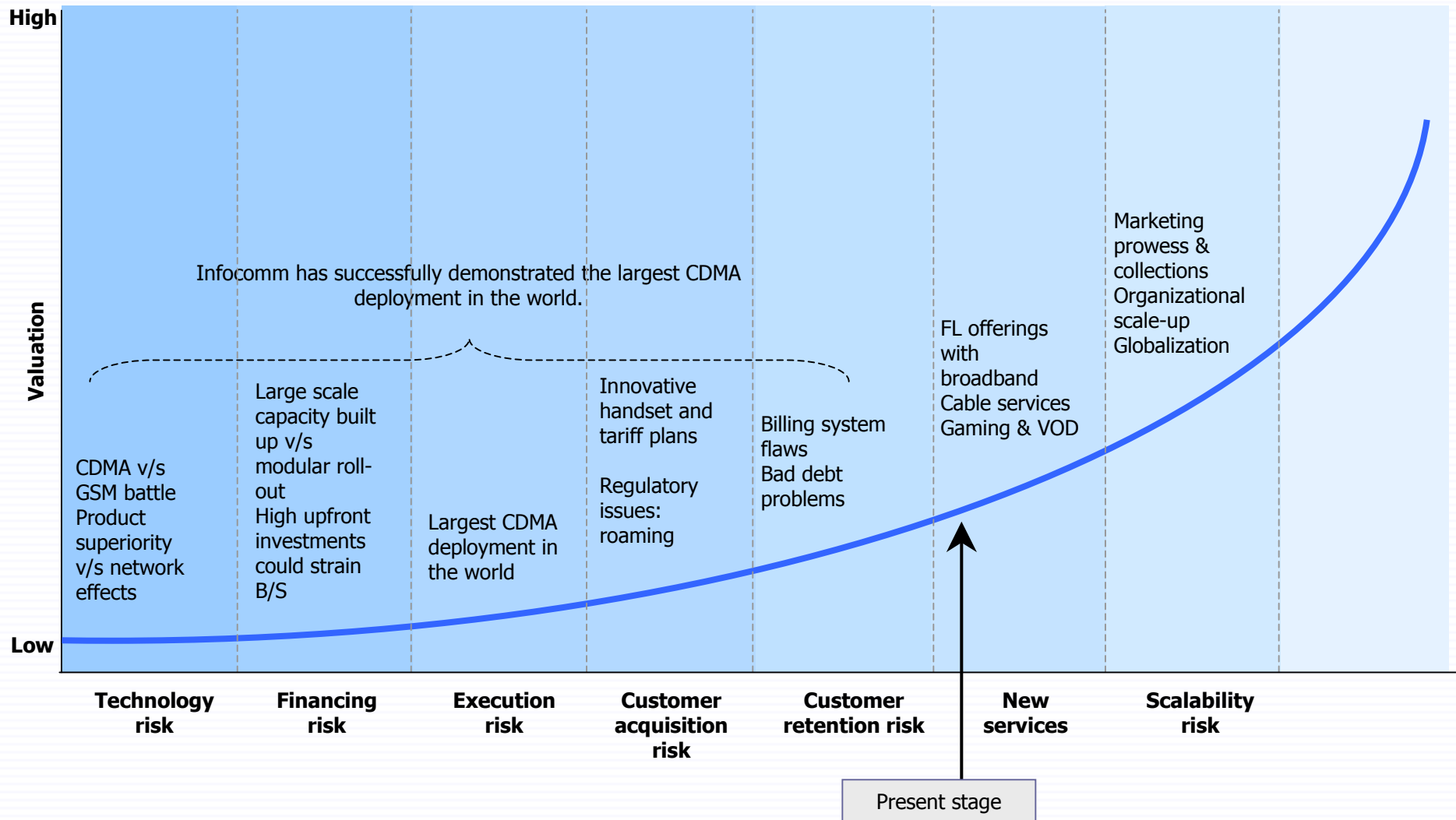
- **Promoter Group (ADAG) has indicated that structure will collapse into a single entity**
  - ADAG would have to exchange its shares in RCIL, RIC and RTL into those of RCVL.
  
- **The relative valuation of RCIL and RIC will determine the increase in shares of RCVL and the potential dilution for the public.**
  - We have attributed 20% of the equity value of entire Infocom business to RCIL- the infrastructure company
  - We estimate ADAG shareholding at 61% on an expanded equity of around 1988mn shares
  - Valuation of Reliance Telecom will have minimal impact due to its low value
  
- **RCVL has declared a proforma 3QFY06 net profit of Rs 3.1bn**
  - This includes 100% of profits of RCIL, RIC and RTL

|                                 |     | ADAG | Public | Total no. of shares (mn) |
|---------------------------------|-----|------|--------|--------------------------|
| Value share of RCIL in RCVL (%) | 15% | 61%  | 39%    | 1955                     |
|                                 | 20% | 61%  | 39%    | 1988                     |
|                                 | 25% | 62%  | 38%    | 2022                     |
|                                 | 30% | 63%  | 37%    | 2057                     |
|                                 | 35% | 63%  | 37%    | 2094                     |

# Investment Summary

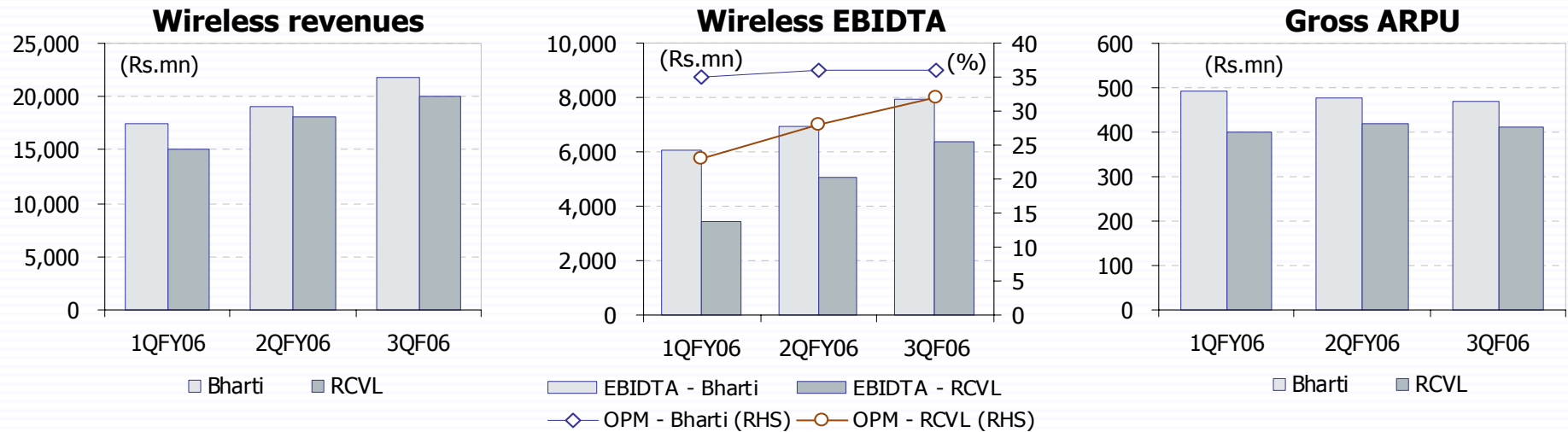
- **RIC has been conceived to enable 3 revolutions: Wireless, Enterprise broadband and Consumer broadband**
  - Mobile business uses a fraction of the capability and capacity of the network
  - Enterprise broadband and consumer broadband will unleash its full potential
- **The relative valuation of RCIL and RIC will determine the increase in shares of RCVL and the potential dilution for the public.**
  - We have based our analysis on an expanded equity base of 1988mn shares
- **Valuation of existing business (wireless, long distance and enterprise) benchmarked to Bharti – we estimate a base case value of around \$10.5bn**
  - This translates into a share price of Rs 237 (assuming 1988m shares)
- **Potential upside from Consumer broadband (CBB) is around \$4bn (base case)**
  - This is based on assumptions for addressable market and RCVL market share
  - This translates into a share price of Rs 91 (assuming 1988m shares)
  - We realize that CBB opportunity carries significant execution risk and use a discount rate of 25%
- **Our forecasts for RCVL (FY07E): Revenue - Rs 161bn (\$4.4bn), EBIDTA - Rs 46bn (\$1bn)**
- **Our medium term target price for RCVL is Rs 340-350 per share**

# Reliance Infocomm: the story so far....



Source: ENAM Research

# Wireless: lagging Bharti by a year



## ➔ Compared to Bharti, RCVL's

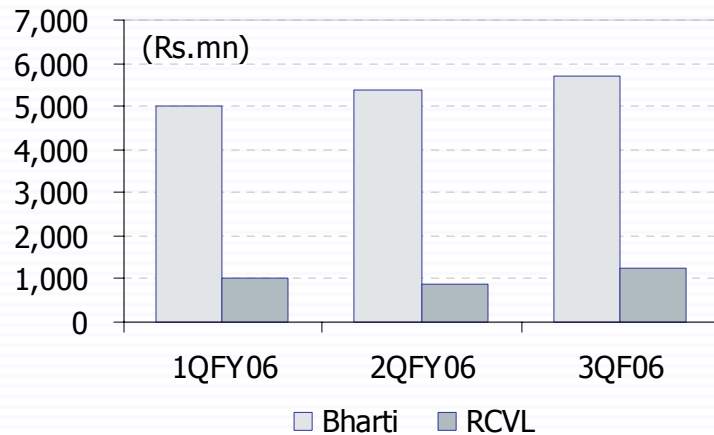
- Gross ARPU and net ARPU is at a 12% and 19% discount in 3QFY06
- However MoU at 547mins is 33% higher
- Overall, revenue per minute is lower by 34%

## ➔ Accounting treatment of handset revenues and subsidy not clear

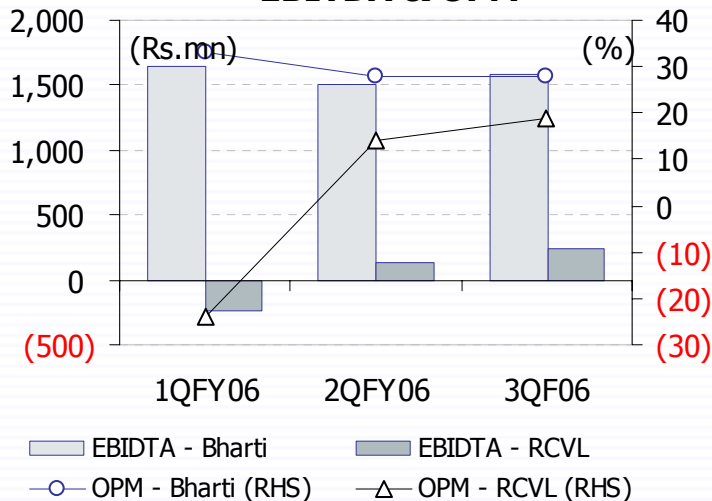
- We believe there is a 'cash' subsidy of around Rs 800-1000 even on the entry-level handset
- We have not been able to consolidate the potential revenue from handset sales with the wireless revenues

# Enterprise broadband (EBB) needs to scale rapidly

**Revenue**



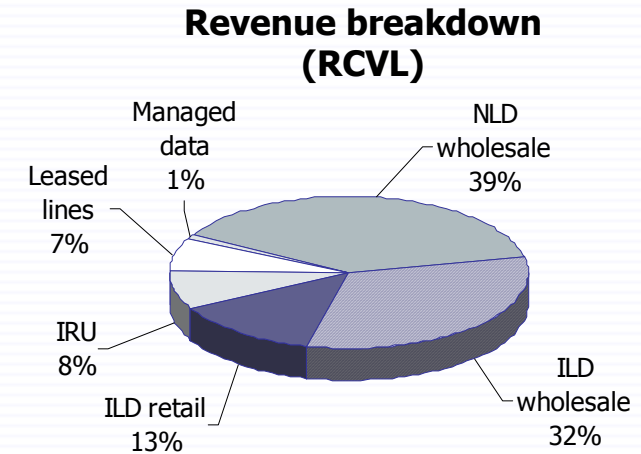
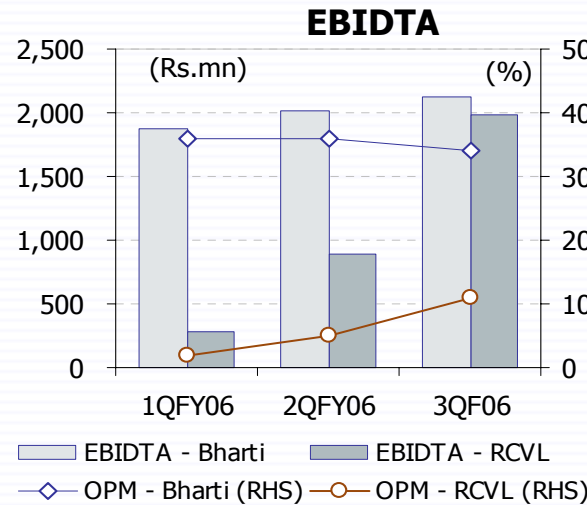
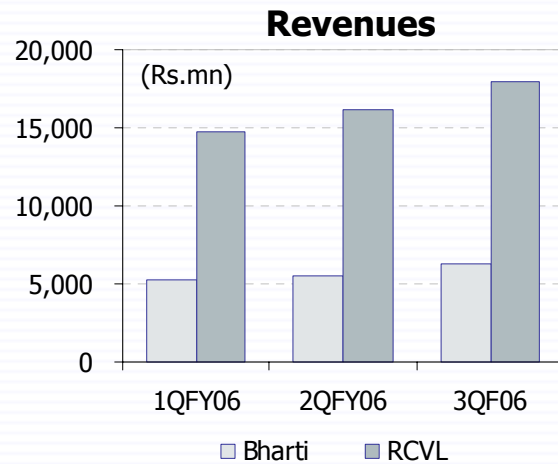
**EBITDA & OPM**



- ➔ **RCVL needs to significantly ramp up its EBB business**
  - RCVL has a technological edge in this business which it needs to translate into tangible financials
- ➔ **Currently operational in 29 cities**
  - Fiber rings in business districts and close to commercial buildings are operational
    - ▶ buildings passed – 50,000
- ➔ **RCVL offers around 14 products and services by leveraging its fibre-rich network**
  - Products include Centrex, E1 DID, MPLS – VPN
- ➔ **50% share of the IDC (hosting) biz**



# Long Distance: Leveraging FLAG in key to margin expansion



- ➔ **RCVL EBIDTA has steadily climbed to a level comparable that of Bharti**
- ➔ **RCVL claims a 46% share of the International Long Distance (ILD) minutes**
  - We estimate total ILD minutes (incoming + outgoing) at around 10bn in FY06E
- ➔ **Dominant share of the US-India retail volumes**
  - We understand RCVL's India calling card has a 40% share US-India retail voice traffic
- ➔ **FLAG has turned +ve at the EBIDTA level**

# RCVL: Closing the gap with Bharti..

|                                 | Bharti      |             |             | RCVL         |              |             |
|---------------------------------|-------------|-------------|-------------|--------------|--------------|-------------|
|                                 | 1QFY06      | 2QFY06      | 3QF06       | 1QFY06       | 2QFY06       | 3QF06       |
| <b>Customers</b>                |             |             |             |              |              |             |
| Wireless (mn)                   | 12.26       | 14.07       | 16.33       | 11.65        | 13.00        | 14.68       |
| Fixed Wireless/Wireline         | 0.93        | 1.06        | 1.20        | 1.72         | 2.09         | 2.57        |
| Total (m)                       | 13.19       | 15.13       | 17.53       | 13.37        | 15.08        | 17.25       |
| Mkt share - wireless            | 21.6%       | 21.8%       | 21.7%       | 20.5%        | 20.2%        | 19.5%       |
| <b>Network Coverage</b>         |             |             |             |              |              |             |
| Census Tows                     | -           | -           | 3,300       | -            | -            | 3,684       |
| Villages                        | -           | -           | -           | -            | -            | 235,971     |
| Population                      | -           | -           | 38%         | -            | -            | 54%         |
| Backbone (rkms)                 | -           | -           | 30,000      | -            | -            | 60,000      |
| Traffic (mn mins/day)           | 148         | 170         | 208         | -            | -            | 320         |
| MoU (mins)                      | 383         | 388         | 411         | 510          | 568          | 547         |
| Gross ARPU (Rs/month)           | 493         | 476         | 470         | 399          | 420          | 412         |
| Net ARPU (Rs/month)             | 345         | 338         | 336         | 255          | 266          | 271         |
| Revenue per minute              | 1.29        | 1.23        | 1.14        | 0.78         | 0.74         | 0.75        |
| <b>Income Statement (Rs bn)</b> |             |             |             |              |              |             |
| <b>Revenues</b>                 | <b>25.2</b> | <b>27.1</b> | <b>30.3</b> | <b>25.4</b>  | <b>27.9</b>  | <b>33.3</b> |
| Access and IUC                  | 4.9         | 4.9         | 5.6         | 7.1          | 8.2          | 8.3         |
| Total Operating Expenses        | 13.3        | 14.2        | 16.0        | 15.2         | 13.9         | 14.5        |
| License Fee                     | 2.4         | 2.7         | 3.0         | 1.4          | 1.6          | 2.0         |
| Total Cost                      | 15.8        | 16.9        | 19.1        | 23.7         | 23.7         | 24.8        |
| <b>EBIDTA</b>                   | <b>9.4</b>  | <b>10.2</b> | <b>11.2</b> | <b>1.7</b>   | <b>4.2</b>   | <b>8.5</b>  |
| Net Interest                    | 0.1         | 0.8         | 0.9         | 0.4          | 0.5          | 1.3         |
| Depreciation & Amortization     | 3.4         | 3.7         | 4.0         | 3.8          | 3.8          | 4.0         |
| PBT                             | 6.0         | 5.8         | 6.4         | (2.4)        | (0.2)        | 3.2         |
| <b>PAT before minority int</b>  | <b>5.2</b>  | <b>5.3</b>  | <b>5.5</b>  | <b>(2.5)</b> | <b>(0.2)</b> | <b>3.1</b>  |

RCVL customer base is largely similar to that of Bharti – however there are significant differences in ARPU, MoU and churn rates

Though RCVL topline is similar to that of Bharti, a divisional breakdown reflects the fact that RCVL has yet to scale its enterprise and broadband business

The largest difference is in Access charges and license fee as a % of sales. RCVL's Access charges and license fee amount to 28% and 6% as compared to 18% and 10% for Bharti

The increase in EBIDTA for RCVL in 3Q06 is largely driven by less than proportionate increase in Access charges and license fees

# ..but enterprise biz yet to scale up

## Divisional Performance

| (Rs. bn)                 | Bharti |        |       | RCVL   |        |       |
|--------------------------|--------|--------|-------|--------|--------|-------|
|                          | 1QFY06 | 2QFY06 | 3QF06 | 1QFY06 | 2QFY06 | 3QF06 |
| <b>Revenues (Rs. bn)</b> |        |        |       |        |        |       |
| Wireless                 | 17.5   | 19.1   | 21.7  | 15.1   | 18.1   | 20.0  |
| Long distance            | 5.2    | 5.6    | 6.3   | 14.8   | 16.2   | 17.9  |
| Broadband & Enterprise   | 5.0    | 5.4    | 5.7   | 1.0    | 0.9    | 1.3   |
| Intersegment             | (2.5)  | (2.9)  | (3.5) | (6.3)  | (7.3)  | (5.9) |
| Total                    | 25.2   | 27.1   | 30.3  | 24.5   | 27.9   | 33.3  |
| <b>EBIDTA (Rs. bn)</b>   |        |        |       |        |        |       |
| Wireless                 | 6.1    | 6.9    | 7.9   | 3.4    | 5.1    | 6.4   |
| Long distance            | 1.9    | 2.0    | 2.1   | 0.3    | 0.9    | 2.0   |
| Broadband & Enterprise   | 1.6    | 1.5    | 1.6   | (0.2)  | 0.1    | 0.2   |
| Others/corp office       | (0.2)  | (0.3)  | (0.4) | (1.8)  | (1.9)  | (0.1) |
| Total                    | 9.4    | 10.2   | 11.2  | 1.7    | 4.2    | 8.5   |
| <b>Margins (%)</b>       |        |        |       |        |        |       |
| Wireless                 | 34.8   | 36.5   | 36.5  | 22.7   | 28.0   | 31.9  |
| Long distance            | 35.9   | 36.3   | 33.7  | 1.9    | 5.5    | 11.1  |
| Broadband & Enterprise   | 32.8   | 28.1   | 27.6  | (23.8) | 14.4   | 19.0  |
| Total                    | 37.4   | 37.7   | 37.0  | 6.8    | 14.9   | 25.5  |

# RCVL: Valuation of current business

|                                | Bharti      |             | RCVL        |             |
|--------------------------------|-------------|-------------|-------------|-------------|
|                                | FY06E       | FY07E       | FY06E       | FY07E       |
| <b>Wireless</b>                |             |             |             |             |
| Mobile subs India              | 89          | 125         | 89          | 125         |
| Mkt share                      | 21.5%       | 21.5%       | 19.3%       | 19.3%       |
| Co mobile subs                 | 19.17       | 26.83       | 17.2        | 24.1        |
| FWT                            |             |             | 3.0         | 4.2         |
| <b>Total subs</b>              | <b>19.2</b> | <b>26.8</b> | <b>20.2</b> | <b>28.2</b> |
| ARPU                           | 462         | 402         |             | 342         |
| <i>Discount to Bharti</i>      |             |             |             | 85%         |
| Revenues                       | 83,581      | 110,936     | 75,046      | 99,194      |
| Margin                         | 35%         | 36%         |             | 33%         |
| EBIDTA                         | 28,835      | 39,382      |             | 32,734      |
| <b>Long distance</b>           |             |             |             |             |
| Revenue                        | 23,785      | 25,979      | 68,570      | 85,713      |
| YoY                            |             |             |             | 25%         |
| Margin                         | 30.5%       | 30.0%       |             | 13%         |
| EBIDTA                         | 7,254       | 7,794       | -           | 11,143      |
| <b>Enterprise</b>              |             |             |             |             |
| Revenue                        | 22,627      | 30,703      | 4,556       | 7,290       |
| YoY                            |             | 25%         |             | 60%         |
| Margin                         | 32.8%       | 29.7%       |             | 30%         |
| EBIDTA                         | 7,433       | 9,120       |             | 2,187       |
| Less Intersegment              | (13,545)    | (15,492)    | (25,935)    | (31,122)    |
| Total Revenues (Rs mn)         | 116,448     | 152,127     | 122,237     | 161,075     |
| Total EBIDTA (Rs mn)           | 43,850      | 56,766      |             | 46,064      |
| <b>EV/EBIDTA</b>               | <b>16</b>   | <b>13</b>   |             | <b>11</b>   |
| EV                             | 719,929     |             | 506,700     |             |
| Net debt (Rs mn)               | 38,000      |             | 36,000      |             |
| Equity value (Rs mn)           | 681,929     |             | 470,700     |             |
| Equity value (\$bn)            | 15.2        |             | 10.5        |             |
| No of shares                   | 1889        |             | 1,988       |             |
| <b>Equity value (Rs/share)</b> | <b>361</b>  |             | <b>237</b>  |             |

## Wireless assumptions:

- RIC to maintain its wireless mkt-share
- Expect EBIDTA margins to average 33% as against 32% in 3QFY06E

## Long Distance assumptions

- We have assumed it to grow at the same rate as that of Bharti
- Expect EBIDTA margins of around 13% as against 11% in 3QFY06E.
- 30% of revenues are currently accounted by US-India calling card where the margin will be around 9-10%

## Enterprise business assumptions:

- RIC to grow at faster rate than Bharti (low base)
- Expect EBIDTA margins to average 30% as against 19% in 3QFY06E

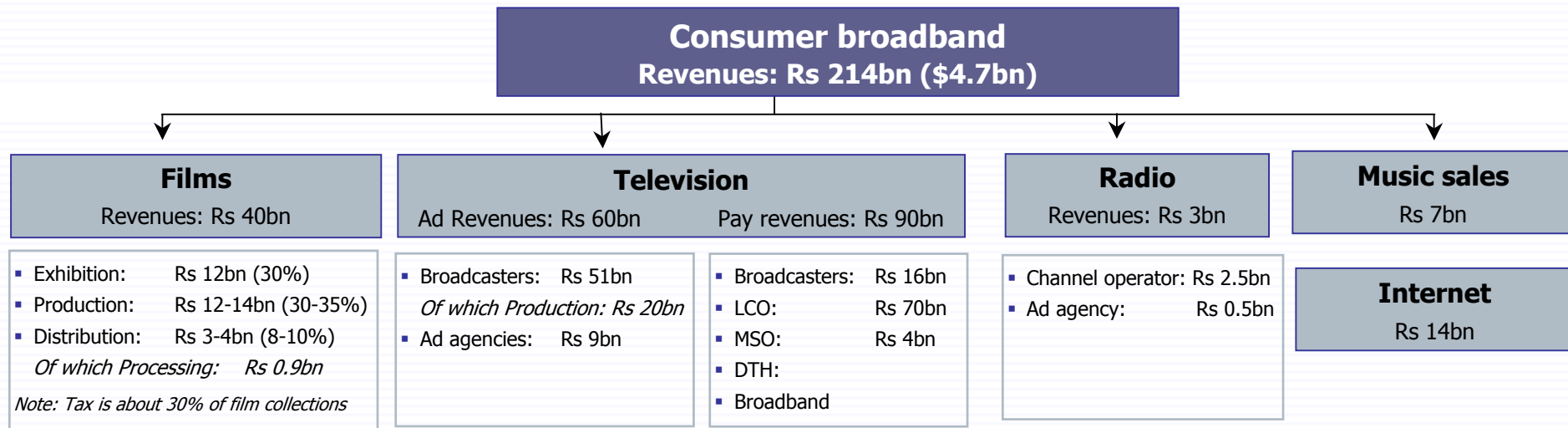
## Valuation

- Bharti currently trades at an FY07 EV/EBIDTA multiple of 12x and 13x for consensus and ENAM estimates respectively

# DCF valuation for existing business

| (Rs. bn)<br>Year                  | FY07<br>1   | FY08<br>2   | FY09<br>4   | FY10<br>5   | FY11<br>6   | FY12<br>7   | FY13<br>8   | FY14<br>9   | FY15<br>10  | FY16<br>11  | FY17<br>12  | FY18<br>13  |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Key Assumptions (%)</b>        |             |             |             |             |             |             |             |             |             |             |             |             |
| Cost of equity                    | 18.0        |             |             |             |             |             |             |             |             |             |             |             |
| Cost of debt                      | 7.5         |             |             |             |             |             |             |             |             |             |             |             |
| Discount rate                     | 14.0        |             |             |             |             |             |             |             |             |             |             |             |
| Terminal growth rate of cash flow | 4.0         |             |             |             |             |             |             |             |             |             |             |             |
| Growth in invested capital (%)    | 30          | 20          | 20          | 20          | 15          | 15          | 15          | 13          | 11          | 8           | 6           | 4           |
| Asset turn (x)                    | 1.57        | 1.51        | 1.50        | 1.55        | 1.65        | 1.75        | 1.85        | 1.70        | 1.55        | 1.40        | 1.25        | 1.10        |
| EBIDTA margin (%)                 | 21.5        | 25.0        | 30.4        | 32.5        | 36.0        | 39.8        | 42.5        | 40.7        | 39.1        | 37.7        | 36.8        | 36.6        |
| Tax rate (%)                      | 0.0         | 0.0         | 0.0         | 2.0         | 4.0         | 6.0         | 8.0         | 13.4        | 18.8        | 24.2        | 29.6        | 35.0        |
| <b>Implicit ROIC (%)</b>          | <b>22.9</b> | <b>27.2</b> | <b>30.0</b> | <b>33.4</b> | <b>41.2</b> | <b>49.4</b> | <b>56.2</b> | <b>44.8</b> | <b>35.0</b> | <b>26.7</b> | <b>19.9</b> | <b>14.3</b> |
| Sales                             | 192         | 240         | 286         | 355         | 453         | 553         | 672         | 711         | 731         | 730         | 707         | 660         |
| EBIDTA                            | 41          | 60          | 87          | 115         | 163         | 220         | 285         | 289         | 286         | 276         | 260         | 241         |
| Less Tax                          | 0           | 0           | 0           | (2)         | (5)         | (10)        | (18)        | (29)        | (38)        | (45)        | (47)        | (46)        |
| Total Cash Inflow                 | 41          | 60          | 87          | 114         | 158         | 210         | 268         | 260         | 247         | 231         | 213         | 195         |
| Capex                             | 54          | 70          | 91          | 105         | 115         | 126         | 136         | 136         | 133         | 131         | 128         | 125         |
| Change in working capital         | (4)         | (22)        | (23)        | (22)        | (29)        | (24)        | (18)        | (9)         | (1)         | 5           | 8           | (16)        |
| Total cash outflow                | 50          | 49          | 68          | 83          | 86          | 101         | 118         | 127         | 132         | 135         | 136         | 109         |
| Free Cash Flow                    | (9)         | 11          | 19          | 31          | 72          | 109         | 150         | 134         | 115         | 96          | 77          | 86          |
| PV of Cash flow                   | 323.1       |             |             |             |             |             |             |             |             |             |             |             |
| PV of Terminal Value              | 127.3       |             |             |             |             |             |             |             |             |             |             |             |
| Less Opening Net Debt (Net cash)  | 36.0        |             |             |             |             |             |             |             |             |             |             |             |
| Equity value (Rs bn)              | 414         |             |             |             |             |             |             |             |             |             |             |             |
| Equity value (\$ bn)              | 9.2         |             |             |             |             |             |             |             |             |             |             |             |
| No of shares                      | 1988        |             |             |             |             |             |             |             |             |             |             |             |
| <b>Equity value (Rs/share)</b>    | <b>207</b>  |             |             |             |             |             |             |             |             |             |             |             |

# Consumer broadband: Sizing the revenue opportunity



- ➔ **\$5bn existing market will explode with increase in broadband penetration**
  - We have Current broadband penetration stands at 10% of total internet connections
- ➔ **Current landscape**
  - Under capitalized and poorly regulated cable industry does not have the resources to upgrade technology
  - Incumbent telcos have rolled out broadband internet and are conducting trials of IPTV
- ➔ **RCVL strategy: FTTH architecture to provide Gigabit Ethernet**
  - IP-enable network to deliver voice, cable, internet, VOD, gaming etc.
  - Content acquisition and applications being ramped up
  - R-World acting as a laboratory – providing valuable consumer insights to RCVL.

Source: ENAM Research

# Consumer Broadband Business Scenarios

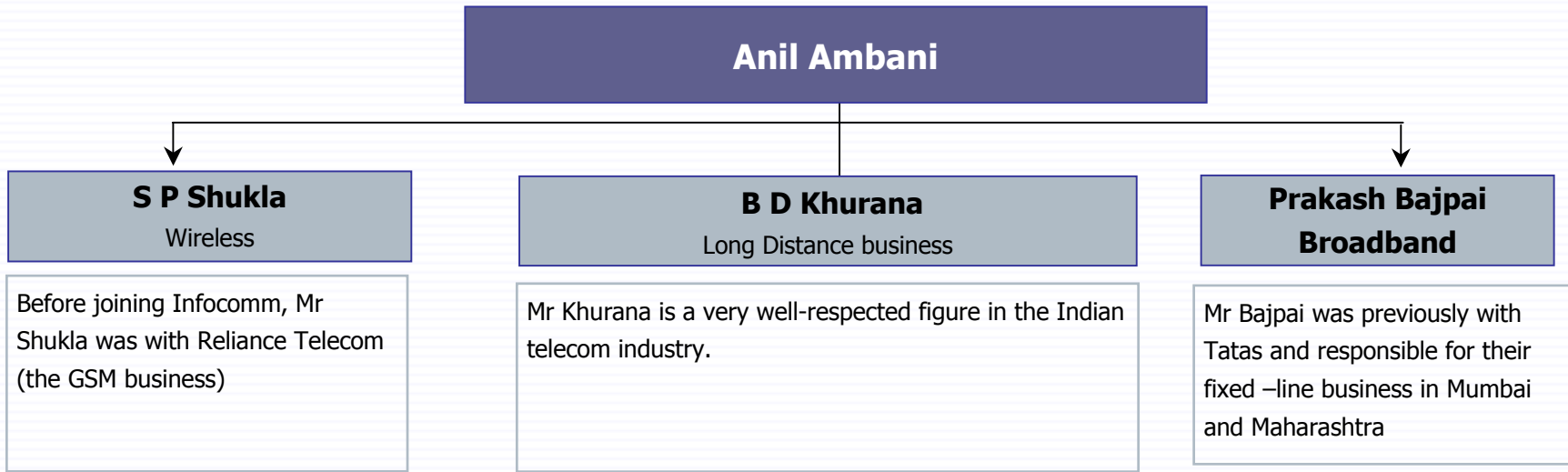
|   | FY2009     |              |             |             | Comment/Assumption  |
|---|------------|--------------|-------------|-------------|---|
|   | Current    | Optimistic   | Pessimistic | Most Likely |   |
| <b>Cable Homes (mn) - All India</b>         | <b>60</b>  | <b>91.25</b> |             |             | Current cable homes based on NRS estimates.<br>Growth assumed @10% p.a                                |
| Share of cable homes in top 200 cities      |            | 50%          | 50%         | 50%         |   |
| <b>Addressable Mkt -Top 200 cities (mn)</b> |            | <b>45.6</b>  | <b>45.6</b> | <b>45.6</b> | We believe this is a realistic estimate   |
| <b>ARPU (Rs/month)</b>                      |            |              |             |             |   |
| - Cable                                     | 250        | 333          | 289         | 289         | Current ARPU is based on TRAI report Sept'05  |
| YoY growth                                  |            | 10%          | 5%          | 5%          |   |
| - Internet                                  | 200        | 200          | 123         | 146         | Current ARPU based on post-paid mobile ARPU in Metro & Cat A circles as per TRAI                      |
| YoY growth                                  |            | 0%           | -15%        | -10%        |   |
| - Voice                                     | 700        | 700          | 430         | 510         | Current ARPU based on post-paid mobile ARPU in Metro & Cat A circles as per TRAI                      |
| YoY growth                                  |            | 0%           | -15%        | -10%        |   |
| - Value added services<br>% of cable ARPU   |            | 100<br>30%   |             | 58<br>20%   | <i>Non-voice revenues currently account for 10% of mobile ARPU - we have benchmarked against that</i> |
| Total ARPU (Rs/month)                       | 1,150      | 1,333        | 842         | 1,009       |   |
| <b>ARPU p. a (\$)</b>                       | <b>307</b> | <b>355</b>   | <b>224</b>  | <b>268</b>  | Bharti's current Fixed line/broadband ARPU is ~\$302  |
| Addressable Mkt by 2009 ( \$ bn)            |            | 16.2         | 10.2        | 12.2        |   |
| <b>Projections</b>                          |            |              |             |             |   |
| <b>Estimated Market share</b>               |            | <b>30%</b>   | <b>15%</b>  | <b>20%</b>  | Average mkt share (FY2009) of RCVL  |
| Subscribers (mn)                            |            | 13.7         | 6.8         | 9.1         |   |
| Revenues (\$ bn)                            |            | 4.9          | 1.5         | 2.4         |   |
| EBITDA (40% margin)                         |            | 1.9          | 0.6         | 1.0         | RCVL has indicated this level of margin.  |
| <b>Valuation</b>                            |            |              |             |             |   |
| <b>EV/EBITDA (X)</b>                        |            | <b>12</b>    | <b>10</b>   | <b>10</b>   |   |
| EV (\$ bn in April 2009)                    |            | 23.3         | 6.1         | 9.8         |   |
| Implied EV/Sub (\$, in 2009)                |            | 1,706        | 898         | 1,070       | Bharti's mobile subscriber currently trades at EV of ~\$740   |
| Discounting Rate                            | 25%        |              |             |             |   |
| EV Discounted to present (\$ bn)            |            | 12.0         | 3.1         | 5.1         |   |
| Net debt (\$ bn)                            |            | 1.0          | 1.0         | 1.0         | We believe RCVL will have to spend \$1bn for CBB  |
| Equity value (\$ bn)                        |            | 11.0         | 2.1         | 4.0         | which will debt-financed  |
| <b>Equity value (Rs/ share)</b>             |            | <b>247</b>   | <b>48</b>   | <b>91</b>   | Assuming 1998 shares  |

# Valuation comparison

| Company Name | Price/<br>FV | Mkt Cap<br>(Rs.bn) | Period | Net sales<br>(Rs.mn) | Sales<br>gwth (%) | EBITDA<br>(Rs.mn) | PAT<br>(Rs.mn) | EBITDA<br>margin (%) | FDEPS<br>(Rs.) | EPS gwth<br>(%) | RoCE<br>(%) | RoE<br>(%) | Adj.P/E<br>(x) | EV/<br>EBITDA (X) | Mkt cap/<br>sales (x) |
|--------------|--------------|--------------------|--------|----------------------|-------------------|-------------------|----------------|----------------------|----------------|-----------------|-------------|------------|----------------|-------------------|-----------------------|
| Bharti       | 376<br>10    | 710                | FY04   | 48,320               |                   | 15,970            | 5,076          | 33.1                 | 2.7            |                 | 9.8         | 12.7       | 137.3          | 46.9              | 14.7                  |
|              |              |                    | FY05   | 80,028               | 66                | 30,128            | 14,977         | 37.6                 | 8.1            | 195             | 17.1        | 30.2       | 46.5           | 24.8              | 8.9                   |
|              |              |                    | FY06E  | 116,448              | 46                | 43,850            | 22,717         | 37.7                 | 12.0           | 49              | 20.2        | 33.4       | 31.3           | 17.1              | 6.1                   |
|              |              |                    | FY07E  | 152,127              | 31                | 56,766            | 29,190         | 37.3                 | 15.5           | 28              | 20.8        | 31.0       | 24.3           | 13.2              | 4.7                   |
| VSNL         | 367<br>10    | 105                | FY04   | 31,642               |                   | 5,306             | 3,434          | 16.8                 | 12.1           |                 | 5.9         | 6.4        | 30.5           | 19.7              | 3.3                   |
|              |              |                    | FY05   | 33,030               | 4                 | 7,691             | 3,338          | 23.3                 | 11.7           | (3)             | 5.9         | 6.1        | 31.3           | 13.6              | 3.2                   |
|              |              |                    | FY06E  | 37,586               | 14                | 8,358             | 3,639          | 22.2                 | 12.8           | 9               | 6.0         | 6.2        | 28.8           | 12.5              | 2.8                   |
|              |              |                    | FY07E  | 44,543               | 19                | 9,752             | 4,455          | 21.9                 | 15.6           | 22              | 7.1         | 7.3        | 23.5           | 10.7              | 2.3                   |
| MTNL         | 144<br>10    | 91                 | FY04   | 63,696               |                   | 19,500            | 11,505         | 30.6                 | 18.3           |                 | 5.9         | 6.4        | 7.9            | 2.3               | 1.6                   |
|              |              |                    | FY05   | 55,924               | (12)              | 13,478            | 9,390          | 24.1                 | 14.9           | (18)            | 5.9         | 6.1        | 9.6            | 3.4               | 1.9                   |
|              |              |                    | FY06E  | 50,983               | (9)               | 9,536             | 7,129          | 18.7                 | 11.3           | (24)            | 6.0         | 6.2        | 12.7           | 4.8               | 2.1                   |
|              |              |                    | FY07E  | 56,066               | 10                | 11,896            | 8,039          | 21.2                 | 12.8           | 13              | 7.1         | 7.3        | 11.3           | 3.8               | 1.9                   |



# Key management personnel



# In conclusion

- **Significant visibility of existing business - \$10.5bn valuation sustainable**
  - Discount to Bharti is warranted to lower quality of customer base
- **Consumer broadband opportunity – a leap of faith**
  - Our high discount rate and conservative assumptions factor in the execution/time-duration risk
- **Impact of management change**
  - Transition has been relatively smooth
  - Wireless net adds have started to gain momentum after a lull
  - Core professional managers have helped maintain continuity
- **We reiterate our medium term price target of Rs 340-350**



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# Appendix

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**RCVL Network Infrastructure**  
**RCVL business strategy**

# RCVL: Network Infrastructure and Technology

- **Wireless Network: CDMA 1X RTT, Radio Network largely from Lucent**
  - Network dimensioned for 30m subscribers
  - Pan-India coverage; rivaled only by that of incumbent BSNL
  - RTL has a GSM network largely in the East and North-east states of India
- **Backbone: Optic Fibre with DWDM, Ericsson Switches**
  - 60,000 route-kilometers, fully integrated network, IP-based network
  - DWDM ensures that capacity can be scaled significantly
  - Current only 1-2 lambdas have been lit
- **Metro Ethernet**
  - Self healing rings in 200 cities/towns. G655 fiber which can transmit upto 64 lambdas of 10Gbps each
  - The base-stations of the CDMA radio-network are connected to this ring network
  - Currently enterprise business is operational in 29 cities which utilize these self-healing rings
- **FLAG & FALCON**
  - FLAG – 52,000 km global network. Connects the high-demand regions of Asia-Pac and Indian subcontinent
  - FALCON – 11,500 cable kilometers, 4 fiber pair, 2.56 Tbps capacity
    - ▶ Project cost of \$400m. To be fully commissioned by 2QFY07
- **Internet data Centre**
  - 205,000 sqft of space, 600TB capacity, Level 3
- **Centralized Network Operating Centre**
  - The FLAG Network is also being integrated into this NOC which will provide seamless connectivity across the entire Infocomm infrastructure

# Wireless Strategy- To effect a disruptive change

## ➤ Offering based on a robust, scalable, Technology platform

- CDMA 1x 2000 RTT network currently dimensioned for 30m subscribers
  - ▶ High initial capacity and lower cost/erlang (than GSM) especially under “coverage-constrained” conditions.
  - ▶ Supports high speed wireless data services and facilitates smooth and cost effective transition to EV-DO/EV-DV i.e. 3G

## ➤ Pan-India network from inception enabling a compelling value proposition

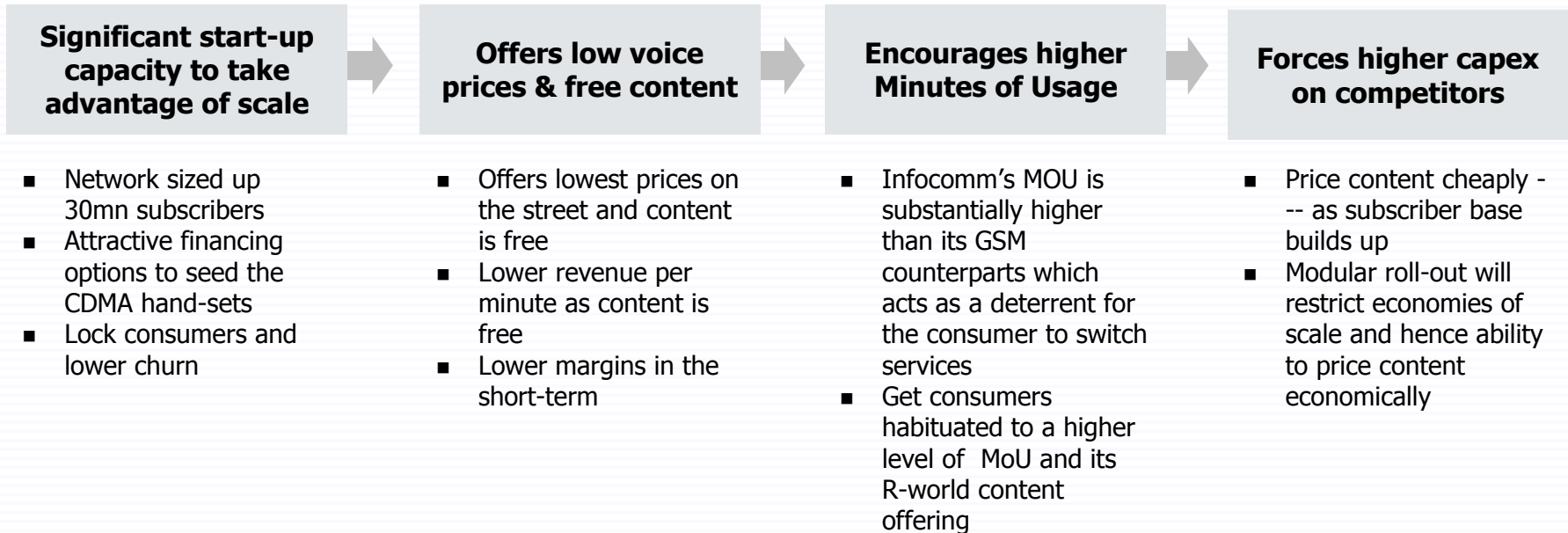
- Leveraged the network effect which lead a rapid subscriber ramp-up
- National roaming at very low cost
- Data-enabled handsets even at the low-end of the price band
- Walled-garden approach to Data through the **R-World Platform** - News Clips; Movie Clips; Games; Sports apart from the usual SMS, MMS etc.

## ➤ Unparalleled distribution network and Customer Touch Points

- Reliance Webworlds – a unique distribution model
  - ▶ multifunctional outlets which provide localized customer care, broadband cyber cafes offering internet, multiplayer gaming, video conferencing etc.

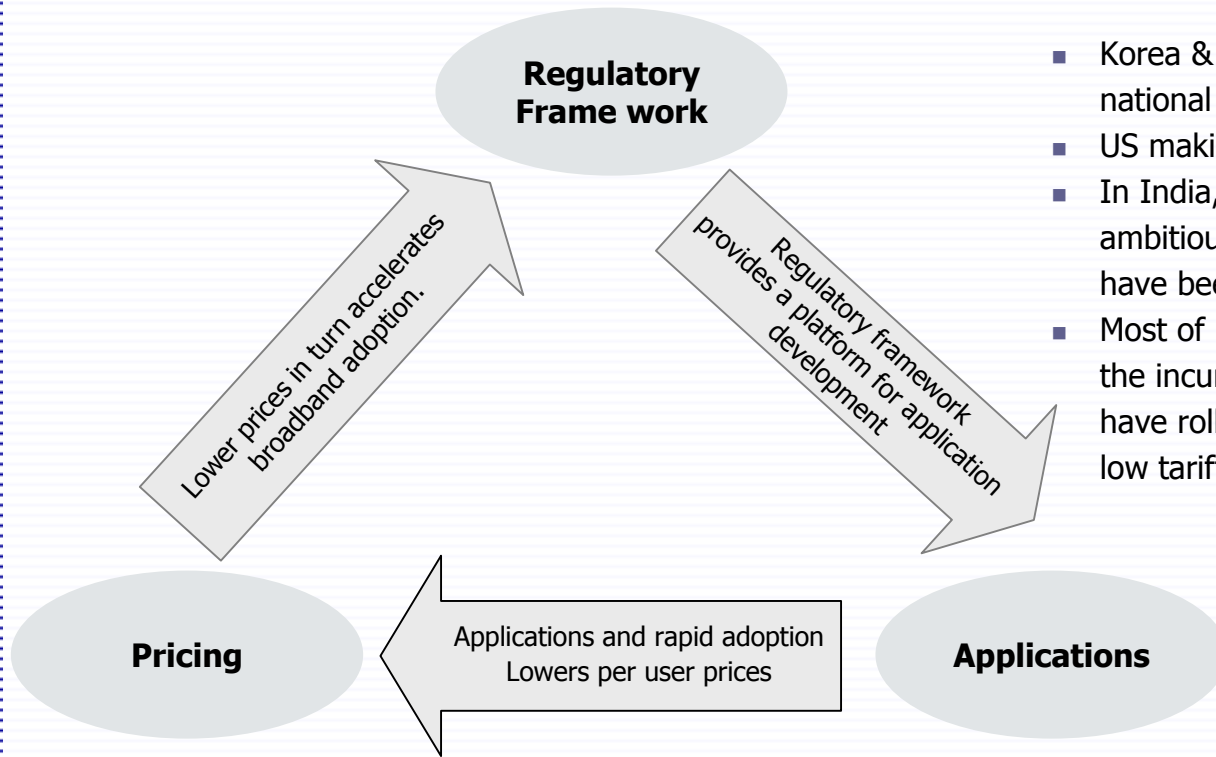
# Wireless strategy: Micro-economics

## ➤ The strategy to expand the leadership margin...



# Broadband : the key drivers...

## The key drivers of broadband penetration

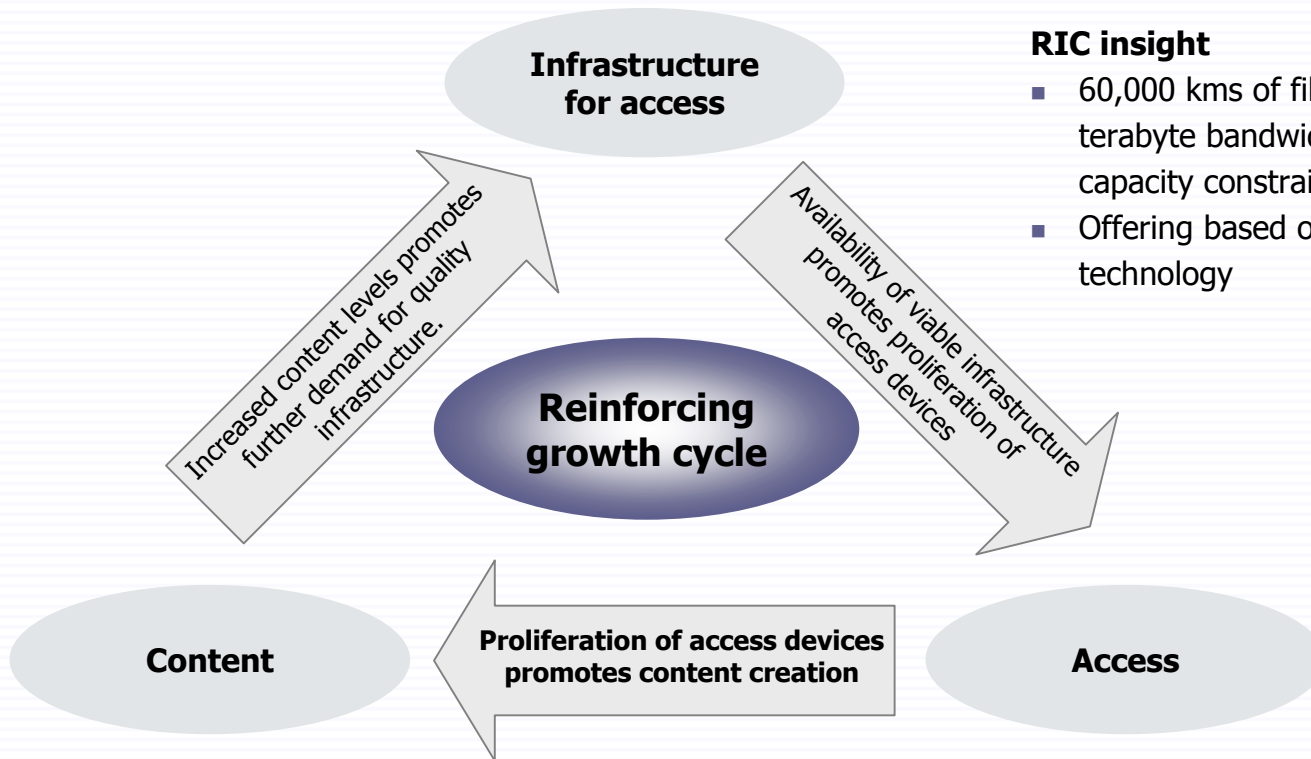


- Korea & Japan have benefited from focused national policy
- US making a strong push in recent times
- In India, through the government had set an ambitious target of 3m by Dec-2005, there have been no significant policy initiatives.
- Most of initiatives have been routed through the incumbent telcos (BSNL & MTNL) which have rolled out DSL based broadband at very low tariffs (\$10/month)

- BSNL has an offer which bundles a basic PC with its broadband offering.
- The consumer pays for the PC and the subscription on a monthly basis.

- Applications such as VOD, gaming, etc. facilitate broadband penetration
- Local language content necessary for mass broadband adoption
- Top 10 websites in Korea are local regional content

# Reliance CBB Strategy: plugging it all



### RIC insight

- 60,000 kms of fiber optic roll-out supporting terabyte bandwidth capacity – ensures no capacity constraints well into the future
- Offering based on Gigabit ethernet technology

### RIC insight

- Wireless content portal offering nearly 70 applications helps understand consumer behavior
- Gaming applications under development
- Retail outlets show-casing broadband offerings
- Regional content

### RIC insight

- IP based set-top box – to ensure open platform and benefit from scale.
- *We understand the RCVL has discontinued its earlier plan to use its in-house developed proprietary set-top box*
- Microsoft IPTV platform to deliver television



# Consumer Broadband offering

**A high speed optical Gigabit Ethernet network supported by an IP-based Set-Top Box**

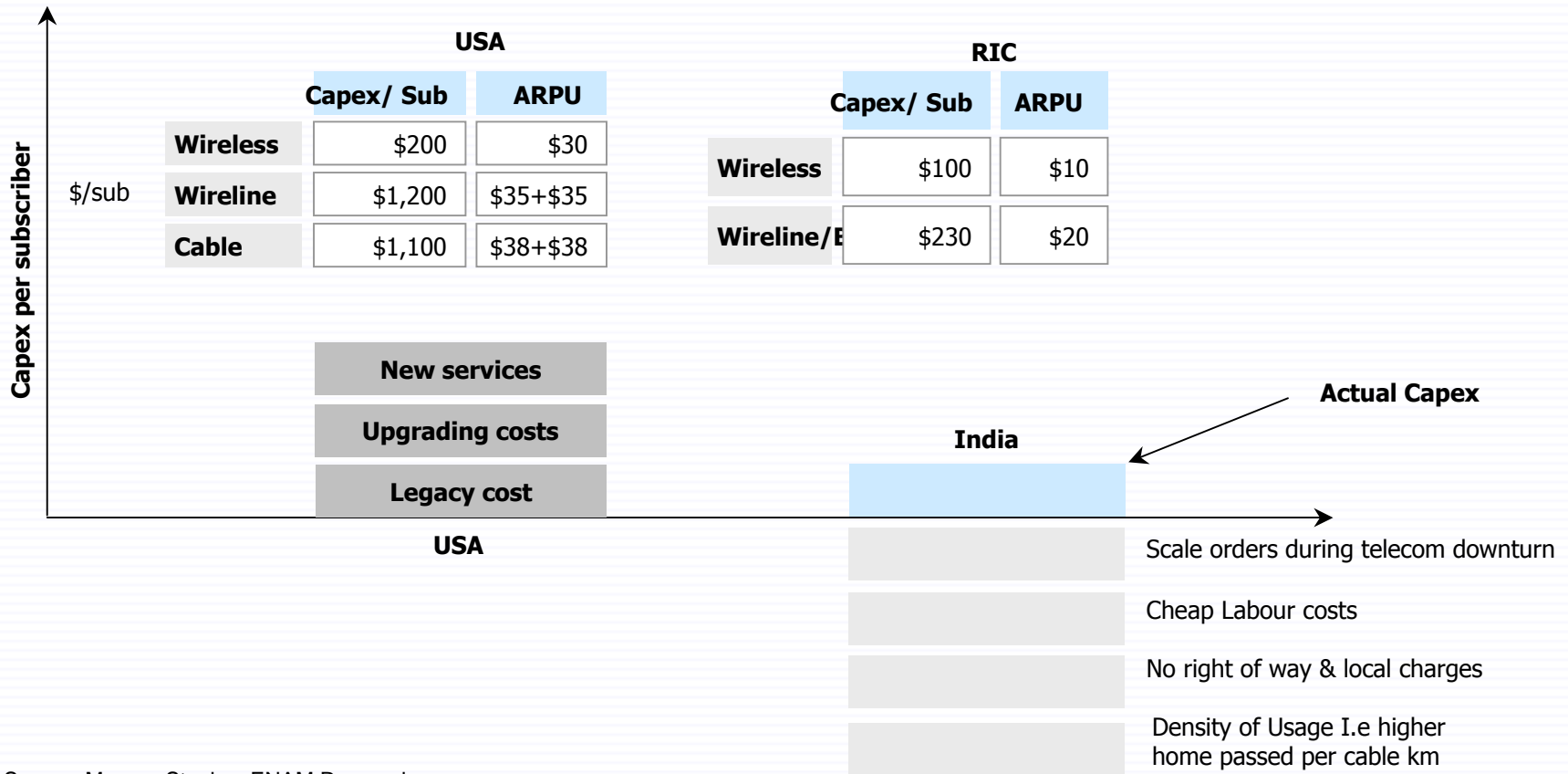
- **Entering the residential Cable TV / Home Entertainment market with Triple Play of Voice, Video and Data services at affordable prices**
  - Digital TV
  - EPG, Time Shifted TV, PVR
  - Video on Demand
  - Video Conferencing
  - VoIP
  - Email, SMS, Chat
  - Information and Community Portal
  - Broadband Internet
  - IP Telephony
  - Interactive TV/ Games
  - Home Security

# Enterprise Broadband Business offering

- **Metro ethernet network architecture providing bandwidth of 10/100 Mbps to each customer by taking Fiber to the Building**
  - One Partner Addressing all Info Communication needs – Fully Integrated and Seamless Solution driven on the back of a Converged Network
  
- **Products / Services Offered**
  - POTS, Mobile
  - Universal Access Numbers, Audio Conferencing, Video Conferencing
  - NLD / ILD
  - Hosting Services
  - Leased Lines
  - Broadband Internet Access
  - Data Applications – Accounting, Sales Force Management, Fleet Management etc.
  - Critical Leased Lines

**Full suite of voice & data products and applications**

# Capex comparison: the competitive advantage



Source: Morgan Stanley, ENAM Research

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# Thank You

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