

Equities

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Reliance Communications (RLCM.BO)

Alert: Takeaways from Citi India Investor Conference

■ Industry Overview

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- **Takeaways from Mumbai** – Reliance Communication presented at the Citi India Investor Conference in Mumbai. Below are the key takeaways.
- **Minutes rebalancing will take 1-2 more quarters** – The rebalancing of low margin PCO minutes is likely to take 1-2 more quarters. The primary reason behind the rebalancing has been to free up the CDMA spectrum for high speed data services (on EVDO), which the company has aggressively expanded in the last quarter.
- **Rev/min has stabilized** – Voice rev/min should remain broadly stable/slightly decline and any large-scale tariff cuts by new entrants looks unlikely given operating losses and funding constraints. Blended rev/min could move up if data pickup is strong. Current non-voice wireless revenues at 20% are higher compared to the GSM incumbents and the EVDO/3G services should help increase this proportion further.
- **Focus on B/S** – Capex guidance for FY12E is Rs15bn; low versus our current estimates of Rs27bn and should help improve the net debt position (FY11E net debt ex-equipment supplies payable stood at Rs320bn). We believe the low capex guidance is unlikely to hurt the company in the near/medium term given it has cushion of a relatively low network utilization.
- **Other updates** – 1) Absolute subscriber loss at ~4m from MNP is low (in context to overall sub base) and the company has been a net gainer in overall value terms from MNP (in the last 3-4 weeks), and 2) tower portfolio is currently at 50,000 towers with 1.75x tenancy (captive tenancy is at 1.6x).

(RLCM.BO; Rs93.05; 1H)

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Reliance Communications

Valuation

Our target price of Rs127 comprises (i) core business value of Rs110, based on 6.3x Mar-12E EV/EBITDA, at a 25% discount to Bharti's implied target multiple; plus (ii) towerco value accretion of Rs25 based on long-term external tenancy of 0.5x. We believe a 25% discount to Bharti on the core business valuation is justified on account of the inherent risks of dual network and higher leverage. Our towerco net value accretion of Rs25 is based on the following assumptions: 1) Long-term tenancy of 2.15x with captive tenancy of 1.65x; 2) Capex recovery of 12%, 3) WACC of 11.3% and terminal growth rate of 3%. Note that the incremental value accretion to RCOM is calculated after netting off the contribution from the captive tenancy. Thus, it only reflects the value of the external revenues. We reduce Rs8/share from the on cash outgo based on a 50% probability of the Government charging the "market" value for the GSM spectrum allotted in 2008 for Rs16.5bn (market value estimated at ~Rs49bn for 4.4MHz based on 3G spectrum thrice as efficient as 2G).

Risks

Our risk-rating system, which tracks 260-day share price volatility, assigns a Medium Risk rating to RCOM. We however believe a High Risk is appropriate given lackluster business momentum and possible penalties by the Government on 2G spectrum especially in the context of its high leverage. Key downside risks that could prevent the stock from reaching our target price include: 1) Further deterioration in core business, 2) higher-than expected penalties related to GSM spectrum allotted in 2008 and 3) inability to deleverage through asset sale.

Appendix A-1

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Reliance Communications (RLCM.BO)

Ratings and Target Price History Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



Chart current as of 28 May 2011

	Date	Rating	Target Price	Closing Price
1	31-Jul-08	*2L	*530.00	500.05
2	2-Nov-08	*2H	*270.00	220.70
3	26-Jan-09	*3H	*150.00	160.15
4	30-Apr-09	3H	*190.00	214.95

* Indicates change

	Date	Rating	Target Price	Closing Price
5	28-May-09	3H	*270.00	297.35
6	2-Aug-09	*2M	*310.00	275.65
7	8-Oct-09	*3M	*210.00	246.30
8	12-Dec-09	3M	*160.00	183.65

	Date	Rating	Target Price	Closing Price
9	8-Jul-10	3M	*165.00	187.95
10	22-Nov-10	3M	*155.00	149.30
11	16-Mar-11	*1H	*127.00	102.95

Rating/target price changes above reflect Eastern Standard Time

Reliance Communications (RLCM.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010

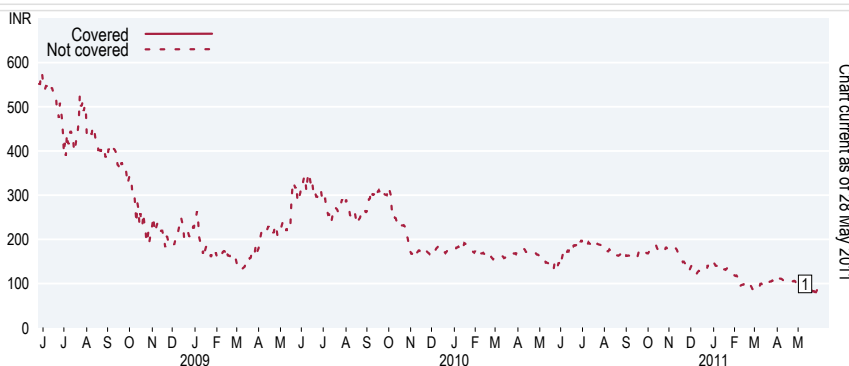


Chart current as of 28 May 2011

	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	91.55

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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