

June 28, 2010

ACCUMULATE

Price Rs 201	Target Price Rs 228
Sensex	17,774

Price Performance

(%)	1M	3M	6M	12M
Absolute	37	20	15	(35)
Rel. to Sensex	30	19	13	(46)

Source: Bloomberg

Stock Details

Sector	Telecommunications
Reuters	RLCM.BO
Bloomberg	RCOM@IN
Equity Capital (Rs mn)	10320
Face Value (Rs)	5
No of shares o/s (mn)	2064
52 Week H/L (Rs)	320/132
Market Cap (Rs bn/USD mn)	416/9,015
Daily Avg Vol (No of shares)	9532523
Daily Avg Turnover (US\$ mn)	34.8

Shareholding Pattern (%)

	Mar'10	Dec'09	Sep'09
Promoters	67.6	67.5	67.2
FII/NRI	9.0	8.8	10.7
Institutions	9.7	9.6	9.8
Private Corp	2.4	2.8	2.4
Public	11.3	11.3	10.0

Source: Capitaline

Tower hive-off to improve BS health and unlock value

- **RCOM's agrees to hive-off 50,000 towers into GTL Infra in return for cash, debt transfer and equity in GTL Infra, to be decided later**
- **EV of resultant entity at Rs500bn implies value of RCOM's towers at Rs348bn, i.e. EV/tower at Rs 7mn &EV/tenant at Rs 4mn**
- **RCOM's net-debt/EBIDTA to reduce from 3.6x for FY10 to 2.2x post deal assuming debt transfer of Rs150bn along with towers**
- **Upgrade stock from REDUCE to ACCUMULATE with target price Rs228 (v/s Rs152 earlier). Failure of successful deal completion remains risk**

Deal size of Rs500bn implies EV of RCOM's tower biz at Rs348bn

RCOM has agreed to hive-off its 50,000 towers into GTL Infra in return for cash & equity in GTL Infra with deal size estimated at Rs500bn. The aggregate tenancy of 125,000 implies EV of RCOM towers at Rs348bn with EV/tenant valuation of Rs4mn (ahead of recent deal of GTL Infra-Aircel at Rs3.5mn) and EV/tower value of RCOM's towers at Rs7mn, based on tenancy proportion.

We estimate FY10 tower EBIDTA at Rs18.5bn, residual EBIDTA Rs60bn

While the FY10 financial details of RCOM's tower business is not known, we estimate the FY10 revenue and EBIDTA from the same at Rs26.4bn and Rs18.5bn based on prevailing market rentals. We highlight that FY09 revenue and EBIDTA of Reliance Infratel include revenues from optic assets and hence is not right indicator of tower business performance.

Residual biz valuation at 5.6x FY10 EV/EBIDTA

Our estimated tower biz EBIDTA for FY10 at Rs18.5bn implies residual FY10 EBIDTA at Rs60.4bn. At CMP of Rs194, RCOM's residual EV (after adjusting for the EV of tower biz) stands at Rs337bn implying FY10 residual business valuation at 5.6x EV/EBIDTA, which is at decent discount to Bharti Airtel's EV/EBIDTA of 7.5x.

Deal addresses key concern of high debt and unlocks shareholder value - upgrade to ACCUMULATE with target Rs228.

While the deal to hive-off tower business is yet to be finalized and successfully completed, we view the same to be significantly positive for RCOM as it addresses the prime concern of very high gearing (3.6x FY10 net-debt/EBIDTA reducing to 2.2x post deal) and also unlocks value for shareholders. Considering the residual business valuation at 5.6x FY10 EV/EBIDTA as against 7.5x for Bharti Airtel, we upgrade the stock from REDUCE to ACCUMULATE with target price of Rs228 based on 6.75x residual EV/EBIDTA (10% discount to Bharti).

While we await details on the deal structure and actual consideration being received by RCOM and its shareholders, we highlight that successful completion of the deal remains key risk to our call on the stock.

Financial Snapshot (Consolidated)

YE-	Net	EBITDA		EPS	ROCE	EV/			
Mar	Sales	(Core)	(%)	APAT	(%)	P/E	EBITDA	P/BV	
FY09	229,411	92,875	40.5	51,285	24.8	8.9	7.8	6.7	1.1
FY10	222,502	78,869	35.4	35,555	17.2	6.1	11.3	7.6	1.0
FY11E	239,930	79,850	33.3	32,942	16.0	6.0	12.2	8.6	0.9
FY12E	253,645	77,814	30.7	28,338	13.7	5.1	14.1	8.7	0.8

Source: Company, Emkay Research

Reliance Infratel financials include revenue from optic assets

The financial details of Reliance Infratel as mentioned in the table below include revenues and profitability from the optic assets which RCOM would retain with itself and would be transferring only the tower assets to GTL Infra. The same is validated from the implied revenue per tower per month of Rs105,427, which appears to be significantly higher than prevailing rentals of Rs30,000/month for GBT and Rs20,000/month for RTT.

	FY08	FY09	FY10
Revenue	14,580	49,340	NA
EBIDTA	6,760	33,800	NA
EBIDTA %	46.4	68.5	NA
PAT	3,210	16,860	NA
Towers	30,000	48,000	50,000
Slots	37,000	73,000	87,000
Tenancy	1.2	1.5	1.7
Revenue/tenant/month	36,269	74,758	
Revenue/tower/month	44,182	105,427	

Source: Company, Emkay Research

We estimate the FY10 revenue and EBIDTA of tower business at Rs26.4bn and Rs18.5bn based on prevailing market rates as stated above.

	FY09	FY10
Towers	48,000	50,000
Tenants	73,000	87,000
Average rent/month		27,500
Revenue (Rs bn)		26.4
EBIDTA (Rs bn)		18.5
EBIDTA %		70.0

Source: Company, Emkay Research

Calculation of EV of RCOM's towers and valuation of residual business

Residual business valuation		Remarks
RCOM + GTL Infra EV (Rs bn)	500.0	As per RCOM press release
Tenants on GTL Infra's towers	38,000	As per GTLI management
Tenants on RCOM's towers	87,000	Balance. In-line with 1.75x tenancy stated by RCOM
Total tenants	125,000	As per RCOM press release
Implied EV of RCOM's towers (Rs bn)	348.0	Based on proportion of tenants
Implied EV/tenant (Rs mn)	4.0	
Implied EV/ tower (Rs mn)	7.0	
RCOM's current EV	685.2	At Rs194/share, incl. net debt of Rs285bn (incl. 3G fees)
EV of tower biz	348.0	
EV of residual (core) biz	337.2	
RCOM FY10 EBIDTA (Rs bn)	78.9	
Estimated EBIDTA of RCOM's towers (Rsbn)	18.5	
Residual EBIDTA (Rs bn)	60.4	
Residual EV (Rs bn)	337.2	
Residual biz EV/EBIDTA FY10	5.6	

Source: Emkay Research

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