

**Sector: Telecom**

Sensex:	20,157
CMP (Rs):	169
Target price (Rs):	158
Downside (%):	6.5
52 Week h/l (Rs):	208/132
Market cap (Rscr) :	35,068
6m Avg vol ('000Nos):	8,357
No of o/s shares (mn):	2,064
FV (Rs):	5
Bloomberg code:	RCOM IB
Reuters code:	RLCM.BO
BSE code:	532712
NSE code:	RCOM

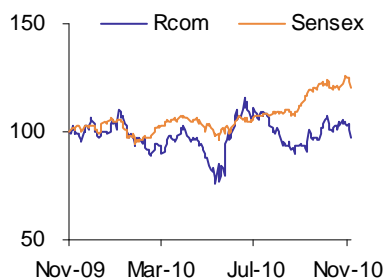
Prices as on 12 Nov, 2010

**Shareholding pattern**

September '10	(%)
Promoters	67.7
Institutions	17.7
Non promoter corp hold	2.2
Public & others	13.4

**Performance rel. to sensx**

(%)	1m	3m	1yr
Rcom	(8.9)	(13.3)	(24.6)
Bharti	(9.7)	(15.2)	(20.0)
Idea	(4.6)	(15.5)	14.4

**Share price trend**


- ✦ Q2 revenues lower by 0.9% qoq vs expected 1.6% rise; wireless flat while broadband sales (-2.2% qoq) in-line
- ✦ MOUs mirrored seasonally weak trend seen at other incumbent telcos, down 6.4% leading to similar drop in ARPUs
- ✦ Encouragingly, pricing remains stable for 3rd successive quarter at 44p
- ✦ Tight control over SG&A cancels out increased network opex, leaves margin stable and in-line; broadband EBIDTA up 87bps despite lower sequential revenues
- ✦ PAT much ahead of our estimated Rs3.2bn, up 78% on forex gains due to 3% rupee appreciation qoq
- ✦ Lack of near-term earnings catalysts implies valuation support is thin and we retain MP and tgt price; event-driven upside (stake sale, tower monetization) present key upside risks

**Result table**

(Rs m)	Q2 FY11	Q1 FY11	% qoq
<b>Net sales</b>	<b>50,230</b>	<b>50,685</b>	<b>(0.9)</b>
Access & license fees	(9,605)	(9,712)	(1.1)
Network opex	(13,813)	(13,079)	5.6
Personnel costs	(3,596)	(3,535)	1.7
Other expenses	(7,574)	(8,446)	(10.3)
<b>Operating profit</b>	<b>15,642</b>	<b>15,913</b>	<b>(1.7)</b>
<b>OPM (%)</b>	<b>31.1</b>	<b>31.4</b>	<b>(26) bps</b>
Depreciation	(9,553)	(9,648)	(1.0)
Interest	(2,797)	(4,397)	(36.4)
Other income	953	407	134.2
<b>PBT</b>	<b>4,245</b>	<b>2,276</b>	<b>86.5</b>
Tax	661	718	(7.9)
Minority/Associates	(447)	(486)	(8.0)
<b>Adjusted PAT</b>	<b>4,459</b>	<b>2,508</b>	<b>77.8</b>
<b>Adj. PAT margin (%)</b>	<b>8.9</b>	<b>4.9</b>	<b>393 bps</b>
<b>Reported PAT</b>	<b>4,459</b>	<b>2,508</b>	<b>77.8</b>

Source: Company, India Infoline Research

**Wireless revenues below estimate, topline remains flattish qoq**

Rcom Q2 revenues were largely stagnant at Rs50bn vs our estimate of Rs51.5bn. Wireless sales flat vs est +1.5% qoq. Global revenues surprised on the upside with a 2% sequential growth while broadband in-line at -2.2%. As seen with Bharti and Idea, MOUs declined 6.4% in a seasonally weak quarter which lead to 6.2% fall in ARPUs. ILD traffic gained momentum with 20% rise qoq while total MOUs remained flat at 94.6bn mins. Since rupee appreciated 3.2% vs USD during the quarter, interest cost probably includes FX gains on Rs228bn of FC debt. This drove a ~78% surge in reported PAT, much above our estimate of Rs3.2bn.

**Segment revenues**

Rs mn)	Q2 FY11	Q1 FY11	% qoq
Wireless	41,613	41,528	0.2
Global	18,391	18,137	1.4
Broadband	6,617	6,763	(2.2)
Others	3,984	3,348	19.0
Inter segment	(19,422)	(18,684)	3.9
<b>Total revenues</b>	<b>51,183</b>	<b>51,092</b>	<b>0.2</b>

Source: Company, India Infoline Research

### Cost analysis

As a % of net sales	Q2 FY11	Q1 FY11	% qoq
Access charges & license fees	19.1	19.2	(4)
Network opex	27.5	25.8	170
Personnel costs	7.2	7.0	18
S G & A expenses	15.1	16.7	(159)
<b>Total costs</b>	<b>68.9</b>	<b>68.6</b>	<b>26</b>

Source: Company, India Infoline Research

### Wireless EBIDTA margin remained stable

EBIDTA	Q2 FY11	Q1 FY11	% qoq
Wireless	12,101	11,989	0.9
Global	3,393	3,317	2.3
Broadband	2,481	2,477	0.2
Others	(1,343)	(1,350)	(0.5)

EBIDTA %	Q2 FY11	Q1 FY11	bps qoq
Wireless	29.1	28.9	21
Global	18.4	18.3	16
Broadband	37.5	36.6	87

Source: Company, India Infoline Research

### No near-term catalysts in sight; retain tgt price & rating

Rcom has achieved 46%/47% of our revised FY11 revenue/EBIDTA forecast but operating metrics are unlikely to sport any material improvement in the near-term. The stock remains a potential play on event-driven news (stake sale, tower monetization) but upsides from a valuation perspective (15x FY12 PER) appear unwarranted, in our view. We revise our FY11/12 EPS estimates on lower anticipated FX gains but retain MP with a price target of Rs158.

### Financial summary

Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	222,505	214,964	217,231	237,347
yoy growth (%)	18.2	(3.4)	1.1	9.3
Operating profit	87,334	71,846	67,341	77,138
OPM (%)	39.3	33.4	31.0	32.5
Pre-exceptional PAT	41,985	18,380	14,225	22,713
Reported PAT	60,450	46,550	14,225	22,713
yoy growth (%)	11.9	(23.0)	(69.4)	59.7
EPS (Rs)	29.3	22.6	6.9	11.0
P/E (x)	5.8	7.5	24.5	15.4
P/BV (x)	0.8	0.8	0.8	0.7
EV/EBITDA (x)	8.3	8.9	10.1	8.5
Debt/Equity (x)	0.9	0.7	0.8	0.7
ROE (%)	11.8	4.3	3.2	5.0
ROCE (%)	7.9	5.0	4.1	4.9

Source: Company, India Infoline Research

**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

---

**Published in 2010. © India Infoline Ltd 2010**

This report is for the personal information of the authorised recipient and is not for public distribution and should not be reproduced or redistributed without prior permission.

The information provided in the document is from publicly available data and other sources, which we believe, are reliable. Efforts are made to try and ensure accuracy of data however, India Infoline and/or any of its affiliates and/or employees shall not be liable for loss or damage that may arise from use of this document. India Infoline and/or any of its affiliates and/or employees may or may not hold positions in any of the securities mentioned in the document.

The report also includes analysis and views expressed by our research team. The report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. The recipients of this material should take their own professional advice before acting on this information.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons.

This report is published by IIFL 'India Private Clients' research desk. IIFL has other business units with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.