

Reliance Communications Ltd - BUY

CMP Rs276, Target Rs323

Sector: Telecom

Sensex:	15,467
CMP (Rs):	276
Target price (Rs):	323
Upside (%):	17.0
52 Week h/l (Rs):	415 / 131
Market cap (Rscr) :	56,977
6m Avg vol ('000Nos):	12,503
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 02 Sep, 2009

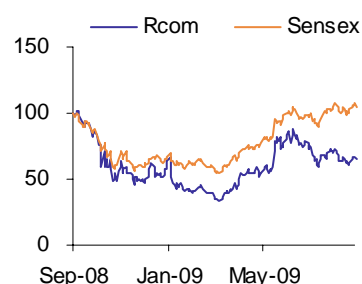
Shareholding pattern

June '09	(%)
Promoters	67.3
Institutions	19.9
Non promoter corp hold	2.8
Public & others	10.0

Performance rel. to sensx

(%)	1m	3m	1yr
Rcom	(1.7)	(21.7)	(35.5)
Bharti	3.1	(0.9)	(4.9)
Idea	2.5	(6.8)	(8.4)

Share price trend



Rcom organized an analyst meet to provide an update on its tower arm Reliance Infratel (RITL). As of Mar' 09, the company owned ~48,000 towers with tenancy of 1.6x earning ~US\$1bn in revenues and PAT of US\$350mn. Rcom is the anchor tenant on 73,000 slots, about 40% of the total. With an unused capacity of 0.12mn slots, Rcom has managed to sign infrastructure sharing deals with Etisalat DB, S Tel, Aircel, amongst others which would take RITL tenancy to 3x by Mar' 12. It expects to provide 35% of the total industry wide slot demand of 0.34mn, including 60,000 slots for 3G/WiMax. The company confirmed it has not decided on a timeframe for listing Infratel on bourses; albeit we peg the EV of Infratel at US\$5.7bn and retain BUY on Rcom

Steady state margin seen at 55-60%

As of Mar' 09, Reliance Infratel enjoyed OPM of 69% on revenues of Rs49bn of which 80% was from passive infrastructure services, largely to Rcom. However, as unused slots to the tune of 0.12mn are tied up in the next 2-3 years, incrementally higher fuel expenses could reduce steady state margin to about 55-60%.

Tenancy to rise to 3x, highest in industry

At present, RITL tenancy is ~1.6x, slightly better than 1.5x for Indus Towers, the largest player and a JV between Bharti, Vodafone and Idea. Post the ramp up of Etisalat DB deal and hosting of other customers, tenancy is likely to improve to 3x, probably the best in the tower industry.

Infratel EV pegged at US\$5.7bn

Infratel is likely to provide ~35% of industry wide slot demand of 0.34mn by Mar' 11, although it would have only 18% of the total tower base. Based on a 75:25 mix of ground-based to roof top towers and conservative OPM of 52%, we estimate Infratel EV at US\$5.7bn.

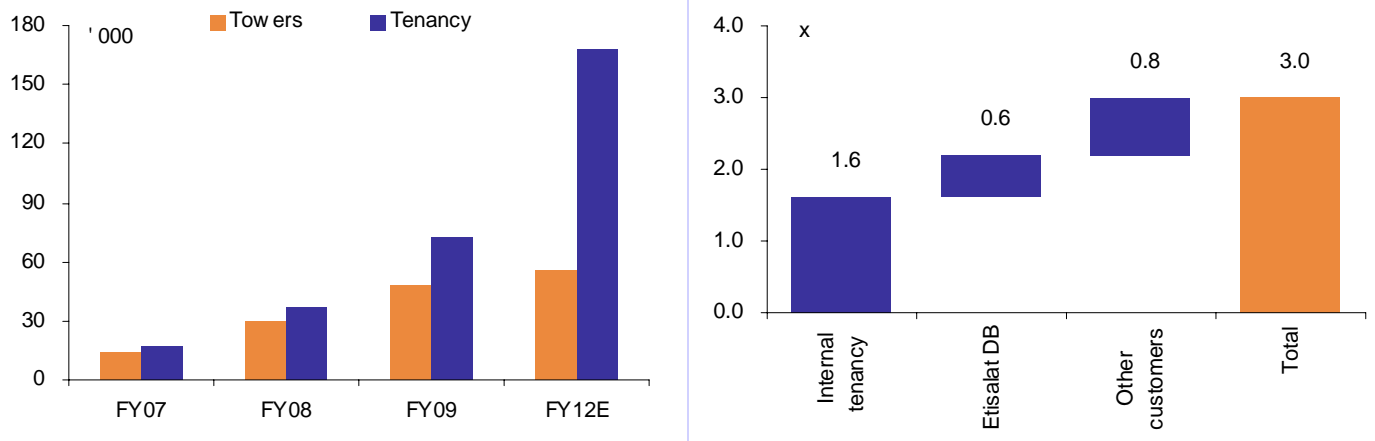
Although Rcom would prefer to list the tower arm to unlock potential value, the management refused to provide any definitive timeframe for an IPO. Remain positive on the tower business on the back of an improved tenancy prospects and retain BUY on Rcom.

Valuation summary

Y/e 31 March (Rs m)	FY08	FY09E	FY10E	FY11E
Revenues	188,274	222,347	247,040	287,645
yoy growth (%)	9.5	18.1	11.1	16.4
Operating profit	79,587	87,380	93,628	109,593
OPM (%)	42.3	39.3	37.9	38.1
Pre-exceptional PAT	41,184	59,077	47,287	55,532
Reported PAT	54,011	59,077	47,287	55,532
yoy growth (%)	53.0	9.4	(20.0)	17.4
EPS (Rs)	26.2	28.6	22.9	26.9
P/E (x)	10.5	9.6	12.0	10.3
P/BV (x)	2.0	1.6	1.5	1.3
EV/EBITDA (x)	10.3	8.9	8.2	6.5
Debt/Equity (x)	0.9	0.7	0.6	0.4
ROE (%)	15.9	18.5	12.8	13.2
ROCE (%)	11.0	9.2	8.4	10.0

Source: Company, India Infoline Research

Rcom would account for ~35% of total slots Mar' 12 tenancy seen at 3x driven by EDB



Source: Company

Post Etisalat deal, tenancy prospects have improved considerably for Infratel; we peg EV of RITL at US\$5.7bn

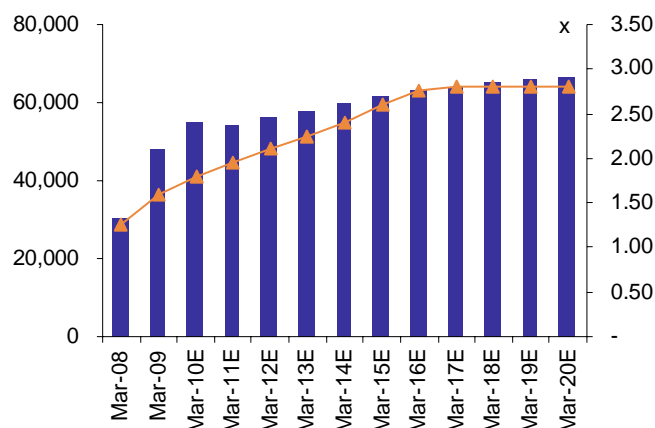
Infratel EV pegged at US\$5.7bn

Reliance Infratel is likely to add ~8,000 towers in the next three years but more importantly, its tenancy would improve from current 1.6x to 3x driven by Etisalat DB and other customers. The company has indicated steady state margin of 55-60%, but we conservatively factor in OPM of 52% beyond FY12 and peg the EV of Infratel business at US\$5.7bn (11.4% WACC and terminal growth 3%).

Rcom trades at ~30% PER discount to Bharti; BUY

Although Rcom eventually plans to list its tower business on the bourses (it had earlier filed DRHP in Feb' 08, but later withdrew), the management did not provide any definite timeframe for an IPO. We retain our positive stance Rcom, as a ~30% valuation discount to Bharti FY11 PER appears attractive. Retain BUY.

Tower count seen at ~56,000 by Mar' 12



Source: Company, India Infonline 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%

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India Infoline Ltd. One India Bull Center, Jupiter Mill Compound, 841, Senapati Bapat Marg, Nr, Elphinstone Road, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani at amar@indiainfoline.com or research@indiainfoline.com

For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000