

Reliance Communications

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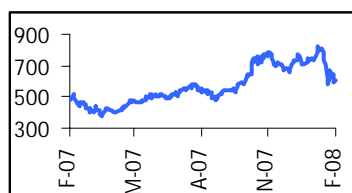
Shareholding (%)

Promoters	66.2
FII's	10.8
MFs	2.9
Insurance Co.	5.4
Others	14.7

Share price performance

52-week high/low (Rs)	519/372		
	-1m	-3m	-12m
Abs (%)	-16.6	-20.9	28.8
Rel* (%)	-2.7	-11.0	0.2

*to Nifty

Stock chart

Healthy performance continues

Reliance Communications (RCOM) reported a healthy performance for Q3FY08, marked by an improvement of 40bps QoQ and 250bps YoY in EBITDA margin, which stands at 43.2% as compared to 42.8% in Q208 and 40.7% in Q307. Looking at margin expansions and the management aggressive plans to cover 90% of the population by FY08 with the GSM rollout in new circles. We maintain 'Buy' recommendation on the stock.

- During Q3FY08, RCOM's revenue increased 29.8% YoY. This growth was driven by 43.8% YoY increase in mobile revenue and 44.4% YoY growth in broadband revenue, where as Global business was flat. The company reported 6.5% QoQ revenue growth in Q3FY08.
- RCOM's subscriber base has touched 40.9mn mark in December 2007. The company has improved its market share by 20bps on QoQ basis to 17.9% in mobile telephony as on December 2007. In Q3FY08, it has 19.1% market share in net subscriber additions.
- RCOM has received requisite approval and spectrum to roll out GSM services in the additional 14 circles. The management expects to leverage existing passive infrastructure, IT and back end support and marketing & sales network for GSM roll out in the new circles. The company is also planning to launch IPTV and DTH in FY09. The management has also guided for 46,000 and 60,000 towers respectively by the end of FY08 and FY09 in Reliance Infratel Limited (telecom tower subsidiary).
- The company increased its guidance for capex from \$4.5bn to \$5.2bn in FY08. Acquisition of Yipes and GSM license fee paid were prime reasons for increased capex guidance. It has also given capex guidance close to \$6bn for FY09.
- RCOM's EBITDA growth was robust at 38% YoY. A critical positive to note in the Q3FY08 result is that the EBITDA margin has expanded to 43.2%. This growth in margin was driven by higher economies of scale and management expects to maintain these margins even with most of new subscribers coming from lower end of the market.

Buy
Rs611

01 February 2008

Market cap

Rs bn 1,250

US\$ bn 32

Avg 3m daily volume

7,306,477

Avg 3m daily value

USD mn 132

Shares outstanding (mn)

2,045

Reuters/Bloomberg

RLCM.BO/RCOM.IN

NSE/BSE

RCOM/532712

Sensex

18,243

Nifty

5,317

YE	Sales	YoY	EBITDA	YoY	NP	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS
March	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)
FY2006	107,664	30.1%	25,353	87.4%	4,440	2.2	-110.6%	281.4	51.1	12.0	10.9	3.9%	5.2%	0.0
FY2007	144,683	34.4%	57,206	125.6%	31,632	15.5	611.5%	39.5	17.9	8.7	7.9	18.6%	18.2%	0.0
FY2008E	211,364	46.1%	88,139	54.1%	48,497	23.0	48.7%	26.6	15.0	6.1	5.5	20.7%	24.2%	0.0
FY2009E	297,743	40.9%	128,923	46.3%	79,175	37.5	63.3%	16.3	10.1	4.3	4.3	26.5%	30.3%	0.0

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- ▲ RCOM's net profit was up 48.5% in Q3FY08 to Rs13.7bn from Rs9.2bn in the same period of last financial year. On QoQ, it has posted net profit of Rs13.7bn in Q308 against Rs13bn in Q3FY07, a growth of 5.2%. Our full year EPS estimate of Rs23 for FY08 and Rs37.5 for FY09, the stock trades at 26.6x FY08E and 16.3x FY09E. Given the company's healthy performance and its ability to continue with the same, we maintain 'Buy' rating on the stock.

Table 1. Quarterly result table

Rs mn	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Total Income	48,742.0	37,553.0	29.8%	45,785.0	6.5%
Total Expenses	27,677.0	22,281.3	24.2%	26,167.0	5.8%
Access charges/lic fees	11,188.0	9,490.7	17.9%	9,746.0	14.8%
Network Expenses	5,446.0	4,165.0	30.8%	5,662.0	-3.8%
Empolyee cost	3,087.0	2,199.8	40.3%	3,056.0	1.0%
S, G & A Exps	7,956.0	6,425.8	23.8%	7,703.0	3.3%
Others	-	-		-	
EBIDTA	21,065.0	15,271.7	37.9%	19,618.0	7.4%
EBIDTA Margin	43.2%	40.7%		42.8%	
Other Income	-	-		-	
PBIDT	21,065.0	15,271.7	37.9%	19,618.0	7.4%
Interest (net)	(1,518.0)	(656.9)	131.1%	(1,125.0)	34.9%
Depreciation	7,252.0	6,524.4	11.2%	6,754.0	7.4%
Profit before Exceptional/Non-recurring Items	15,331.0	9,404.2	63.0%	13,989.0	9.6%
Exceptional/Non-recurring Items	-	(29.9)	-100.0%	12,203.0	-100.0%
PBT	15,331.0	9,374.3	63.5%	26,192.0	-41.5%
Tax	1,379.0	130.1	960.0%	698.0	97.6%
PAT	13,952.0	9,244.2	50.9%	25,494.0	-45.3%
Minority interest	223.0	-		12,448.0	
PAT after Minority interest	13,729.0	9,244.2	48.5%	13,046.0	5.2%
Shares outstanding (mn)	2,045	2,045	0.0%	2,045	0.0%
EPS (Rs)	6.71	4.52	48.5%	6.38	5.2%

Source: IISL research, company

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Table 2. GRANULAR ANALYSIS

REV DRIVER analysis	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Wireless subscriber					
Subs - Total (eoy, '000)	40,968	29,980	36.7%	36,324	12.8%
ARPU - Blended GSM (Rs/month/sub)	339	328	3.4%	361	-6.1%
Average Minutes of Use Per User	449	454	-1.1%	490	-8.4%
Broadband					
Subs - Broadband eoy ('000)	901	530	70.0%	792	13.8%
ARPU - Fixed (Rs/month/sub)	1,797	2,206	-18.5%	1,948	-7.8%
REVENUE analysis (Rs m)	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Wireless	39,567	27,520	43.8%	37,230	6.3%
as a % of revenue	81.2%	73.3%		81.3%	
Global	13,299	13,335	-1.3%	13,161	1.0%
as a % of revenue	27.0%	35.5%		28.7%	
Broadband	4,564	3,161	44.4%	4,371	4.4%
as a % of revenue	9.4%	8.4%		9.5%	
Others	1,544	769	100.8%	1,087	42.0%
as a % of revenue	3.2%	2.0%		2.4%	
Sub total	58,974	44,785	31.7%	55,849	5.6%
Less: Elimination	10,232	7,232	41.5%	10,064	1.7%
as a % of rev (net)	21.0%	19.3%		22.0%	
Revenue	48,742	37,553	29.8%	45,785	6.5%
EBITDA analysis (Rs m)	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Wireless	15,819	10,293	53.7%	14,873	6.4%
Margin - wireless	40.0%	37.4%		39.9%	
Global	3,428	3,552	-3.5%	3,276	4.6%
Margin - Global	25.8%	26.6%		24.9%	
Broadband	2,222	1,486	49.5%	2,102	5.7%
Margin - Broadband	48.7%	47.0%		48.1%	
Others	-404	-59	581.3%	-633	-36.2%
Margin - Others	-26.2%	-7.7%		-58.2%	
Total EBITDA	21,065	15,272	37.9%	19,618	7.4%
Total EBITDA margin (%)	43.2%	40.7%		42.9%	

Source: IISL research, company

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