

Reliance Communications

Infratel monetization on the cards but timing undecided

Reliance Infratel (RITL), the tower arm of Rcom, owns ~48,000 towers with a tenancy of 1.6x earning ~US\$1bn in revenues and PAT of US\$350mn in FY09. While RITL would be eventually monetized, the timing of IPO remains undecided.

Rcom is the anchor tenant on 73,000 slots, about 40% of the total. With an unused capacity of 0.12mn slots, RITL has recently signed infrastructure sharing agreements with Etisalat DB, S Tel, Aircel, amongst others thereby improving 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. Based on a 75:25 mix of ground-based to roof top towers, we estimate Infratel EV at US\$5.7bn.

Etisalat deal to add Rs10-12bn annually to RITL revenues

Rcom has signed up the Etisalat DB as the first major external tenant for its tower arm, which would improve tenancy by 0.6x. The deal ramp up would occur over the next 18-24 months which implies material revenue flow would accrue from Q4 FY11.

As part of the deal, Infratel would earmark slots on ~30,000 towers to serve tower needs of Etisalat DB in a phased manner. Rcom maintains that tower sharing rentals are in line with those prevailing in the market (~Rs32,000/month). Excluding pass through charges such as fuel, RITL would receive approximately Rs10-12bn pa from second year onwards.

Tower arm 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%.

Robust FCF can support aggressive 3G bids

Government has set Rs35bn as the reserve price for pan-India 3G spectrum auction and the entire process is likely to be completed by end-CY09. Rcom with free cash flow to the tune of ~Rs37bn in current fiscal is well placed in the upcoming 3G spectrum auctions. Importantly, assuming a pan-India bid of US\$1bn, Rcom's gross D/E is impacted by less than 15%. This compares favorably with Idea whose D/E could worsen by 30% to 0.8x, for a similar bid price.

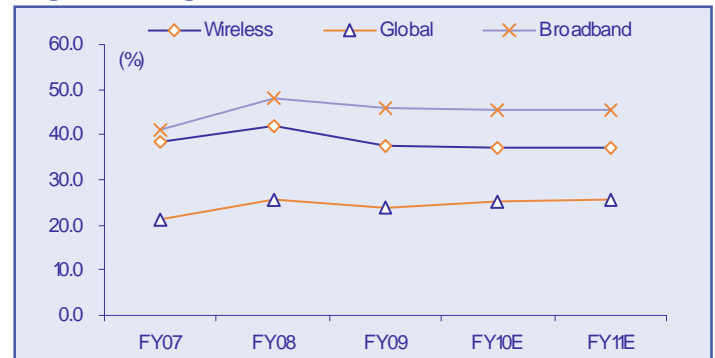
Rcom subscriber growth to outpace industry

On the back of GSM launch in Jan' 09, Rcom has added, on average, ~2.9mn new users/month ytd as compared to 1.7mn in CY08. We project a subscriber base of 128mn by Mar' 11 comprising CDMA

forecast of ~0.6mn/month and 1.7mn monthly additions in GSM. Consequently, the company's wireless base is expected to grow at 33% CAGR over FY09-11, outpacing industry's 27% growth. ARPUs are likely to maintain their secular decline with revenue per minute to eventually drop to around 0.5paise/min. We conservatively factor in a ~11% decline in ARPUs in the current fiscal and another ~5% fall in FY11.

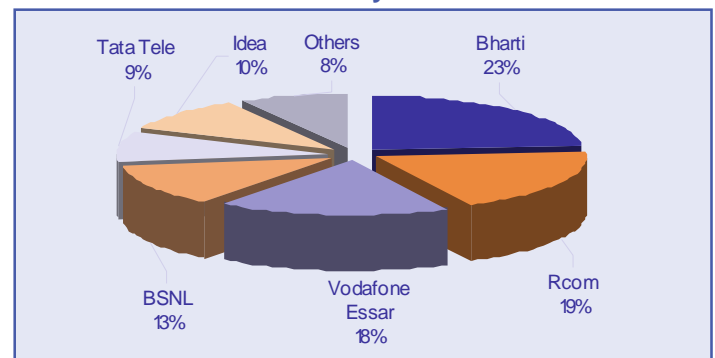
We project revenues CAGR of 13.7% over the next two years while adjusted PAT (ex-forex loss) would increase 11.8% pa over the same period. Valuations appear attractive on the back of a ~28% discount to Bharti's FY11 PER; retain BUY.

Segment margins to remain stable



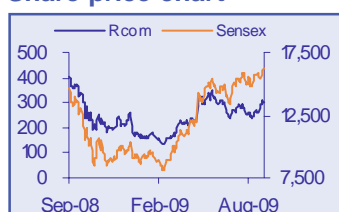
Source: Company, India Infoline Research

Subscriber market share-July' 09



Source: TRAI

Share price chart



Source: Company, India Infoline Research

Shareholding pattern

Jun-09	(%)
Promoter	67.3
FII & MF	18.6
Non promoter corp hold	2.8
Public & others	11.3

Financials

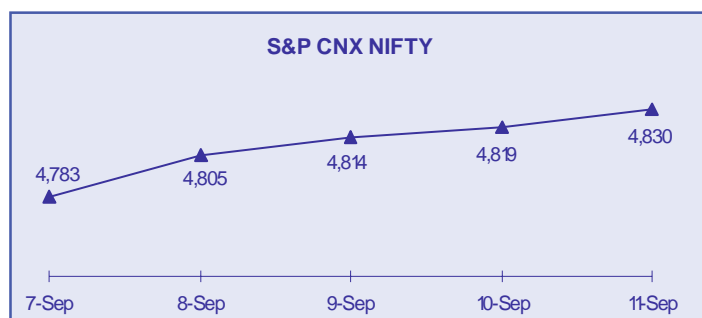
Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	188,274	222,505	247,040	287,645
yoy growth (%)	9.5	18.2	11.0	16.4
Operating profit	79,749	86,070	93,628	109,593
OPM (%)	42.4	38.7	37.9	38.1
Reported PAT	54,011	60,450	46,581	58,653
yoy growth (%)	53.0	11.9	(22.9)	25.9
EPS (Rs)	26.2	29.3	22.6	28.4
P/E (x)	11.5	10.3	13.4	10.6

Source: Company, India Infoline Research

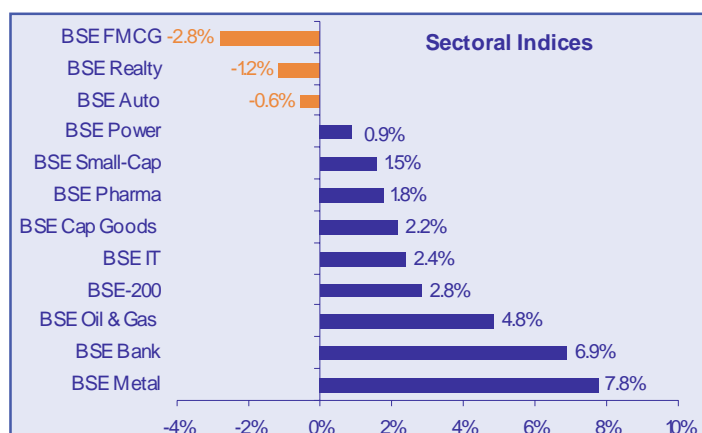
India Infoline Weekly Wrap

Market review

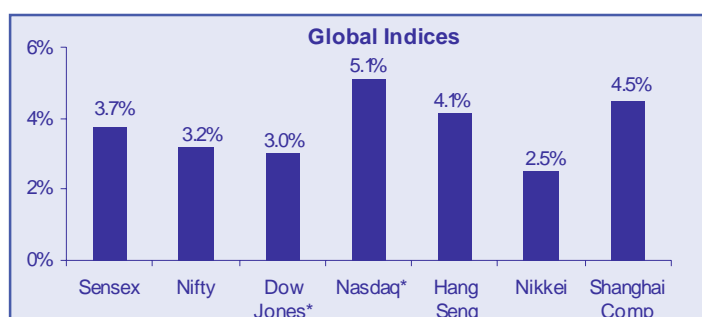
Strong buying from FIIs helped propel the NSE Nifty to a new 52-week closing high. The BSE Sensex closed above 16,000, backed by strong volumes. But, the advance did fizzle out during the later part of the week. Headwinds such as sluggish loan growth, subdued tax receipts, poor rains and rising inflation kept the bulls in check. Finally, the Nifty closed the week higher by 3.2% and the Sensex added 3.7%.



Steel stocks outperformed, led by Tata Steel after it announced a 25% rise in August sales to 4.92 lakh tons. Upsurge in base metal prices on the LME also boosted the sentiment. Expectations of improvement in margins due to likely increase in interest rates lifted banking stocks. SBI and ICICI Bank were amongst the notable gainers.



The US market advanced, in line with the global trend after G20 leaders renewed their pledge to keep stimulus measures in place. Risk appetite gained, putting the dollar under pressure and sending gold above \$1000 mark. Oil prices too climbed to \$72 per barrel. OPEC left its output quotas unchanged. US Treasury Secretary Geithner said the financial sector is stabilizing. China reported a string of positive key economic reports, leading to a rise in regional equities.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
3-Sep	59	27
4-Sep	(57)	6
5-Sep	1,050	340
8-Sep	1,175	48
9-Sep	247	(241)
Total 2009	42,128	5,568

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hindalco	124	18.3	MRF	5,279	20.5
ICICI Bank	835	12.3	Jindal Saw	661	19.2
Tata Steel	469	9.0	Kirlosk Brothers	226	15.5
SBI	1,921	9.0	LMW	1,337	14.3
Tata Motors	550	8.3	Allahabad Bank	106	14.1

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
HUL	256	(6.3)	Dabur	127	(7.8)
Maruti	1,467	(5.1)	Tech M	885	(7.0)
M&M	820	(5.1)	Rolta	167	(6.2)
DLF	399	(3.8)	REC	196	(6.1)
ITC	227	(2.6)	Adani Ent	632	(5.5)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
7-Sep	Credit Suisse	Lakshmi Energy	B	6.0	130
7-Sep	Abn Amro Bank	Prajay Eng	S	2.7	37
7-Sep	Merrill Lynch	Webel-SL Energy	S	1.2	328
9-Sep	DB Intl	Pritish Nandy	S	1.4	41
-	-	-	-	-	-

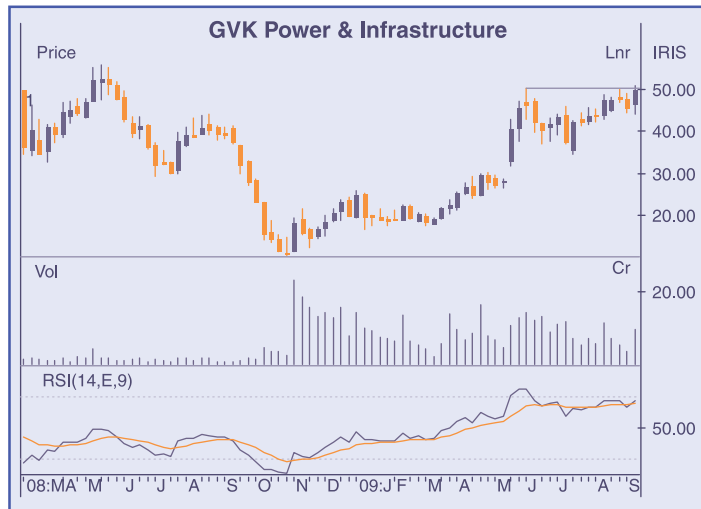
Book closures and record dates

Company	Date	Purpose
RCF	15-Sep-09	Dividend & AGM
Opto Circuit	23-Sep-09	Dividend & AGM

India Infoline Weekly Wrap

Technical ideas

BUY GVK Power CMP Rs50



On the weekly chart, the stock is on a verge of a breakout on the upside.

The stock had been on a well entrenched downtrend from the peak of Rs56 in May 2008 to low of Rs10 in October 2008. Since then, the stock created a base around Rs18-20 pre-election. Following which, pattern of higher bottom is seen on the weekly chart.

During the last 15-weeks, the stock had been facing stiff resistance around the resistance of Rs50 (as shown above in the chart). This week, the stock attempted to close above Rs50. The move was supported by impressive volumes.

We believe any move past Rs51 could take GVK power towards its 2008 high of Rs56. A close above previous high (Rs56) will take the stock into a new zone.

Keeping in mind, the above mentioned evidences, we recommend traders to buy the stock between the levels of Rs48-52 with a stop loss of Rs45 for a target of Rs56 and Rs60.

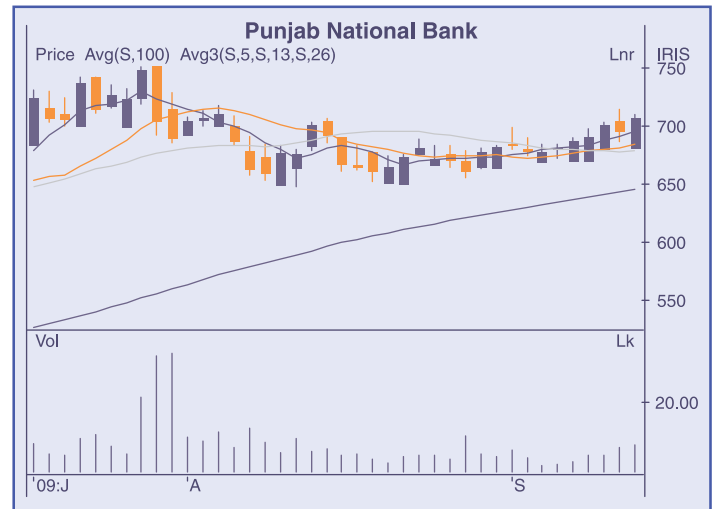
Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Federal Bank	3.1	881.8	8.1
Uco Bank	4.6	221.6	63.0
Indian Bank	3.7	217.1	10.2
Oriental Bank	4.3	178.6	31.1
Mphasis	2.2	173.6	11.1

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Vijaya Bank	45	42	132.6	21.1
Indusind Bank	105	100	57.9	9.9
Mah Seamless	305	295	3.2	1.6
Ranbaxy	338	324	37.4	15.7
Tata Chem	258	250	11.7	7.7

BUY PNB CMP Rs707



On Friday, the stock gave a breakout after consolidating between the levels of Rs650-706 for the last one month.

As shown in the chart, the stock is trading above its 26- DMA after breaking out from a Rounded Bottom formation this week.

From the current levels, the stock is expected to move northwards. The momentum oscillators like the daily RSI has given a positive divergence, indicating that price would start moving up.

Keeping in mind, the above mentioned evidence we expect the uptrend to continue in the near term.

We recommend traders to buy the stock between the levels of Rs698-712 with a stop loss of Rs685 for a target of Rs745, 760.

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
TV-18	(1.3)	267.7	8.2
Tata Power	(0.7)	264.0	2.1
AB Nuvo	(1.3)	248.0	2.5
Tata Tea	(1.3)	247.3	3.1
Alstom Projects	(0.4)	185.3	3.8

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Voltas	147	153	16.3	27.2
Dabur	127	132	8.3	6.8
CESC	356	366	0.8	4.1
Chambal Fert	52	54	44.2	59.4
BEL	1,371	1,404	1.1	1.6

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on September 10, 2009							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Tax Relief '96 (D)	980	77.4	4.8	9.6	7.9	112.2	15.5	(2.1)	34.5	112.0
DSP-BR Top 100 Equity - RP (G)	1,814	81.3	2.5	7.5	7	71.3	19	20.3	71.3	278.7
HDFC Prudence Fund (G)	2,861	151.9	2.7	7.6	10.1	85.6	23.4	15.6	52.6	212.3
HDFC Top 200 Fund (G)	4,756	161.1	3.2	7.8	9.2	100.9	23	25.1	68.4	294.6
ICICI Pru Dynamic Plan (G)	1,645	80	2.9	7.6	11.6	79.5	11.4	8.8	51.3	311.2

Fund this week: Birla Sun Life Tax Relief '96

Fund snapshot		Asset allocation (%)	
Fund Manager	Ajay Garg	Equity	99.0
Latest NAV	Rs77.4	Debt	0.0
NAV 52 high/low	Rs80/38	Cash/call	1.0
Latest AUM	Rs980	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds.	6.3
Class	Equity - Tax saving	Infosys Tech	5.3
Options	Growth & dividend	Larsen & Toubro	5.0
Min investment	Rs500	Jindal Steel & Power	4.5
Entry load	Nil	Reliance Infra.	3.9
Exit load	Nil		
Benchmark	BSE 200	Banks	14.4
No. of stocks	47	Oil & Gas	8.6
Expense ratio	2.3%	Computers - Soft/Edu	8.4

NFO update

Fund Name	Close	Type	Class
ICICI Pru FMP - Sr 49 - 3Y - A	22-Sep	CE	Debt - FMP
IDFC FMP 15M Sr 3	23-Sep	CE	Debt - FMP
-	-	-	-

Dividend update

Mutual Fund	Dividend %	Record date	Class
HDFC FMP 370D-Aug 08(3)	100.0	14-Sep	Debt - FMP
ICICI Pru. Q Interval- II	100.0	15-Sep	Debt - FMP
Religare Active Income Fund	26.3	15-Sep	Debt - Inc

Commodity, debt and currency graphs



* As per previous close

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