

INDIA

Reliance Communications

16 May 2007

RCOM IN Outperform

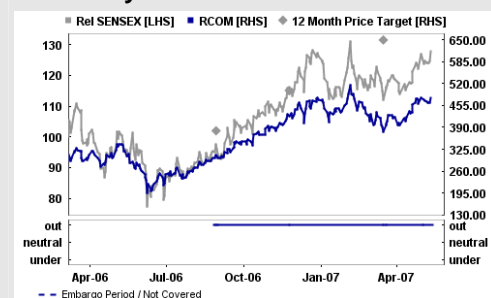
Stock price as of 14 May 07	Rs	482.20
12-month target	Rs	650.00
Upside/downside	%	+34.8
Valuation	Rs	650.00
- DCF (WACC 12.1%)		

GICS sector	telecommunication services		
Market cap	Rs m	985,912	
30-day avg turnover	US\$m	70.5	
Market cap	US\$m	24,278	
Number shares on issue	m	2,045	

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	144.7	204.7	279.7	341.0
EBITDA	bn	57.2	84.2	119.0	147.8
EBITDA growth	%	128.6	47.1	41.4	24.2
Adjusted profit	bn	31.9	47.7	68.9	86.0
EPS adj	Rs	15.62	23.35	33.70	42.07
EPS adj growth	%	562.1	49.4	44.4	24.8
PE adj	x	30.9	20.7	14.3	11.5
ROA	%	7.6	8.6	10.4	11.3
ROE	%	19.9	20.6	23.5	23.9
EV/EBITDA	x	17.6	11.9	8.4	6.8
Net debt/equity	%	8.9	0.3	-11.8	-28.5
Price/book	x	4.8	3.8	3.0	2.5

RCOM IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, May 2007 (all figures in INR unless noted)

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Showing its hand – it's the Handset!

Event

- Reliance Communications (RCOM) is gaining massive traction in subscriber additions with its new ultra-low-cost monochrome CDMA handsets. Since its launch 10 days ago, the company has sold 1m units in a week (at Rs777, Rs844 and Rs888 per unit). It has followed this up with the launch of colour handsets on 14 May (at Rs1222, Rs1,234 and Rs1,299 per unit). We analyse the implications of the move on RCOM's financials and the competition.

Impact

- RCOM has identified the right growth driver for the CDMA wireless business** (read handsets) and has executed aggressively to source the handsets. The company has sold more than 1m handsets in just seven days, making a record of sorts. This has also placed RCOM as the No. 2 handset distributor in India, behind Nokia and significantly ahead of Samsung, LG, Sony Ericsson and Motorola. Reliance Classic (RCOM's own brand for its new models) has emerged as a key brand in India. Similarly, we expect strong customer pull for its colour handsets in the coming days.
- 75% of the low-cost handsets purchased by new subscribers.** Our industry contacts suggest that 75% of the handsets have been purchased by new subscribers while the rest are bought as upgrades or replacement units.
- The subsidy burden on these phones,** according to our research, is similar to or lower than those on the CDMA handsets. We peg the subsidy on the monochrome phone at less than US\$10 and on the colour handset at less than US\$12-13. The majority of the handsets have been manufactured by ZTE of China, which produced only 4.812m CDMA handsets in the whole of 2006. We think RCOM has ~3m handsets in stock and is likely to order more. The economics of sourcing may be very different with such large orders given the huge leverage this order adds to ZTE's volumes and revenues.
- Tata Teleservices launching handsets at Rs666/unit in response.** We understand that Tata will launch handsets at Rs666/unit to counter RCOM's offer. We believe this will temper RCOM's subscriber additions run-rate, although the exact magnitude of the impact can be determined only after analysing the features and exact pricing details of Tata new handsets. We think the subsidy on Tata's phones will be fairly substantial, however.

Earnings revision

- No change.

Price catalyst

- 12-month price target: Rs650.00 based on a DCF methodology.
- Catalyst: 1) Improvement in subscriber addition on the back of new handsets; 2) The listing of FLAG Telecom; 3) Sequential EBITDA margin expansion.

Action and recommendation

- RCOM is our top pick in the India telecom sector and is the biggest Outperform in the Macquarie Asia-Pacific Telecom portfolio. It has underperformed Bharti (BHARTI IN, Rs832, Outperform, TP: Rs1,025) significantly (by 26%) in the past five months.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

RCOM's low cost handsets – unmatched pricing and value for customers

Fig 1 Comparative analysis of RCOM's low-cost handsets (Black & White/monochrome phones)

Classic 202



Price: Rs777

Features:

- Melodious ringtone download through Reliance Mobile World
- Voice Recording
- Long Messaging Service
- '+' code dialling
- Phonebook 200x3 entries + 1 email, 1 address & 1 web page
- Stopwatch & calculator
- Fun games

Classic 203



Price: Rs844

Features:

- Black and White LCD with a Colour Film
- White backlight for display & Blue backlight for keypad
- Polyphonic Ring tones
- Supports R World (Brewlite)
- Multiple Recipient SMS
- Long Message Service
- Handy Voice Recorder
- 2 Games

Classic 204



Price: Rs888

Features:

- Elegant style for young professionals
- LMS (Long Messaging Service)
- Black & white LCD with colour film
- Ring tone download through Reliance Mobile World
- Polyphonic Ring tones
- Handy voice recorder
- 2 Games
- 3 Way Calling (Call Conference)

Source: Company data, May 2007

Fig 2 Comparative analysis of RCOM's low-cost handsets (Colour phones)

Classic 631



Price: Rs1,222

Features:

- Slim Light Bar Type Colour Phone
- Melodious Ring tone and Wallpaper download through Reliance Mobile World.
- Personalized Ring tone
- SMS On call reject
- 128 x 128 pixel, 65K Colour LCD Display
- Phone book stores 600 entries
- 29 built – in Ring tones and 11 built- in wallpapers
- Reliance Voice Services
- Support incoming Hindi SMS
- LMS (Long Message Service – more than 180 characters of text)
- 12 Poly midi ring tones

Classic 632



Price: Rs1,234

Features:

- Slim Light Bar Type Colour Phone
- Melodious Polyphonic Ring tones
- Wallpaper download through Reliance Mobile World
- Personalized Ring tone
- SMS On call reject
- 65K Colour LCD Display
- Phone book Stores 600 entries
- Reliance Voice Services
- Supports Hindi
- LMS (Long Message Service – more than 180 characters of text)

Classic 231



Price: Rs1,299

Features:

- Elegant Style for young professionals
- 65K CSTN Colour Display
- Speaker phone
- Ring tone download through Reliance Mobile World
- Phonebook Up to200 entries with 3 numbers, 1 address, 1 email information, 1 web address
- (LMS) Long Message Service
- Melodious polyphonic ring tones
- 2 Games
- 3 way calling (Call Conference)

Source: Company data, May 2007

New CDMA handset launch strategy at record low price points

- About two weeks ago, RCOM announced a new handset strategy, offering three new CDMA monochrome handset models priced at Rs777 (US\$19), Rs844 (US\$21) and Rs888 (US\$22). These phones are unique in three key ways:
 - ⇒ They are the lowest-priced handset models to be sold in India, with prices comparable to second-hand or reconditioned phones.
 - ⇒ They are lightweight (only 78g), and are fairly feature-rich with polyphonic ringtones and Reliance Mobile World-embedded applications.
 - ⇒ For the first time in India, the CDMA phones will have removable SIM cards (just as in GSM phones), but they will have the RCOM network lock to help retain customers and ensure low churn outs.
- In another first in India, RCOM's handsets will not be sold with a bundled tariff plan. Just as with GSM phones, customers are able to buy the handsets first and then purchase a RCOM CDMA tariff plan of their choice, in contrast to the phone being pre-bundled with a tariff plan, as is the case currently.
- RCOM's handsets are the lowest-priced in the Indian market. Manufactured on a 'white label' basis largely by ZTE of China (some may be supplied by TCL of China), the phones will be branded as Reliance Classic phones with the aim of promoting RCOM's own brand in the market. However, we believe that the handset subsidy will be less than US\$10 per unit (or subscriber), which was the average subsidy on each new CDMA subscriber sign-up by RCOM in the March 2007 quarter (our estimate) based on the huge volumes that RCOM may be ordering from the vendor.

Low-cost colour handsets to help capture significant market share

- On 14 May 2007, RCOM launched a new range of colour CDMA phones priced at Rs1,222 (US\$30), Rs1,234 (US\$30.2) and Rs1,299 (US\$31.8). This new range offers the cheapest colour handsets in the Indian wireless industry across the CDMA and GSM space. Previously, the cheapest colour handset in RCOM's portfolio was an LG handset priced at Rs2,000. Management is confident of the success of these handsets and expects to register sales similar to their low-cost monochrome counterparts. Note that RCOM sold 1m units of low-cost monochrome handsets within the first week of launch. We believe a successful launch would help RCOM gain a significant share of monthly net adds in the coming months. Like its low-cost monochrome handsets, RCOM's colour handsets will be sold independent of a tariff plan.
- **RCOM has identified the right growth driver for the CDMA wireless business** (read handsets) and has executed aggressively to source handsets. In our view, handsets are a key growth driver in the Indian wireless market, especially with regard to driving growth of the CDMA subscriber base. RCOM's launch of low-cost handsets has recognised that need and the results are clearly evident. RCOM has sold more than 1m handsets in just seven days, making a record of sorts. This has placed RCOM as the No. 2 handset distributor in India, behind Nokia and significantly ahead of Samsung, LG, Sony Ericsson and Motorola. Reliance Classic (RCOM's own brand for its new models) has emerged as a key brand in India. Similarly, we expect strong customer pull for its colour handsets in the coming days.

Subsidy burden on these phones – about US\$10 for monochrome phones

- The subsidy burden on these phones, according to our research, is similar to or lower than those on the CDMA handsets. We peg the subsidy on the monochrome phone at less than US\$10 and on the colour handset at less than US\$12-13. The majority of the handsets have been manufactured by China's ZTE, which produced only 4.812m CDMA handsets in the whole of 2006. We think RCOM has ~3m handsets in stock and is likely to order more. The economics of sourcing may be very different with such large orders given the huge leverage this order adds to ZTE's volumes and revenues.

RCOM back in the market, riding on low-cost handset initiative

- RCOM's new handsets could shake up India's wireless market and return market share to RCOM. The company's new handset initiative is also timed perfectly, coinciding with its massive new capex plan of US\$3.5bn for FY08. RCOM's market share of all-India wireless now stands at only 17.4%, vs Bharti's 23%. RCOM's sub-par market share of the past 3-6 months has resulted in the stock underperforming Bharti by 26% in the past five months. We still believe that RCOM can improve its wireless market share if the company executes well on its existing CDMA and GSM businesses in eight circles (where there is no scarcity of spectrum).

Strong subscriber adds momentum (1.5m-1.75m) in the coming months

- We see RCOM's monthly subscriber additions returning to 1.5-1.75m from May 2007 on a sustained basis, with the existing CDMA and GSM businesses. This also ties in with management's resolve for strong growth over the next 12 months irrespective of whether and when RCOM gets new GSM spectrum in the 14 circles in which it has applied for spectrum. Note that our model assumes monthly net adds of 1.4m for 1Q FY08E. Monthly net adds run-rate exceeding 1.4m in the coming months provides upside to our numbers for the April-June 2007 quarter.

Tata Teleservices launching handsets at Rs666 entry-level price

- We understand that Tata Teleservices, India's second-largest CDMA wireless operator (9.9% market share as at March 2007), is launching handsets at the entry-level price point of Rs666 to counter RCOM's offer. We believe this will temper RCOM's subscriber additions run-rate, although the exact magnitude of the impact can be determined only after analysing the features and exact pricing details of Tata new handsets. However, we see RCOM's subscriber additions run-rate to remain within the 1.5m-1.75m range even after the launch of Tata's low-price handsets. We understand that the first model in Tata's new low-cost range is the Motorola w150i. But the stock for this model with Tata is not large. We think it will be time-consuming for Tata to design and develop a new model with a Chinese vendor.
- Tata's existing portfolio of handsets is priced much higher than RCOM's low-cost handsets. Tata's cheapest handset, which was launched a week ago, is priced at Rs999, which its other handsets are priced higher than Rs1,200. Its colour handsets are priced even higher. To matching RCOM's aggressive prices, Tata would have to dole out significant subsidies. We think the handset subsidy for the Rs666 phone would be fairly substantial and one needs to assess how long Tata can sustain such high subsidy levels given its low profitability currently.

Fig 3 Comparative analysis of Tata Indicom's low-cost handsets (Black & White/monochrome phones)

Samsung Hero NXT



Price: Rs999

Features:

- Mobile Tracker, Emergency SOS alert, T9 Hindi & LMS
- Display Size: 1.33" , FSTN
- SMS Memory: 100 (Inbox, Outbox& Draft)+ 20 Templates
- Phone Book Memory: 999 (Mobile,Home,Office,Pager,Fax,2 Emails,1URL,1Memo for Each)+ RUIIM
- 12 Poly -30 Embedded ring tones& Tata Zone
- 2 Games
- PC Sync
- Talk time: 3Hrs

Haier D 1000



Price: Rs1,200

Features:

- Display Size: 1.5' ,STN
- SMS Memory: 60+UIM
- Phone Book Memory: 200 x 5 +UIM
- 32 polyphonic ring tones
- 1 Game
- Talk time of up to 120 Minutes

LG AD 2535



Price: Rs1,499

Features:

- Very light, bar type phone with Polyp sound, Rhythmic light, Hindi support, Airplane Mode, Smart Organizer
- Display Size: MoNo LCD, Yellow Backlight
- SMS facility
- Phone Book Memory: 600 x 4 phone numbers + 1 E-mail + 1 Memo, Caller Group,
- Polyphonic ring tones
- 2 Games
- PC Sync
- Talk time: 2.5 Hours

Source: Tata Teleservices

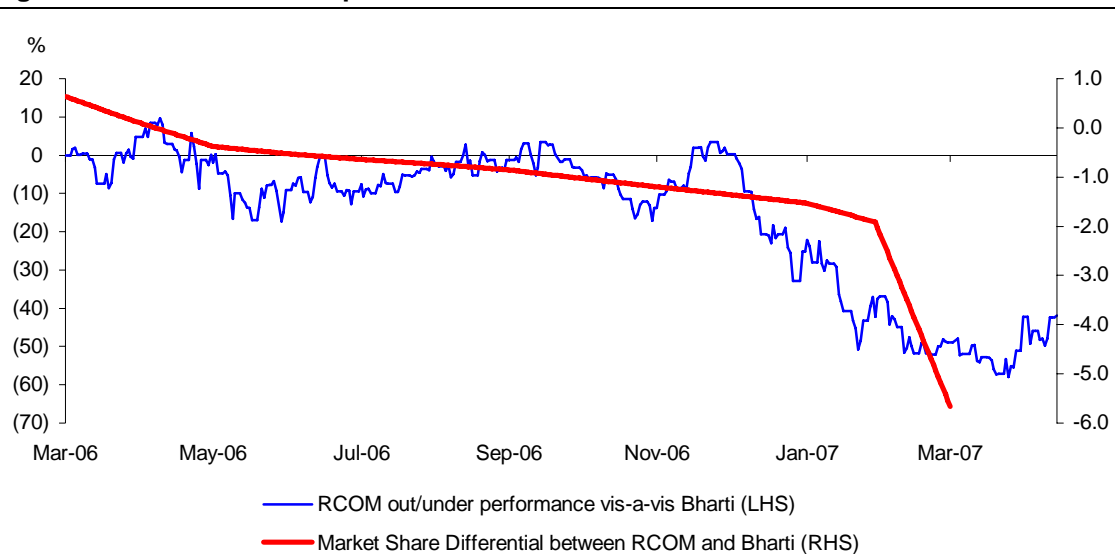
RCOM's handsets significantly cheaper than GSM handsets

RCOM's aggressive launch means that its handsets are now significantly cheaper than the low-cost GSM handsets in India. The cheapest GSM handset is priced at ~Rs1,000– 1,500. The lower cost of GSM handsets is one of the main reasons of that the GSM technology dominates the Indian market. Now, with that advantage tilted towards RCOM, we should see RCOM capturing a significant portion of monthly subscribers net adds in the coming months.

Cheap valuation and recent stock underperformance should help drive the stock

- **RCOM is still trading at a significant discount to Bharti.** Based on FY09E EV/ EBITDA multiples, RCOM is trading at a 21% discount to Bharti. The discount of RCOM's valuations to Bharti has been on the rise during the past 4-5 months. One of the main reasons behind the increasing differences has been the widening gap between the market share of the two companies. However, RCOM's aggressive subscriber acquisition strategy should see a narrowing of this market share differential over the next few months. We believe this will also lead to a closing of the gap between the trading multiples of the two companies. In our opinion, RCOM should be trading at a discount of ~10% to Bharti, not any larger.
- The narrowing of the market share differential between RCOM and BHARTI should lead to stock outperformance as is evident from stock underperformance vis-à-vis Bharti in the period when it lost relative market share.

Fig 4 RCOM's stock underperformance vis-à-vis Bharti



Source: Macquarie Research, May 2007

Among the cheapest Asian wireless stocks on growth adjusted multiples

- On a growth-adjusted basis, RCOM is one of the most attractive stocks in our Asian wireless universe. On the basis of EV/EBITDA-adjusted for EBITDA CAGR (EV/EBITDA divided by two-year EBITDA CAGR), RCOM is trading at multiple of just 0.40x compared to the Asian average of 0.46x. On a PEG basis, RCOM trades at a multiple of just 0.66x, one of the lowest among the Asian wireless universe.
- **RCOM is the second most inexpensive stock among India's large high-growth stocks** both on EV/EBITDA/EBITDA CAGR and PEG basis. We believe the market is not pricing in the strong growth that RCOM should see in the next few months. RCOM's stock price should see significant upward movement as the market corrects the anomaly.

Valuation comparisons with Asia Pacific Wireless peers and key high growth stocks in India

Fig 5 Macquarie Asian Wireless Sector: Comparative valuation

Company Name	Bloomberg Ticker	Rec	Price lcy	Market Cap (US\$ m)	EV/EBITDA			EV/EBITDA by EBITDA CAGR FY07-09E	Price Earning Ratio (PER)			PEG FY07-09E
					Mar-07A	Mar-08E	Mar-09E		Mar-07A	Mar-08E	Mar-09E	
Bharti Airtel*	BHARTI IN	Outperform	824.05	38,340	21.6	13.9	10.7	0.52	36.7	22.6	16.6	0.75
Reliance Communications*	RCOM IN	Outperform	482.20	24,194	17.6	11.9	8.4	0.40	30.9	20.7	14.3	0.66
Idea Cellular*	IDEA IN	Outperform	114.10	7,260	22.0	14.0	10.3	0.47	59.7	32.3	23.0	0.97
China Mobile	941 HK	Outperform	73.75	188,607	8.3	7.3	6.6	0.68	21.7	19.0	16.3	1.42
China Unicom	762 HK	Underperform	11.70	18,993	5.0	4.7	4.3	0.67	23.7	21.6	20.0	2.69
SK Telecom	017670 KS	Neutral	209,000	18,311	4.6	4.4	4.4	4.78	10.7	8.8	8.5	0.88
KT Freetel	032390 KS	Underperform	30,450	6,430	4.1	3.7	3.7	-8.38	14.9	12.6	12.3	1.49
LG Telecom	032640 KQ	Outperform	9,100	2,723	4.1	3.9	3.5	0.52	10.6	6.6	5.6	0.28
Far EasTone	4904 TT	Outperform	39.50	4,593	5.3	5.8	6.2	-0.67	11.7	12.9	13.3	-1.91
Taiwan Cellular	3045 TT	Underperform	35.80	5,374	6.6	7.4	7.6	-1.47	10.9	12.9	14.0	-0.91
MobileOne	M1 SP	Neutral	2.26	1,329	7.2	7.6	7.7	-2.27	13.5	14.1	14.1	-5.60
AIS	ADVANC TB	Underperform	89.50	8,047	6.7	6.1	5.6	0.72	15.2	13.8	12.5	1.52
TAC	TAC SP	Neutral	5.10	2,336	6.7	5.6	4.8	0.36	16.4	11.5	8.8	0.45
Maxis	MAXIS MK	Outperform	15.20	11,296	10.3	10.2	7.7	0.60	19.5	19.7	15.8	1.76
Digi.Com	DIGI MK	Outperform	21.00	4,619	9.0	8.0	7.6	1.01	21.8	17.1	15.6	1.20
Indosat	ISAT IJ	Outperform	6,800	4,166	6.7	5.5	4.4	0.29	22.7	18.3	13.0	0.71
Globe	GLO PM	Outperform	1,350	3,781	5.6	5.3	5.0	0.89	15.3	15.1	13.2	2.02
Average					8.3	6.8	6.0	0.46	22.2	17.4	14.4	0.93

December year end for all companies except Bharti, RCOM and Idea, For e.g., Mar07A=Dec06A, Mar08E=Dec07E, Mar09E=Dec08E; lcy: Local Currency

Source: Macquarie Research, May 2007

Fig 6 Indian high growth stocks: Comparative valuation

Company Name	Bloomberg Ticker	Rec	Price lcy	Market Cap (US\$ m)	EV/EBITDA			EV/EBITDA by EBITDA CAGR FY07-09E	Price Earning Ratio (PER)			PEG FY07-09E
					Mar-07A	Mar-08E	Mar-09E		Mar-07A	Mar-08E	Mar-09E	
Bharti Airtel	BHARTI IN	Outperform	824.05	38,340	21.6	13.9	10.7	0.52	36.7	22.6	16.6	0.75
Reliance Communications	RCOM IN	Outperform	482.20	24,194	17.6	11.9	8.4	0.40	30.9	20.7	14.3	0.66
Idea Cellular	IDEA IN	Outperform	114.10	7,260	22.0	14.0	10.3	0.47	59.7	32.3	23.0	0.97
Reliance Industries	RIL IN	Outperform	1,620.90	57,819	12.2	10.9	8.5	0.62	19.1	17.6	13.5	1.00
Infosys Technologies	INFO IN	Outperform	2,002.20	28,066	24.3	18.7	14.2	0.72	29.0	23.9	17.7	1.03
Tata Consultancy Services	TCS IN	Outperform	1,249.30	30,002	23.8	18.4	13.8	0.76	29.6	22.8	17.1	0.94
Wipro	WPRO IN	Outperform	543.90	19,469	21.7	17.2	13.6	0.81	26.8	21.6	17.5	1.13
ITC	ITC IN	Outperform	162.00	14,957	14.2	15.2	13.1	3.36	22.7	24.0	20.6	4.71
ICICI Bank	ICICIB IN	Outperform	870.05	19,193	20.7	15.7	11.2	0.38	25.1	19.3	14.7	0.82
Larsen & Toubro	LT IN	Underperform	1,687.75	11,732	21.8	17.6	14.6	0.91	30.8	24.7	20.6	1.38
Unitech	UT IN	Outperform	467.05	9,303	37.5	13.0	5.1	0.22	58.9	18.7	6.8	0.30
Dr. Reddy's Laboratories	DRRD IN	Outperform	651.25	2,653	11.4	12.1	11.3	19.34	18.3	18.1	15.0	1.76
Pantaloon	PF IN	Outperform	413.55	1,428	26.8	14.8	10.0	0.40	59.7	30.6	19.3	0.79
Shopper's Stop	SHOP IN	Outperform	600.05	506	28.8	19.0	12.4	0.55	53.3	34.2	21.8	0.94
Average					17.7	13.8	10.1	0.54	26.8	20.8	15.2	0.82

Source: Macquarie Research, May 2007

Reliance Communications Limited (RCOM IN, Outperform, Target price: Rs650.00)

Quarterly Results					Profit & Loss						
	4Q/07A	1Q/08E	2Q/08E	3Q/08E		2007A	2008E	2009E	2010E		
Revenue	m	39,369	44,637	48,219	52,771	Revenue	m	144,683	204,657	279,726	341,044
Gross Profit	m	22,518	25,511	27,972	30,930	Gross Profit	m	81,046	119,268	168,733	208,019
Cost of Goods Sold	m	16,851	19,126	20,247	21,840	Cost of Goods Sold	m	63,637	85,389	110,993	133,025
EBITDA	m	16,352	18,367	19,778	21,634	EBITDA	m	57,212	84,158	118,981	147,773
Depreciation	m	6,378	7,263	7,778	8,497	Depreciation	m	24,653	32,953	43,956	53,935
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	9,975	11,104	12,000	13,137	EBIT	m	32,559	51,205	75,025	93,838
Net Interest Income	m	392	-55	-67	-25	Net Interest Income	m	-4	-161	1,539	4,461
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	28	0	0	0	Exceptionals	m	-302	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	10,394	11,049	11,933	13,112	Pre-Tax Profit	m	32,253	51,044	76,564	98,299
Tax Expense	m	-149	-552	-716	-918	Tax Expense	m	-613	-3,308	-7,656	-12,287
Net Profit	m	10,244	10,497	11,217	12,194	Net Profit	m	31,640	47,736	68,908	86,011
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	10,244	10,497	11,217	12,194	Reported Earnings	m	31,640	47,736	68,908	86,011
Adjusted Earnings	m	10,217	10,497	11,217	12,194	Adjusted Earnings	m	31,941	47,736	68,908	86,011
EPS (rep)		5.01	5.13	5.49	5.96	EPS (rep)		15.47	23.35	33.70	42.07
EPS (adj)		5.00	5.13	5.49	5.96	EPS (adj)		15.62	23.35	33.70	42.07
EPS Growth YoY (adj)	%	132.0	98.9	56.4	31.5	EPS Growth (adj)	%	562.1	49.4	44.4	24.8
						PE (rep)	x	31.2	20.7	14.3	11.5
						PE (adj)	x	30.9	20.7	14.3	11.5
EBITDA Margin	%	41.5	41.1	41.0	41.0	Total DPS		0.00	0.00	0.00	10.00
EBIT Margin	%	25.3	24.9	24.9	24.9	Total Div Yield	%	0.0	0.0	0.0	2.1
Earnings Split	%	32.0	22.0	23.5	25.5	Weighted Average Shares	m	2,045	2,045	2,045	2,045
Revenue Growth	%	32.5	37.3	36.8	40.5	Period End Shares	m	2,045	2,045	2,045	2,045
EBIT Growth	%	98.7	69.6	64.6	50.2						
Profit and Loss Ratios					Cashflow Analysis						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Revenue Growth	%	34.4	41.5	36.7	21.9	EBITDA	m	55,550	80,850	111,324	135,486
EBITDA Growth	%	128.6	47.1	41.4	24.2	Tax Paid	m	0	0	0	0
EBIT Growth	%	304.9	57.3	46.5	25.1	Chgs in Working Cap	m	14,916	55,959	44,020	54,139
Gross Profit Margin	%	56.0	58.3	60.3	61.0	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	39.5	41.1	42.5	43.3	Other	m	1,405	0	0	0
EBIT Margin	%	22.5	25.0	26.8	27.5	Operating Cashflow	m	71,871	136,809	155,344	189,625
Net Profit Margin	%	21.9	23.3	24.6	25.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	23.8	Capex	m	-53,569	-117,720	-117,377	-97,906
EV/EBITDA	x	17.6	11.9	8.4	6.8	Asset Sales	m	-10,529	0	0	0
EV/EBIT	x	30.8	19.6	13.4	10.7	Other	m	3,186	-161	1,539	4,461
Balance Sheet Ratios					Investing Cashflow	m	-60,912	-117,881	-115,838	-93,445	
ROE	%	19.9	20.6	23.5	23.9	Dividend (Ordinary)	m	0	0	0	0
ROA	%	7.6	8.6	10.4	11.3	Equity Raised	m	0	0	0	0
ROIC	%	21.2	21.5	26.0	28.4	Debt Movements	m	66,203	21,477	-2,653	-52,227
Net Debt/Equity	%	8.9	0.3	-11.8	-28.5	Other	m	0	0	0	0
Interest Cover	x	9,044.1	318.3	nmf	nmf	Financing Cashflow	m	66,203	21,477	-2,653	-52,227
Price/Book	x	4.8	3.8	3.0	2.5	Net Chg in Cash/Debt	m	77,162	40,405	36,853	43,953
Book Value per Share		99.7	126.7	160.4	191.0						
					Balance Sheet						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Cash	m	137,200	129,381	166,234	186,873	Cash	m	137,200	129,381	166,234	186,873
Receivables	m	18,316	31,559	40,548	48,587	Receivables	m	18,316	31,559	40,548	48,587
Inventories	m	4,821	4,370	5,615	9,344	Inventories	m	4,821	4,370	5,615	9,344
Investments	m	11,925	247	247	247	Investments	m	11,925	247	247	247
Fixed Assets	m	330,423	441,932	515,353	559,323	Fixed Assets	m	330,423	441,932	515,353	559,323
Intangibles	m	0	2,237	2,237	2,237	Intangibles	m	0	2,237	2,237	2,237
Other Assets	m	35,926	44,247	56,851	61,835	Other Assets	m	35,926	44,247	56,851	61,835
Total Assets	m	538,611	653,973	787,085	868,446	Total Assets	m	538,611	653,973	787,085	868,446
Payables	m	136,013	195,057	244,329	296,525	Payables	m	136,013	195,057	244,329	296,525
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	155,438	130,230	127,577	75,349	Long Term Debt	m	155,438	130,230	127,577	75,349
Provisions	m	43,173	69,622	87,208	105,902	Provisions	m	43,173	69,622	87,208	105,902
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	334,624	394,909	459,113	477,777	Total Liabilities	m	334,624	394,909	459,113	477,777
Shareholders' Funds	m	203,928	258,968	327,876	390,574	Shareholders' Funds	m	203,928	258,968	327,876	390,574
Minority Interests	m	59	96	96	96	Minority Interests	m	59	96	96	96
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	203,987	259,064	327,972	390,670	Total S/H Equity	m	203,987	259,064	327,972	390,670
Total Liab & S/H Funds	m	538,611	653,973	787,085	868,446	Total Liab & S/H Funds	m	538,611	653,973	787,085	868,446

All figures in INR unless noted.

Source: Macquarie Research, May 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – expected return >+5%
 Neutral – expected return from -5% to +5%
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

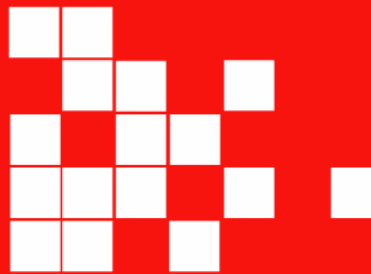
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