

INDIA

# Reliance Communications

3 August 2009

**RCOM IN** **Outperform**

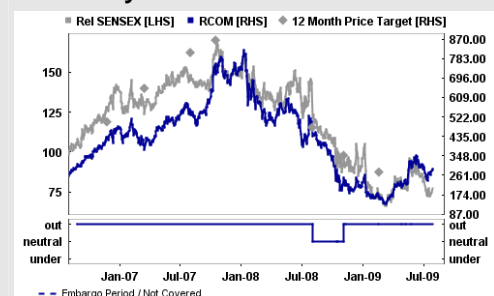
Stock price as of 31 Jul 09	Rs	275.65
12-month target	Rs	275.00
Upside/downside	%	-0.2
Valuation	Rs	275.00
- DCF (WACC 12.5%, beta 1.1, ERP 6.0%, RFR 9.0%, TGR 3.5%)		

GICS sector	telecommunication services		
Market cap	Rs m	568,949	
30-day avg turnover	US\$m	80.3	
Market cap	US\$m	11,750	
Number shares on issue	m	2,064	

**Investment fundamentals**

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	229.4	273.2	315.3	357.6
EBITDA	bn	92.9	109.1	127.2	145.1
EBITDA growth	%	13.3	17.5	16.6	14.1
Adjusted profit	bn	59.1	56.5	64.5	71.3
EPS adj	Rs	27.17	25.91	29.57	32.72
EPS adj growth	%	9.3	-4.6	14.1	10.6
PE adj	x	10.1	10.6	9.3	8.4
ROA	%	6.2	5.3	5.7	6.2
ROE	%	18.9	15.5	15.3	13.8
EV/EBITDA	x	8.3	7.1	6.1	5.3
Net debt/equity	%	48.2	66.1	52.0	23.8
Price/book	x	1.8	1.5	1.3	1.0

**RCOM IN rel SENSEX performance, & rec history**



Source: FactSet, Macquarie Research, August 2009 (all figures in INR unless noted)

**Analysts**

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## Solid 1Q; strong wireless resurgence

### Event

- **RCOM reported good 1Q results.** EBITDA broadly matched our estimate while the wireless segment was the star of the show after a long time. PAT was 25% ahead of our estimate despite the introduction of the MAT tax rate, led by Rs6.21bn interest income boosted by forex gains. Reiterate Outperform.

### Impact

- **Wireless ARPU and MoU were exactly in line with our estimates,** while average revenue per minute and EBITDA per minute each came 1 paise ahead of our estimates. Wireless revenues were in line, despite the termination rate cuts.
- **Wireless EBITDA margin came in at 38.6% compared with our estimate of 37.1%,** leading to a positive surprise of 4.2% in wireless EBITDA. Wireless EBITDA was up 11.2% QoQ, a significant increase on a sequential basis. This was again the sharpest QoQ growth in wireless EBITDA in the entire sector. Consolidated EBITDA margin was 39.9%, ahead of our estimate of 39.0%.

### Good: What we liked in the quarter

- ⇒ **The first signs of resurgence in wireless growth are clearly visible,** led by GSM – the best sequential growth (6.5% QoQ growth) in wireless revenue in seven quarters. RCOM reported wireless revenue growth of 16.4% YoY vs 19% at Bharti. Adjusted for a termination rate cut, RCOM's wireless revenue growth of 22.6% YoY compares with Bharti's 23.5% growth. Such close convergence between Bharti's and RCOM's wireless revenue growth has occurred after 12 straight quarters (the last time in June 2006). It also registered the most impressive QoQ growth of 6.5% among Bharti, RCOM, Vodafone and Idea, both before and after adjusting for termination rate cuts.
- ⇒ **Wireless broadband data access, riding on EVDO (3G CDMA),** is a new revenue stream that has just been tapped, with significant upside expected in two years.
- ⇒ **Net debt was down (by Rs4.3bn) in 1Q after going up for four quarters.** This coincided with the first quarter of positive free cash generation (Rs10.93bn, or US\$227m, in 1Q) by RCOM in its listed history.

### Bad: What we did not like in the quarter

- ⇒ **A change in accounting policy to move to AS11 means RCOM generated significant forex gains in 1Q.** Management noted that the return to AS11 was because Section 6 of the Companies Act (which it followed in prior quarters) ceased to exist on 31 March 2009.

### Earnings and target price revision

- No change.

### Price catalyst

- 12-month price target: Rs275.00 based on a DCF methodology.
- Catalyst: Positive impact of new GSM launch on operating metrics.

### Action and recommendation

- We are maintaining our Outperform rating, based on improving growth outlook, attractive valuation and consensus upgrades.

Please refer to the important disclosures and analyst certification on inside back cover of this document. or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

## 1Q results: Sector top-line growth intact; capital intensity coming down

- **Adjusted for termination rate cut, Indian telcos delivered strong top-line growth.** RCOM's 1Q results validate our view that the optical slowdown in top-line growth based on reported numbers is illusory. Figure 2 highlights the strong QoQ growth delivered by four major wireless operators in the country. RCOM reported double-digit sequential growth in wireless revenues.
- **Bharti and RCOM delivered strong YoY growth in 1Q FY3/10 EBITDA.** 1Q results clearly highlight the superior growth trajectory of Bharti and RCOM vis-à-vis Idea. Bharti's wireless EBITDA increased 28.1% vs 11.2% growth for RCOM and 6.5% growth for Idea.
- **Capital intensity in the sector is coming down sharply.** We believe that wireless capex for large incumbent players in the sector has peaked and will slide down sharply from these levels. RCOM's wireless capex was down to Rs9bn in the quarter (down 83.5% YoY).

**Fig 1 Indian telcos posted strong sequential growth: Deconstructing the impact of termination rate cut**

	Reported (without any adjustment)	YoY Growth (%)	QoQ Growth (%)	Adjusted (for Termination Rate Cut)	YoY Growth (%)	QoQ Growth (%)
<b>Wireless Revenues (Rs m)</b>						
Bharti Airtel	82,285	19.0%	0.1%	85,417	23.5%	3.9%
RCOM	47,931	16.4%	6.5%	50,482	22.6%	12.1%
Vodafone Essar	59,339	22.8%	3.6%	58,372	20.8%	1.9%
Idea Cellular	28,883	32.9%	0.9%	30,238	39.1%	5.6%
<b>Wireless ARPU (Rs)</b>						
Bharti Airtel	278	-20.4%	-8.8%	290	-17.0%	-4.9%
RCOM	210	-25.5%	-6.3%	221	-21.6%	-1.3%
Vodafone Essar	247	-25.7%	-10.0%	258	-22.4%	-6.0%
Idea Cellular	232	-17.1%	-9.0%	247	-11.8%	-3.2%
<b>Wireless ARPM (Rs)</b>						
Bharti Airtel	0.58	-11.0%	-7.4%	0.61	-7.2%	-3.4%
RCOM	0.58	-12.7%	-3.7%	0.61	-8.8%	0.6%
Vodafone Essar	0.75	-15.7%	-8.4%	0.78	-11.9%	-4.2%
Idea Cellular	0.58	-10.7%	-7.9%	0.62	-4.8%	-1.8%
<b>Wireless EBITDA (Rs m)</b>						
Bharti	27,183	28.1%	5.1%			
RCOM	18,489	11.2%	11.2%			
Vodafone Essar	na	na	na			
Idea	7,689	6.5%	5.5%			
<b>Wireless EBITDA per minute (Rs)</b>						
Bharti	0.19	-4.1%	-2.4%			
RCOM	0.22	-18.7%	-1.1%			
Vodafone Essar	na	na	na			
Idea	0.16	Not comparable	-4.7%			
<b>Wireless EBITDA margin (%)</b>						
Bharti	33.0%	2.4%	1.6%			
RCOM	38.6%	-1.8%	1.6%			
Vodafone Essar	na	na	na			
Idea	26.6%	-19.8%	4.1%			
<b>Wireless Capex (Rs m)</b>						
Bharti	13,037	-59.5%	-18.7%			
RCOM	9402	-83.5%	-45.0%			
Vodafone Essar	na	na	na			
Idea	9,100	-54.1%	-1.2%			
<b>Total Free Cash Flow (Rs m)</b>						
Bharti	16,454	134.8%	na			
RCOM	10,929	From -ve to +ve	na			
Vodafone Essar	na	na	na			
Idea	(2,515)	na	na			

Source: Company data, Macquarie Research, August 2009

Fig 2 1Q FY3/10 results – RCOM quarterly P&amp;L; YoY and QoQ growth, deviation from Macquarie estimates

Amount in Rs. Million, except ratios	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	(% chg YoY)	(% chg QoQ)	Estimate 1QFY09	Deviation (%)
	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09				
<b>Revenues</b>									
Wireless	41,187	43,356	44,119	45,015	47,931	16.4%	6.5%	47,895	0.1%
Global Service revenues	15,260	16,915	16,783	18,803	18,844	23.5%	0.2%	18,991	-0.8%
Broadband & Telephone Service revenues	5,603	6,023	6,542	7,075	6,842	22.1%	-3.3%	7,376	-7.2%
Direct-to-Home and IPTV		159	490	843	816		na	1,072	-23.9%
Others	1,437	2,187	2,693	2,289	2,215	54.2%	-3.2%	1,603	38.3%
Inter-segment eliminations	(10,265)	(12,190)	(12,125)	(12,788)	(15,196)	48.0%	18.8%	(13,252)	14.7%
<b>Total Revenues</b>	<b>53,222</b>	<b>56,450</b>	<b>58,502</b>	<b>61,237</b>	<b>61,452</b>	<b>15.5%</b>	<b>0.4%</b>	<b>63,684</b>	<b>-3.5%</b>
<b>Operating Expenses</b>									
Cost of service (a+b+c)	20,804	23,179	24,742	27,301	25,813	24.1%	-5.5%	28,715	-10.1%
(% of total revenues)	39.1%	41.1%	42.3%	44.6%	42.0%			45.1%	
Access & License Fees (a)	9,159	8,324	8,693	9,506	7,845	-14.3%	-17.5%	10,011	-21.6%
(% of total revenues)	17.2%	14.7%	14.9%	15.5%	12.8%			15.7%	-3.0%
Network Operations Costs - (b)	8,128	10,266	11,666	13,582	13,856	70.5%	2.0%	14,246	-2.7%
(% of total revenues)	15.3%	18.2%	19.9%	22.2%	22.5%			22.4%	0.2%
Employee Cost - (c)	3,517	4,589	4,383	4,213	4,112	16.9%	-2.4%	4,458	-7.8%
(% of total revenues)	6.6%	8.1%	7.5%	6.9%	6.7%			7.0%	-0.3%
Selling & General Cost	9,916	10,255	10,235	10,104	11,114	12.1%	10.0%	10,151	9.5%
(% of total revenues)	18.6%	18.2%	17.5%	16.5%	18.1%			15.9%	2.1%
<b>Total Operating Expense</b>	<b>30,720</b>	<b>33,434</b>	<b>34,977</b>	<b>37,405</b>	<b>36,927</b>	<b>20.2%</b>	<b>-1.3%</b>	<b>38,866</b>	<b>-5.0%</b>
(% of total revenues)	57.7%	59.2%	59.8%	61.1%	60.1%			61.0%	-0.9%
<b>EBITDA</b>	<b>22,502</b>	<b>23,016</b>	<b>23,525</b>	<b>23,832</b>	<b>24,525</b>	<b>9.0%</b>	<b>2.9%</b>	<b>24,818</b>	<b>-1.2%</b>
<i>EBITDA Margin</i>	42.3%	40.8%	40.2%	38.9%	39.9%	-2.4%	1.0%	39.0%	0.9%
Net Interest	2,340	2,353	1,496	1,678	6,205	165.2%	269.8%	1,678	269.8%
Depreciation and Amortisation	(9,278)	(9,827)	(10,427)	(9,856)	(11,255)	21.3%	14.2%	(12,119)	-7.1%
(% of total revenues)	17.4%	17.4%	17.8%	16.1%	18.3%			19.0%	
<b>Profit Before Taxes (PBT)</b>	<b>15,564</b>	<b>15,542</b>	<b>14,594</b>	<b>15,654</b>	<b>19,475</b>	<b>25.1%</b>	<b>24.4%</b>	<b>14,376</b>	<b>35.5%</b>
(% of total revenues)	29.2%	27.5%	24.9%	25.6%	31.7%	2.4%	6.1%	22.6%	9.1%
Income tax expense / (benefit)	(194)	(567)	153	485	2,267	-1268.6%	367.4%	719	215.4%
Effective Tax Rate (%)	-1.2%	-3.6%	1.0%	3.1%	11.6%			5.0%	
<b>Profit After Taxes (PAT)</b>	<b>15,758</b>	<b>16,108</b>	<b>14,441</b>	<b>15,169</b>	<b>17,208</b>	<b>9.2%</b>	<b>13.4%</b>	<b>13,657</b>	<b>26.0%</b>
Extraordinary items	-	-	-	-	-			-	
Share of Minority and Associates	635	800	339	625	842			563	
<b>Rptd. Net Profit</b>	<b>15,123</b>	<b>15,308</b>	<b>14,102</b>	<b>14,544</b>	<b>16,366</b>			<b>13,095</b>	
<b>Adjusted Net Profit (excl. exceptional)</b>	<b>15,123</b>	<b>15,308</b>	<b>14,102</b>	<b>14,544</b>	<b>16,366</b>	<b>8.2%</b>	<b>12.5%</b>	<b>13,095</b>	<b>25.0%</b>
<i>PAT Margin</i>	28.4%	27.1%	24.1%	23.8%	26.6%	-1.8%	2.9%	20.6%	6.1%
<b>Diluted EPS (Adjusted)</b>	<b>7.01</b>	<b>7.02</b>	<b>6.47</b>	<b>6.67</b>	<b>7.51</b>	<b>7.1%</b>	<b>12.5%</b>	<b>6.00</b>	<b>25.0%</b>

Source: Company data, Macquarie Research, August 2009

Fig 3 1Q FY3/10 results – RCOM quarterly P&amp;L; YoY and QoQ growth, deviation from Macquarie estimates

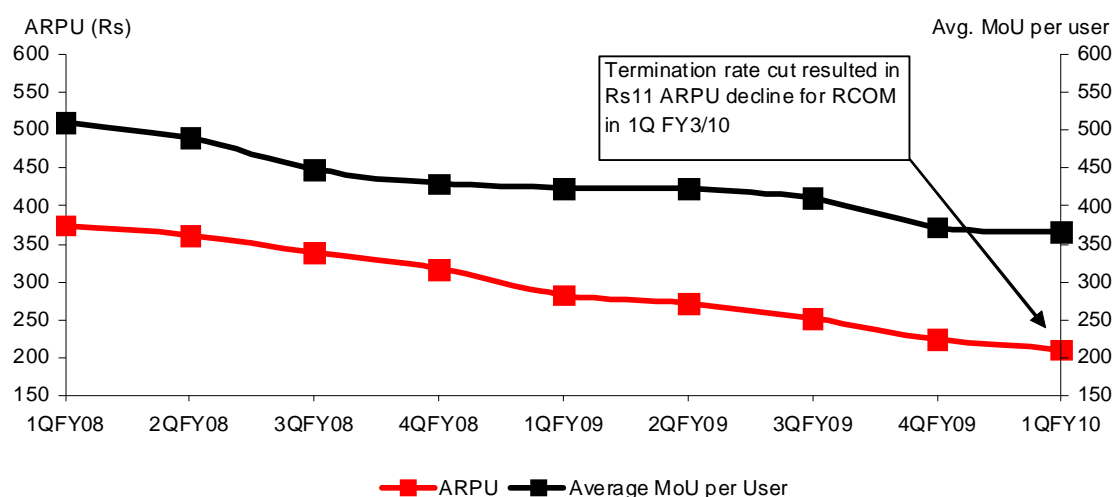
Amount in Rs. Million, except ratios	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	(% chg YoY)	(% chg QoQ)	Estimate 1QFY09	Deviation (%)
	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09				
<b>Segmental breakdown of EBITDA</b>									
Wireless	16,623	16,859	16,616	16,629	18,489	11.2%	11.2%	17,746	4.2%
Global (Long distance)	3,222	3,608	4,315	5,025	4,515	40.1%	-10.1%	5,147	-12.3%
Broadband & Fixed	2,714	2,941	2,760	3,160	2,994	10.3%	-5.3%	3,253	-8.0%
Direct-to-Home and IPTV	-	(29)	(70)	(49)	(75)	na	52.1%	(75)	0.0%
Others	-	(169)	(36)	(928)	(1,306)	na	na	(297)	na
Intersegment eliminations	(57)	(194)	(60)	(5)	(92)	na	na	(956)	-90.4%
Net Others (Others + intersegment)	(57)	(363)	(96)	(933)	(1,398)	na	49.9%	(1,253)	11.5%
Total	22,502	23,016	23,525	23,832	24,525	9.0%	2.9%	24,818	-1.2%
<b>Segment-wise EBITDA margin (%)</b>									
Wireless	40.4%	38.9%	37.7%	36.9%	38.6%	-1.8%	1.6%	37.1%	1.5%
Global (Long distance)	21.1%	21.3%	25.7%	26.7%	24.0%	2.8%	-2.8%	27.1%	-3.1%
Broadband & Fixed	48.4%	48.8%	42.2%	44.7%	43.8%	-4.7%	-0.9%	44.1%	-0.3%
Direct-to-Home and IPTV	-	-18.1%	-14.2%	-5.9%	-9.2%	na	-3.3%	-7.0%	-2.2%
Others	0.0%	-7.7%	-1.3%	-40.5%	-58.9%	-58.9%	-18.4%	-18.5%	na
<b>Capex</b>									
Wireless	69,686	47,731	43,607	35,058	10,502	-84.9%	-70.0%	26,644	-60.6%
Global	56,926	33,260	32,508	17,084	9,402	-83.5%	-45.0%	20,612	-54.4%
Broadband & Fixed	9,643	10,624	5,675	10,516	182	-98.1%	-98.3%	2,462	-92.6%
Direct-to-Home and IPTV	3,030	3,674	1,104	1,102	136	-95.5%	-87.7%	885	-84.6%
Others	-	2,000	1,000	1,000	750	na	-25.0%	750	0.0%
Capital Work in progress	(28,995)	(12,755)	1,027	3,440	32	-100.1%	-99.1%	-	na
<b>Subscriber Base</b>									
Wireless	50.8	56.0	61.3	72.7	79.6	56.8%	9.6%	79.9	-0.4%
Broadband & Fixed	1.1	1.3	1.3	1.4	1.4	24.0%	2.7%	1.4	-0.9%
<b>ARPU</b>									
Wireless	282.0	271.0	251.0	224.0	210.0	-25.5%	-6.3%	209.3	0.3%
Broadband & Fixed	1,715.0	1,668.0	1,681.0	1,735.0	1,626.0	-5.2%	-6.3%	1,743.7	-6.7%
<b>Average MoU per User (Wireless)</b>									
Average Revenue per Minute (Wireless)	424	423	410	372	365	-13.9%	-1.9%	366	-0.4%
Average EBITDA per Minute (Wireless)	0.66	0.64	0.61	0.60	0.58	-12.7%	-3.7%	0.57	1.5%
Average Monthly EBITDA per subscriber	0.27	0.25	0.23	0.22	0.22	-18.7%	-1.1%	0.21	4.0%
Total wireless network minutes (bn min.)	114.74	105.20	94.36	82.72	80.94	-29.5%	-2.2%	77.55	4.4%

Source: Company data, Macquarie Research, August 2009

## Wireless operating metrics came in exactly in line with estimate

- **ARPU of Rs210 matched our estimate.** RCOM reported 1Q ARPU of Rs210 (vs our Rs209 estimate), down 6.3% QoQ and 25.5% YoY. This was better than the ARPU declines at peers Bharti (8.8% QoQ) and Idea (9.0% QoQ). If we were to add back the Rs11 hit to ARPU from the cut in the termination rate to 20 paise from 30 paise, adjusted ARPU (of Rs221) would have been down only 1.3% QoQ and 21.6% YoY.
- **MoUs remain near flat, 0.4% below our estimate.** Monthly MoUs of 365 (down 1.9% QoQ and 13.9% YoY) were 0.3% lower than our estimate. MoUs witnessed sequential declines at Bharti (down 1.5% QoQ) and Idea (down 0.7% QoQ). We believe that this dip in MoUs per subscriber can be attributed to fragmentation of MoUs by individual wireless subscribers across multiple operators. Even so, total mobile minutes carried by operators have shown healthy growth due to robust subs additions.
- **Adjusted for termination cut, RCOM would have posted sequential uptick in ARPM.** 1Q ARPM for RCOM declined to Rs0.58 from Rs0.60 in 4Q, down 3.7% QoQ and 12.7% YoY. This compares with ARPM of Rs0.58 for both Bharti (down 7.4% QoQ and 11% YoY) and Idea (down 7.9% QoQ and 10.7% YoY). Adjusted for the termination rate cut, RCOM's ARPM would have been Rs0.61, a sequential increase of 0.6%.

**Fig 4 1Q FY10 ARPU: Reported ARPU down 6% QoQ but adjusted ARPU down 1% QoQ**

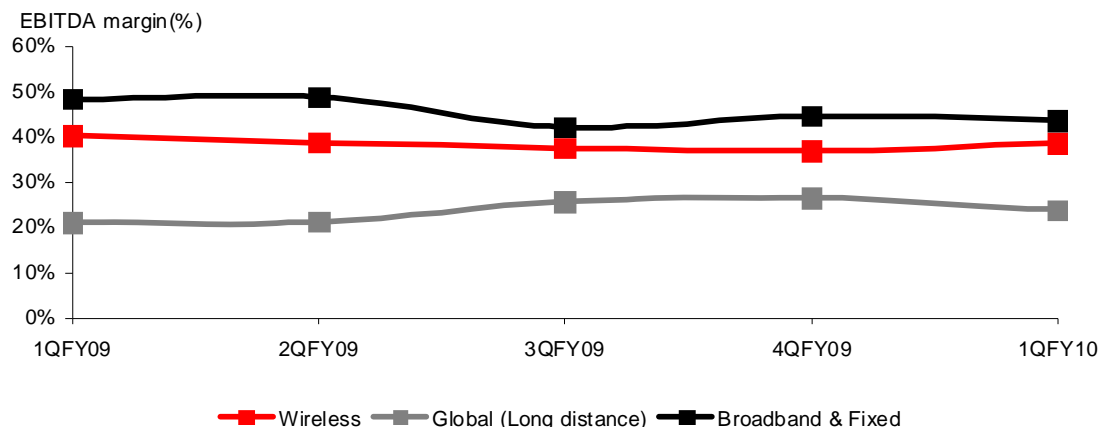


Source: Company data, Macquarie Research, August 2009

## 1Q financials: EBITDA in line, substantial surprise on PAT

- **Wireless revenues of Rs47.9bn matched estimate.** Consolidated revenues of Rs61.4bn (up 0.4% QoQ and 15.5% YoY) were 3.5% below our estimate of Rs63.7bn. The biggest reason for the disappointment in consolidated revenues was weaker revenues in the broadband and fixed-line segment (segment revenues of Rs6.8bn were 7% below our estimate of Rs7.4bn)
- **Termination rate cut helped RCOM to deliver significant positive a surprise on access costs.** RCOM's consolidated EBITDA of Rs24.5bn broadly matched our Rs24.8bn estimate. Consolidated margins were up 100bp to 39.9% from 38.9% last quarter, largely aided by a 170bp sequential improvement in wireless EBITDA margins due to a reduced termination rate (the reduction in the termination rate hurt the top line but had no impact on EBITDA, as access costs declined simultaneously). This compares with a 150bp QoQ increase in wireless margin for Bharti and an 80bp sequential improvement for Idea in the quarter.

**Fig 5 Improvement in wireless margins is the key driver of 100bp QoQ improvement in consolidated margins**



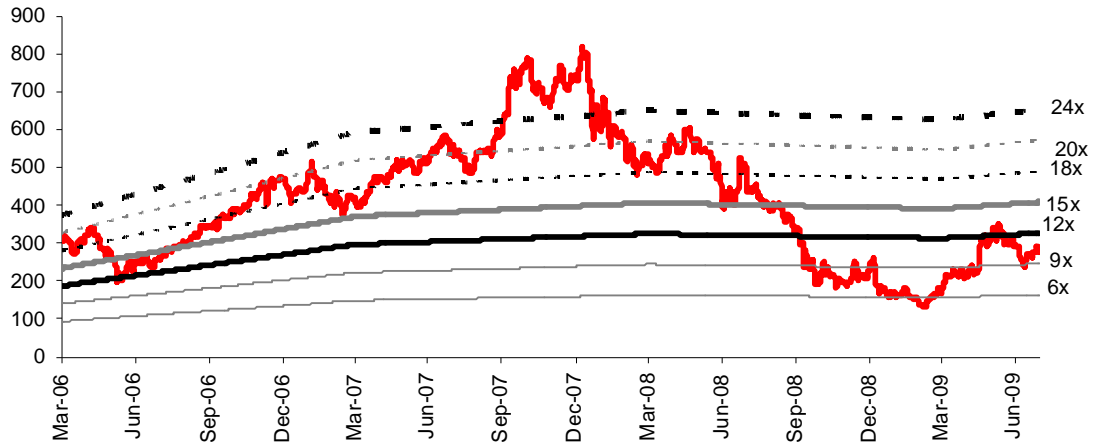
Source: Company data, Macquarie Research, August 2009

### Incremental colour on key issues from the earnings call

- **RCOM's new GSM has added ~12m subscribers since launch six months ago.** RCOM has not disclosed the subscriber breakdown between CDMA and GSM technology platforms. We estimate that CDMA monthly net adds averaged 0.6m in the last six months, ~0.4m monthly additions in the old GSM circles and ~2m monthly net adds in the newly launched GSM circles.
- **Revenue growth and increase in total mobile minutes largely driven by new GSM.** Although management did not quantify the contribution from the new GSM launch, we believe that 6.5% QoQ growth in wireless revenues and 11.4% QoQ growth in total wireless network minutes were driven by new GSM. We highlight two significant differences between legacy CDMA and the new GSM platform.
  - ⇒ There is no handset subsidy for subscribers added on GSM platforms.
  - ⇒ RCOM does not offer free minutes bundled with new GSM connections.
- **Extremely positive on long-term business prospects of wireless broadband.** RCOM is offering high-speed wireless broadband service using EVDO technology. The company has added 0.5m data card users in two to three months from just 30 top cities in India. This translates into an annualised revenue opportunity of US\$300–450m, with monthly ARPU of Rs600 and incremental EBITDA margins of 50%-plus from just the top 30 cities. We believe that RCOM will turn the existing 2.75G CDMA 2000 1x RTT network to a data network, while the 2G GSM and 3G WCDMA networks will largely take care of voice going forward, although we expect a gradual transition over the next two years.
- **Termination rate cut had an impact even on revenues from ILD segment.** Management noted that reduced termination charges (from Rs0.3 to Rs0.2 per minute) even hurt the top-line numbers for the ILD segment, as revenue billed for international calls terminating on third-party networks in India would be lower now.
- **The deal with Etisalat DB on tower sharing encompasses NLD services.** Management noted on the earnings call that the company would provide NLD services as part of the recently signed tower deal with new greenfield entrant Etisalat DB. We believe that this deal is a significant positive for the stock and estimate Rs37/share value for RCOM from this deal. (Please see our detailed report, *Towers deal with Etisalat: Big +ve*, dated 23 July 2009).
- **RCOM has Rs315bn (US\$6.5bn) gross debt on its balance sheet.** Total debt increased from Rs266bn at the end of the December 2008 quarter to Rs315bn at the end of 1Q FY3/10. RCOM had Rs93bn cash at the end of April-June 2009 quarter. As a result, its net debt increased to Rs221.6bn in 1Q from 186bn in 3Q FY3/09.
- CWIP declined by Rs88bn over a six-month period to Rs103.5bn in the April-June 2009 quarter.

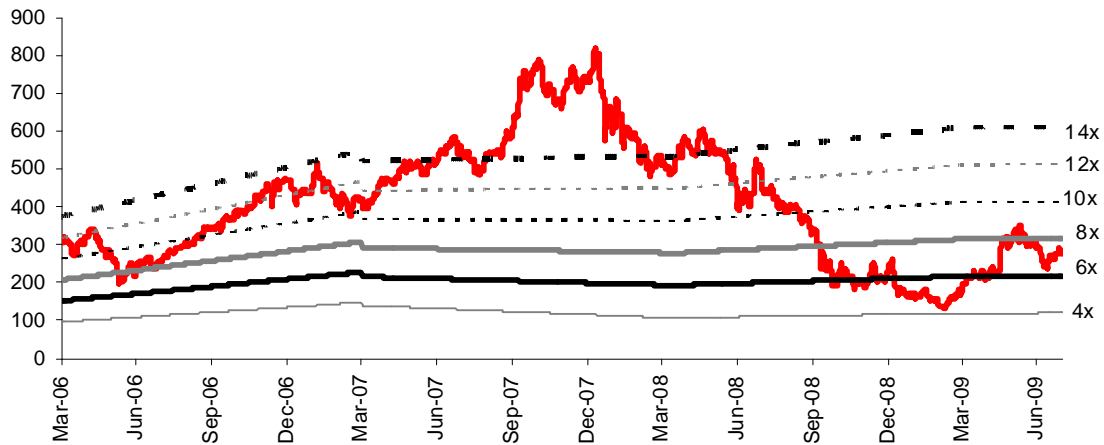
- RCOM has changed its accounting policy, moves back to AS11**, which means it generated significant forex gains. Management noted that it had to revert to AS11 accounting because Section 6 of the Companies Act (which it followed in prior quarters, where forex gains/losses are adjusted in the respective balance sheet item itself) ceased to exist on 31 March 2009.

**Fig 6 RCOM – One-year forward rolling PER**



Source: Bloomberg, Macquarie Research, August 2009

**Fig 7 RCOM – One-year-forward rolling EV/EBITDA**



Source: Bloomberg, Macquarie Research, August 2009

## Reliance Communications – Detailed financial statements

**Fig 8 RCOM – Annual income statement**

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E
<b>Revenues</b>					
Wireless	107,276	152,135	173,677	211,582	239,867
Global Service revenues	51,771	54,751	67,761	76,196	88,614
Broadband & Telephone Service revenues	11,440	17,867	25,243	30,985	36,226
Direct-to-Home and IPTV			1,492	5,452	10,248
Others	3,872	4,310	8,606	5,559	5,946
Inter-segment eliminations	(29,677)	(38,386)	(47,368)	(56,619)	(65,610)
<b>Total Revenues</b>	<b>144,683</b>	<b>190,678</b>	<b>229,411</b>	<b>273,155</b>	<b>315,292</b>
<b>Operating Expenses</b>					
Access & Interconnect Charges	37,822	40,583	35,682	42,354	48,862
(% of total revenues)	26.1%	21.3%	15.6%	15.5%	15.5%
Network Operations Costs - (a)	16,736	22,008	43,642	38,242	44,141
(% of total revenues)	11.6%	11.5%	19.0%	14.0%	14.0%
Employee Cost - (b)	9,079	12,037	16,702	20,690	23,882
(% of total revenues)	6.3%	6.3%	7.3%	7.6%	7.6%
Selling & General Cost - (c)	23,835	34,061	40,510	62,748	71,208
(% of total revenues)	16.5%	17.9%	17.7%	23.0%	22.6%
Total Service Operating Expenses - (a+b+c)	49,649	68,106	100,854	121,680	139,230
(% of total revenues)	34.3%	35.7%	44.0%	44.5%	44.2%
<b>Total Operating Expense</b>	<b>87,471</b>	<b>108,689</b>	<b>136,536</b>	<b>164,034</b>	<b>188,092</b>
(% of total revenues)	60.5%	57.0%	59.5%	60.1%	59.7%
<b>EBITDA</b>	<b>57,212</b>	<b>81,989</b>	<b>92,875</b>	<b>109,122</b>	<b>127,199</b>
<i>EBITDA Margin</i>	39.5%	43.0%	40.5%	39.9%	40.3%
Net Interest	(4)	3,998		4,896	6,235
Depreciation	(24,653)	(28,054)	(39,313)	(50,524)	(57,463)
<b>Amortisation of ESO</b>	<b>0</b>	<b>0</b>	<b>(75)</b>	<b>(2,600)</b>	<b>(2,600)</b>
<b>Profit Before Taxes (PBT)</b>	<b>32,575</b>	<b>57,933</b>	<b>61,354</b>	<b>60,894</b>	<b>73,372</b>
(% of total revenues)	22.5%	30.4%	26.7%	22.3%	23.3%
Income tax expense / (benefit)	613	2,836	(123)	3,045	7,337
<i>Effective Tax Rate (%)</i>	1.9%	4.9%	-0.2%	5.0%	10.0%
<b>Profit After Taxes (PAT)</b>	<b>31,942</b>	<b>55,097</b>	<b>61,476</b>	<b>57,849</b>	<b>66,035</b>
Minority interest		13,911	2,399	1,358	1,550
Extraordinary items	(302)	12,829			
<b>Reported Net Profit</b>	<b>31,640</b>	<b>54,015</b>	59,077	56,491	64,484
<b>Adjusted Net Profit</b>	<b>31,942</b>	<b>53,389</b>	<b>59,077</b>	<b>56,491</b>	<b>64,484</b>
<i>PAT Margin</i>	22.1%	28.0%	25.8%	20.7%	20.5%
<b>Adjusted Diluted EPS</b>	<b>15.62</b>	<b>24.75</b>	<b>27.17</b>	<b>25.91</b>	<b>29.57</b>
Diluted number of shares outstanding	2,045	2,157	2,181	2,181	2,181
<b>YoY Growth (%)</b>					
<b>Total Revenues</b>	<b>34.4</b>	<b>31.8</b>	<b>20.3</b>	<b>18.8</b>	<b>15.4</b>
Access & Interconnection Charges	(6.4)	7.3	(12.1)	18.3	15.4
Network Operations	9.0	31.5	98.3	(7.1)	15.4
Employee Costs	8.2	32.6	38.8	21.3	15.4
Selling & General Costs	28.9	42.9	18.9	43.6	13.5
Operating Expenses	5.9	24.3	25.6	19.1	14.7
<b>EBITDA</b>	<b>128.6</b>	<b>43.3</b>	<b>13.3</b>	<b>18.3</b>	<b>16.6</b>
Adjusted Net Profit After Taxes	562.2	67.1	10.7	(1.1)	14.1
<b>Adjusted Diluted EPS</b>	<b>562.2</b>	<b>58.4</b>	<b>9.8</b>	<b>(1.4)</b>	<b>14.1</b>
<b>Key parameters</b>					
ROE (%)	18.4%	20.6%	17.0%	15.5%	15.3%
ROA (%)	7.4%	8.1%	6.0%	5.2%	5.7%
Fixed asset turnover (X)	0.41	0.34	0.30	0.32	0.34
Total asset turnover (X)	0.36	0.33	0.31	0.34	0.37

Source: Company data, Macquarie Research, August 2009



Fig 9 RCOM – Balance sheet

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E
<b>ASSETS</b>					
Cash and Cash equivalents	72,006	8,782	109,577	134,707	153,759
Inventories	4,821	4,059	5,427	5,239	6,047
Debtors	18,316	27,224	54,785	37,419	42,327
Other Current Assets	13,884	23,058	16,912	29,935	33,689
Loans and Advances	22,103	42,695	59,859	59,870	67,377
<b>Total Current Assets</b>	<b>131,130</b>	<b>105,817</b>	<b>246,560</b>	<b>267,168</b>	<b>303,198</b>
<b>Fixed Assets</b>					
Gross Block	349,456	463,388	756,489	808,708	938,767
Less: Depreciation	55,940	89,561	141,069	190,121	247,583
Net Block	293,516	373,826	615,420	618,588	691,184
Capital Work-in-progress	36,907	149,299	114,056	201,376	209,552
Goodwill	26,588	35,654	35,654	35,654	35,654
<b>Total Fixed Assets</b>	<b>357,010</b>	<b>558,780</b>	<b>765,130</b>	<b>855,618</b>	<b>936,391</b>
<b>Investments</b>	<b>77,114</b>	<b>109,996</b>	<b>2,857</b>	<b>2,818</b>	<b>2,818</b>
<b>Total Assets</b>	<b>565,254</b>	<b>774,593</b>	<b>1,014,547</b>	<b>1,125,604</b>	<b>1,242,407</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current Liabilities	114,334	156,213	225,980	258,409	293,733
Provisions	47,175	45,591	39,162	62,917	87,605
<b>Total Current Liabilities</b>	<b>161,508</b>	<b>201,804</b>	<b>265,142</b>	<b>321,326</b>	<b>381,338</b>
Secured Foreign Currency Loans	0	0	0	-	-
Secured Rupee Loans	51,136	9,500	30,000	-	-
Unsecured Loans	123,248	248,717	305,520	402,837	400,123
<b>Total Debt</b>	<b>174,383</b>	<b>258,217</b>	<b>335,520</b>	<b>402,837</b>	<b>400,123</b>
<b>Minority interest</b>	<b>56</b>	<b>24,309</b>	<b>8,228</b>	<b>11,014</b>	<b>11,014</b>
<b>Stockholders' Equity</b>	<b>229,307</b>	<b>290,263</b>	<b>405,657</b>	<b>390,427</b>	<b>449,932</b>
Share capital	10,223	10,320	10,320	10,320	10,320
Reserves	219,083	279,943	395,337	380,107	439,612
<b>Total Liabilities and Stockholders' Equity</b>	<b>565,254</b>	<b>774,593</b>	<b>1,014,547</b>	<b>1,125,604</b>	<b>1,242,407</b>
<b>Ratios</b>					
Net debt/equity	0.11	0.48	0.56	0.69	0.55
Gross Debt/Equity	0.76	0.89	0.83	1.03	0.89
WC/Revenues (%)	(20.99)	(50.34)	(8.10)	(19.83)	(24.78)
Net working capital days <Days of Gross Sales>	(76.63)	(183.74)	(29.56)	(72.37)	(90.46)

Source: Company data, Macquarie Research, August 2009

Fig 10 RCOM – Cashflow statement

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E
<b>Cashflows from operating activities</b>					
Net Profit / (Loss)	35,995	70,763	61,353	56,491	64,484
Add:					
Depreciation	29,193	28,053	39,313	50,524	57,463
Provision for Doubtful Debts	1,125	1,475	1,366		
Interest expense (net)	1,487	226	-6,069	-4,896	-6,235
(Profit)/Loss on sale of assets / investments	-1,102	-1,544	-3,452		
Tax expense / (income)	-1,153	-2,160	-3,716		
Extraordinary items	1,093	-12,809	74		
Exchange (gain) / loss	-1,483	-3,595	0		
Increase / (decrease) in working capital	63,409	-35,944	-15,524	5,009	43,034
<b>Net cash provided by/ used in operating activities</b>	<b>128,564</b>	<b>44,465</b>	<b>73,345</b>	<b>107,128</b>	<b>158,746</b>
<b>Cashflows from investing activities</b>					
Capex	-52,509	-173,930	-147,054	-151,661	-138,235
Sale of fixed assets / investments	-54,415	-29,788	-3,676	0	0
Interest expense (net)	6,550	7,764	-11,102	4,896	6,235
<b>Net cash provided by/ used in investing activities</b>	<b>-100,374</b>	<b>-195,955</b>	<b>-161,832</b>	<b>-146,765</b>	<b>-132,000</b>
<b>Cashflows from financing activities</b>					
Changes in Net Debt	24,878	100,745	82,083	60,880	-2,714
Increase in share capital					
Dividends including dividend tax	0	-1,183	0	-4,979	-4,979
Financial charges	-6,535	-10,227			
<b>Net cash provided by/ used in financing activities</b>	<b>18,342</b>	<b>89,335</b>	<b>82,083</b>	<b>55,901</b>	<b>-7,693</b>
<b>Net (decrease) / increase in cash</b>	<b>46,533</b>	<b>-62,154</b>	<b>-6,404</b>	<b>16,264</b>	<b>19,052</b>
Cash at the beginning of the period	1	72,006	8,782	118,443	134,707
Net increase/(decrease) in investments			<b>107,199</b>		
Net increase/(decrease) in cash due to subsidiaries	25,517	-1,044			
Effect of exchange Gain / (Loss) on cash and cash eqvt.	-44	-27			
<b>Cash at the end of the period</b>	<b>72,006</b>	<b>8,782</b>	<b>109,577</b>	<b>134,707</b>	<b>153,759</b>

Source: Company data, Macquarie Research, August 2009

Fig 11 Global emerging market telecom valuations

Macquarie - Global Emerging Market Telecom Valuation															
Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x)		PER (x)		PEG (FY3/09-3/11E)	ROE (FY3/09E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)	P/BV (x)	
						FY3/10E	FY3/11E	FY3/10E	FY3/11E					FY3/10E	FY3/11E
Bharti Airtel	BHARTI IN	OP	410	488	19%	8.4	6.9	13.9	12.0	0.8	33.9	19.3	23.5	1.9	1.7
Reliance Communications	RCOM IN	OP	276	275	0%	7.9	6.6	10.6	9.3	1.7	23.0	17.5	6.1	1.5	1.3
Idea Cellular	IDEA IN	UP	79	45	-43%	9.1	7.8	23.8	22.6	3.6	23.1	20.9	7.2	1.8	1.4
MTNL	MTNL IN	UP	103	51	-50%	12.6	12.7	112.5	-23.1	na	1.0	-0.3	na	0.4	0.4
China Mobile	941 HK	N	81	71	-12%	5.2	5.0	12.4	12.4	6.5	27.6	5.1	2.0	2.8	2.5
China Unicom	762 HK	UP	11	7	-40%	4.6	4.8	19.7	25.2	-0.8	7.4	0.3	-19.4	1.1	1.1
Indosat	ISAT IJ	N	5,450	5,200	-5%	4.6	4.1	12.4	9.5	4.2	17.6	5.0	2.3	1.6	1.2
SK Telecom	017670 KS	OP	185,500	235,000	27%	4.5	4.0	9.7	7.4	0.5	11.5	8.0	19.2	1.3	1.2
LG Telecom	032640 KQ	OP	8,640	11,500	33%	3.8	3.3	7.1	6.6	0.3	11.8	9.2	30.3	1.0	0.9
Digi.Com	DIGI MK	N	22	22	-1%	7.5	6.7	12.8	11.5	23.6	65.7	7.1	0.6	8.3	7.2
Axiata	AXIATA MK	N	3	2	-27%	7.4	6.5	18.9	15.5	-1.4	4.8	9.7	-23.9	1.0	0.9
Globe	GLO PM	OP	1,050	1,145	9%	4.4	4.1	9.1	8.7	0.7	21.3	3.9	15.1	2.5	2.3
Far EasTone	4904 TT	UP	39	39	0%	5.0	5.1	11.1	10.9	2.9	14.1	-3.0	4.1	1.9	1.8
Taiwan Mobile	3045 TT	N	50	39	-23%	5.3	5.2	9.0	9.2	5.7	37.4	1.9	1.7	2.8	2.8
AIS	ADVANC TB	UP	87	75	-13%	6.0	5.9	14.8	14.1	3.7	22.2	-1.3	4.3	3.5	3.6
TAC	DTAC TB	UP	33	20	-40%	4.9	4.9	7.1	6.5	-0.4	16.8	-3.9	-20.8	1.2	1.2
MobileOne	M1 SP	OP	2	2	7%	5.4	5.4	10.6	11.0	na	72.1	-6.3	-9.6	5.7	5.4
MTN Group Ltd	MTN SJ	OP	12,800	17,000	33%	4.9	4.2	11.7	9.2	0.5	27.3	27.1	26.8	2.4	1.9
Orascom Telecom	ORTE EY	NR	36	na	na	3.7	3.6	10.8	8.9						
Vivo Participacoes Sa	VIVO3 BZ	NR	40	na	na	3.4	3.1	11.2	9.2						
America Movil	AMXL MM	NR	29	na	na	5.7	5.6	12.5	11.4						
Ethiad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.7	9.0						
Saudi Telecom Co	STC AB	NR	50	na	na	4.6	4.7	8.1	7.9						
Qatar Telecom	QTEL QD	NR	147	na	na	4.3	4.1	6.6	5.9						
<b>Average</b>						<b>5.5</b>	<b>5.1</b>	<b>11.9</b>	<b>11.0</b>						
<b>Average (ex-China Mobile)</b>						<b>5.5</b>	<b>5.1</b>	<b>11.9</b>	<b>11.0</b>						

RCOM's valuation (discount)/premium to Bharti	-6%	-5%	-24%	-23%	-20%	-23%
Idea's valuation (discount)/premium to Bharti	9%	14%	71%	88%	-7%	-12%

Note: Prices as of 31 July 2009.

Data for Not rated companies are based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, August 2009

RCOM is trading at a 6% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 9% premium over Bharti

Fig 12 Key quarterly operating and financial metrics – Wireless business: Bharti and RCOM

Bharti Airtel - Actuals for 1QFY10								
March Year ends, Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
<b>Wireless Revenues (Rs m)</b>	<b>50,579</b>	<b>56,105</b>	<b>64,201</b>	<b>69,150</b>	<b>72,843</b>	<b>79,392</b>	<b>82,216</b>	<b>82,285</b>
YoY growth (%)	53.2	49.3	51.3	47.2	44.0	41.5	28.1	19.0
QoQ growth (%)	7.7	10.9	14.4	7.7	5.3	9.0	3.6	0.1
<b>Subscribers (m)</b>	<b>48.88</b>	<b>55.16</b>	<b>61.98</b>	<b>69.38</b>	<b>77.48</b>	<b>85.65</b>	<b>93.92</b>	<b>102.37</b>
YoY growth (%)	80.6	72.5	66.9	62.5	58.5	55.3	51.5	47.5
QoQ growth (%)	14.5	12.9	12.4	11.9	11.7	10.5	9.7	9.0
<b>Gross ARPU (Rs)</b>	<b>366</b>	<b>358</b>	<b>357</b>	<b>350</b>	<b>331</b>	<b>324</b>	<b>305</b>	<b>278</b>
YoY growth (%)	-16.5	-16.2	-12.1	-10.4	-9.5	-9.3	-14.6	-20.4
QoQ growth (%)	-6.3	-2.2	-0.2	-2.1	-5.3	-2.0	-6.0	-8.8
<b>Avg. monthly MoUs per subscriber</b>	<b>469</b>	<b>474</b>	<b>507</b>	<b>534</b>	<b>526</b>	<b>505</b>	<b>485</b>	<b>478</b>
YoY growth (%)	3.9	1.4	6.8	11.8	12.2	6.7	-4.3	-10.6
QoQ growth (%)	-1.9	1.1	7.0	5.4	-1.6	-3.9	-4.0	-1.5
<b>ARPM (Rs)</b>	<b>0.78</b>	<b>0.76</b>	<b>0.70</b>	<b>0.65</b>	<b>0.63</b>	<b>0.64</b>	<b>0.63</b>	<b>0.58</b>
YoY growth (%)	-19.6	-17.3	-17.7	-19.9	-19.4	-14.9	-10.7	-11.0
QoQ growth (%)	-4.4	-3.3	-6.7	-7.1	-3.8	2.1	-2.1	-7.4
<b>Total minutes carried (m)</b>	<b>64,375</b>	<b>73,840</b>	<b>89,058</b>	<b>105,217</b>	<b>115,834</b>	<b>123,626</b>	<b>130,669</b>	<b>140,713</b>
YoY growth (%)	90.2	78.8	80.9	84.2	79.9	67.4	46.7	33.7
QoQ growth (%)	12.7	14.7	20.6	18.1	10.1	6.7	5.7	7.7
<b>Avg. EBITDA per minute (Rs)</b>	<b>0.32</b>	<b>0.31</b>	<b>0.26</b>	<b>0.20</b>	<b>0.19</b>	<b>0.20</b>	<b>0.20</b>	<b>0.19</b>
YoY growth (%)	-10.3	-9.3	-24.2	-39.6	-41.0	-34.8	-22.6	-4.1
QoQ growth (%)	-3.5	-3.8	-17.4	-21.2	-5.7	6.3	-2.0	-2.4
<b>Wireless EBITDA (Rs m)</b>	<b>20,728</b>	<b>22,887</b>	<b>22,779</b>	<b>21,218</b>	<b>22,009</b>	<b>24,963</b>	<b>25,860</b>	<b>27,183</b>
YoY growth (%)	70.2	62.0	37.2	11.2	6.2	9.1	13.5	28.1
QoQ growth (%)	8.6	10.4	-0.5	-6.9	3.7	13.4	3.6	5.1
<b>EBITDA margin (%)</b>	<b>41.0</b>	<b>40.8</b>	<b>35.5</b>	<b>30.7</b>	<b>30.2</b>	<b>31.4</b>	<b>31.5</b>	<b>33.0</b>
YoY expansion (basis points)	410.0	319.5	-365.1	-994.7	-1,076.7	-935.0	-402.7	235.1
QoQ expansion (basis points)	35.0	-18.8	-531.2	-479.7	-47.0	122.8	1.1	158.1
<b>Blended Churn</b>	<b>3.8%</b>	<b>3.8%</b>	<b>4.2%</b>	<b>3.7%</b>	<b>3.2%</b>	<b>2.9%</b>	<b>3.2%</b>	<b>3.4%</b>
<b>VAS as % of total revenue</b>	<b>9.8%</b>	<b>9.3%</b>	<b>9.4%</b>	<b>9.7%</b>	<b>10.0%</b>	<b>9.5%</b>	<b>9.3%</b>	<b>9.3%</b>
YoY growth (%)	-4.9	-10.6	-6.9	-2.0	2.0	2.2	-1.1	-4.1
QoQ growth (%)	-1.0	-5.1	1.1	3.2	3.1	-5.0	-2.1	0.0
<b>Total Cell Sites</b>	<b>52,826</b>	<b>60,299</b>	<b>69,141</b>	<b>75,876</b>	<b>82,554</b>	<b>88,319</b>	<b>93,368</b>	<b>96,149</b>
YoY growth (%)	75.9	75.8	76.3	65.7	56.3	46.5	35.0	26.7
QoQ growth (%)	15.4	14.1	14.7	9.7	8.8	7.0	5.7	3.0
<b>Wireless Capex (Rs m)</b>	<b>28,661</b>	<b>27,538</b>	<b>17,995</b>	<b>32,227</b>	<b>23,396</b>	<b>29,012</b>	<b>16,039</b>	<b>13,037</b>
YoY growth (%)	4.4	76.6	68.1	-1.8	-18.4	5.4	-10.9	-59.5
QoQ growth (%)	-12.6	-3.9	-34.7	79.1	-27.4	24.0	-44.7	-18.7
<b>Total Population Centres covered</b>	<b>294,876</b>	<b>325,525</b>	<b>347,646</b>	<b>369,335</b>	<b>389,571</b>	<b>406,939</b>	<b>419,966</b>	<b>428,216</b>
YoY growth (%)	85.0	79.7	64.0	48.7	32.1	25.0	20.8	15.9
QoQ growth (%)	18.7	10.4	6.8	6.2	5.5	4.5	3.2	2.0
<b>Total employees</b>	<b>23,264</b>	<b>24,703</b>	<b>25,543</b>	<b>26,144</b>	<b>25,616</b>	<b>25,553</b>	<b>24,538</b>	<b>23,789</b>
YoY growth (%)	na	35.6	25.7	13.9	10.1	3.4	-3.9	-9.0
QoQ growth (%)	1.3	6.2	3.4	2.4	-2.0	-0.2	-4.0	-3.1

Reliance Communications - Actuals for 1QFY10								
March Year ends, Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
<b>Wireless Revenues (Rs m)</b>	<b>37,230</b>	<b>39,567</b>	<b>41,608</b>	<b>41,187</b>	<b>43,356</b>	<b>44,119</b>	<b>45,015</b>	<b>47,931</b>
YoY growth (%)	44.6	43.8	40.1	22.1	16.5	11.5	8.2	16.4
QoQ growth (%)	10.4	6.3	5.2	-1.0	5.3	1.8	2.0	6.5
<b>Subscribers (m)</b>	<b>36.32</b>	<b>40.96</b>	<b>45.79</b>	<b>50.79</b>	<b>56.05</b>	<b>61.35</b>	<b>72.67</b>	<b>79.62</b>
YoY growth (%)	39.8	36.6	63.5	54.3	54.3	49.8	58.7	56.8
QoQ growth (%)	14.0	12.8	11.8	10.9	10.4	9.5	18.5	22.3
<b>Gross ARPU (Rs)</b>	<b>361</b>	<b>339</b>	<b>317</b>	<b>282</b>	<b>271</b>	<b>251</b>	<b>224</b>	<b>210</b>
YoY growth (%)	2.0	3.4	-15.9	-24.8	-24.9	-26.0	-29.3	-25.5
QoQ growth (%)	-3.7	-6.1	-6.5	-11.0	-3.9	-7.4	-10.8	-6.3
<b>Avg. monthly MoUs per subscriber</b>	<b>490</b>	<b>449</b>	<b>430</b>	<b>425</b>	<b>423</b>	<b>410</b>	<b>372</b>	<b>365</b>
YoY growth (%)	6.3	-1.1	-20.5	-16.7	-13.7	-8.7	-13.5	-14.1
QoQ growth (%)	-3.9	-8.4	-4.2	-1.2	-0.4	-3.1	-9.3	-1.9
<b>ARPM (Rs)</b>	<b>0.74</b>	<b>0.76</b>	<b>0.74</b>	<b>0.66</b>	<b>0.64</b>	<b>0.61</b>	<b>0.60</b>	<b>0.58</b>
YoY growth (%)	-4.1	4.5	5.8	-9.7	-13.0	-18.9	-18.3	-13.4
QoQ growth (%)	0.2	2.5	-2.4	-9.9	-3.5	-4.4	-1.6	-4.5
<b>Total minutes carried (m)</b>	<b>50,122</b>	<b>52,054</b>	<b>55,959</b>	<b>61,527</b>	<b>67,786</b>	<b>72,195</b>	<b>74,778</b>	<b>83,300</b>
YoY growth (%)	na	na	na	na	na	na	na	34.4
QoQ growth (%)	na	na	na	na	na	na	na	11.4
<b>Avg. EBITDA per minute (Rs)</b>	<b>0.26</b>	<b>0.30</b>	<b>0.30</b>	<b>0.27</b>	<b>0.25</b>	<b>0.23</b>	<b>0.22</b>	<b>0.22</b>
YoY growth (%)	-4.9	12.5	10.7	-7.4	-5.6	-24.3	-25.8	-18.7
QoQ growth (%)	-9.9	15.3	-1.4	-9.7	-8.1	-7.5	-3.4	0.0
<b>Wireless EBITDA (Rs m)</b>	<b>14,873</b>	<b>15,819</b>	<b>16,763</b>	<b>16,623</b>	<b>16,859</b>	<b>16,616</b>	<b>16,629</b>	<b>18,489</b>
YoY growth (%)	60.0	53.7	45.6	24.1	13.4	5.0	-0.8	11.2
QoQ growth (%)	11.1	6.4	6.0	-0.8	1.4	-1.4	0.1	11.2
<b>EBITDA margin (%)</b>	<b>39.9</b>	<b>40.0</b>	<b>40.3</b>	<b>40.4</b>	<b>38.9</b>	<b>37.7</b>	<b>36.9</b>	<b>38.6</b>
YoY expansion (basis points)	384.6	257.1	152.0	65.6	-106.4	-231.9	-334.7	-178.6
QoQ expansion (basis points)	24.5	3.1	30.8	7.2	-147.5	-122.3	-72.1	163.3
<b>Blended Churn</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>1.3%</b>
<b>VAS as % of total revenue</b>	<b>6.2%</b>	<b>6.4%</b>	<b>6.9%</b>	<b>7.6%</b>	<b>7.3%</b>	<b>7.4%</b>	<b>na</b>	<b>na</b>
YoY growth (%)	-1.6	1.6	9.5	33.3	17.7	15.6	na	na
QoQ growth (%)	8.8	3.2	7.8	10.1	-3.9	1.4	na	na
<b>Total Cell Sites</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
YoY growth (%)	na	na	na	na	na	na	na	na
QoQ growth (%)	na	na	na	na	na	na	na	na
<b>Wireless Capex (Rs m)</b>	<b>49,685</b>	<b>60,605</b>	<b>46,442</b>	<b>56,926</b>	<b>33,260</b>	<b>32,508</b>	<b>17,084</b>	<b>9,402</b>
YoY growth (%)	231.6	401.3	371.0	280.2	-33.1	-46.4	-63.2	-83.5
QoQ growth (%)	231.8	22.0	-23.4	22.6	-41.6	-2.3	-47.4	-45.0
<b>Total Population Centres covered</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
YoY growth (%)	na	na	na	na	na	na	na	na
QoQ growth (%)	na	na	na	na	na	na	na	na
<b>Total employees</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
YoY growth (%)	na	na	na	na	na	na	na	na
QoQ growth (%)	na	na	na	na	na	na	na	na

Source: Company data, Macquarie Research, August 2009

Fig 13 Key quarterly operating and financial metrics – Wireless business: Vodafone Essar and Idea

Vodafone Essar - Actuals for 1QFY10								
March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
<b>Wireless revenues (in Rsm)</b>	<b>34,891</b>	<b>36,300</b>	<b>41,887</b>	<b>46,474</b>	<b>47,498</b>	<b>51,481</b>	<b>53,308</b>	<b>53,713</b>
YoY growth (%)	na	na	na	na	36.1	41.8	27.3	15.6
QoQ growth (%)	na	4.0	15.4	11.0	2.2	8.4	3.5	0.8
<b>Wireless revenues (in GBPM)</b>	<b>440</b>	<b>491</b>	<b>559</b>	<b>565</b>	<b>574</b>	<b>674</b>	<b>791</b>	<b>755</b>
YoY growth (%)	na	na	na	na	30.5	37.3	41.5	33.6
QoQ growth (%)	na	11.6	13.8	1.1	1.6	17.4	17.4	-4.6
<b>Subscribers (m)</b>	<b>33.68</b>	<b>35.66</b>	<b>44.13</b>	<b>49.20</b>	<b>54.63</b>	<b>60.93</b>	<b>68.77</b>	<b>76.45</b>
YoY growth (%)	65.5	53.0	66.9	60.0	62.2	70.9	55.8	55.4
QoQ growth (%)	9.5	5.9	23.7	11.5	11.0	11.5	12.9	11.2
<b>Gross ARPU (Rs)</b>	<b>361</b>	<b>349</b>	<b>350</b>	<b>332</b>	<b>305</b>	<b>297</b>	<b>274</b>	<b>247</b>
YoY growth (%)	-14.0	-15.7	-13.6	na	-15.5	-14.9	-21.7	-25.7
QoQ growth (%)	na	-3.3	0.3	-5.1	-8.1	-2.6	-7.7	-10.0
<b>Avg. monthly MoUs per subscriber</b>	<b>373</b>	<b>384</b>	<b>391</b>	<b>374</b>	<b>364</b>	<b>355</b>	<b>336</b>	<b>330</b>
YoY growth (%)	-8.2	-10.5	-9.6	na	-2.2	-7.4	-14.1	-11.9
QoQ growth (%)	-10.3	3.0	1.8	-4.2	-2.6	-2.5	-5.6	-1.8
<b>ARPM (Rs)</b>	<b>0.97</b>	<b>0.91</b>	<b>0.90</b>	<b>0.89</b>	<b>0.84</b>	<b>0.84</b>	<b>0.82</b>	<b>0.75</b>
YoY growth (%)	-6.3	-5.8	-4.4	na	-13.6	-8.1	-8.9	-15.7
QoQ growth (%)	na	-6.1	-1.5	-0.9	-5.7	-0.2	-2.3	-8.4
<b>Total minutes carried (m)</b>	<b>36,011</b>	<b>39,913</b>	<b>46,734</b>	<b>52,349</b>	<b>56,745</b>	<b>61,606</b>	<b>65,276</b>	<b>71,775</b>
YoY growth (%)	na	na	na	na	57.6	54.4	39.7	37.1
QoQ growth (%)	na	10.8	17.1	12.0	8.4	8.6	6.0	10.0
<b>Blended Churn</b>	<b>3.4%</b>	<b>3.9%</b>	<b>3.3%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.1%</b>	<b>2.6%</b>
<b>Total Cell Sites</b>	<b>na</b>	<b>41,000</b>	<b>48,000</b>	<b>52,000</b>	<b>59,000</b>	<b>69,000</b>	<b>78,000</b>	<b>84,000</b>
YoY growth (%)	na	na	na	na	na	68.3	62.5	61.5
QoQ growth (%)	na	na	17.1	8.3	13.5	16.9	13.0	7.7

Idea Cellular - Actuals for 1QFY10								
March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
<b>Wireless Revenues (Rs m)</b>	<b>15,622</b>	<b>17,081</b>	<b>19,724</b>	<b>21,735</b>	<b>22,992</b>	<b>26,184</b>	<b>28,502</b>	<b>28,872</b>
YoY growth (%)	56.1	49.0	51.1	47.1	47.2	53.3	44.5	32.8
QoQ growth (%)	5.7	9.3	15.5	10.2	5.8	13.9	8.9	1.3
<b>Subscribers (m)</b>	<b>18.67</b>	<b>21.05</b>	<b>24.00</b>	<b>27.19</b>	<b>30.38</b>	<b>34.21</b>	<b>38.89</b>	<b>42.64</b>
YoY growth (%)	80.2	69.2	48.8	45.6	44.3	42.5	43.0	40.3
QoQ growth (%)	15.8	12.8	14.0	13.3	11.7	12.6	13.7	9.6
<b>Gross ARPU (Rs)</b>	<b>288</b>	<b>279</b>	<b>287</b>	<b>278</b>	<b>261</b>	<b>268</b>	<b>255</b>	<b>232</b>
YoY growth (%)	-19.1	-13.4	-9.5	-13.1	-9.4	-3.9	-11.1	-17.1
QoQ growth (%)	-10.0	-3.1	2.9	-3.1	-6.1	1.9	-4.9	-9.0
<b>Avg. monthly MoUs per subscriber</b>	<b>360</b>	<b>377</b>	<b>411</b>	<b>431</b>	<b>421</b>	<b>416</b>	<b>402</b>	<b>399</b>
YoY growth (%)	-0.9	2.2	6.2	13.1	16.9	10.3	-2.2	-7.4
QoQ growth (%)	-5.5	4.7	9.0	4.9	-2.3	-1.2	-3.4	-0.7
<b>ARPM (Rs)</b>	<b>0.80</b>	<b>0.74</b>	<b>0.70</b>	<b>0.65</b>	<b>0.62</b>	<b>0.64</b>	<b>0.63</b>	<b>0.58</b>
YoY growth (%)	-22.7	-15.2	-14.8	-23.2	-22.5	-13.5	-9.8	-10.7
QoQ growth (%)	-4.8	-7.5	-5.6	-7.6	-3.9	3.2	-1.6	-7.9
<b>Total minutes carried (m)</b>	<b>18,831</b>	<b>22,457</b>	<b>27,824</b>	<b>33,087</b>	<b>36,315</b>	<b>40,254</b>	<b>44,224</b>	<b>48,729</b>
YoY growth (%)	93.4	77.8	79.9	93.5	92.8	79.2	58.9	47.3
QoQ growth (%)	10.1	19.3	23.9	18.9	9.8	10.8	9.9	10.2
<b>Avg. EBITDA per minute (Rs)</b>	<b>0.27</b>	<b>0.25</b>	<b>0.24</b>	<b>0.22</b>	<b>0.17</b>	<b>0.17</b>	<b>0.17</b>	<b>0.16</b>
YoY growth (%)	-21.1	-14.0	-12.7	-26.9	-39.0	-33.4	-30.5	-27.7
QoQ growth (%)	-8.9	-7.1	-5.8	-8.3	-24.0	1.5	-1.7	-4.7
<b>Wireless EBITDA (Rs m)</b>	<b>5,107</b>	<b>5,672</b>	<b>6,606</b>	<b>7,219</b>	<b>6,024</b>	<b>6,780</b>	<b>7,290</b>	<b>7,690</b>
YoY growth (%)	43.9	53.1	51.4	40.8	18.0	19.5	10.4	6.5
QoQ growth (%)	-0.4	11.1	16.5	9.3	-16.6	12.6	7.5	5.5
<b>EBITDA margin (%)</b>	<b>32.7</b>	<b>33.2</b>	<b>33.5</b>	<b>33.2</b>	<b>26.2</b>	<b>25.9</b>	<b>25.6</b>	<b>26.6</b>
YoY expansion (basis points)	-275.2	88.1	7.9	-149.6	-649.1	-731.3	-791.5	-657.8
QoQ expansion (basis points)	-201.9	51.6	28.6	-27.8	-701.5	-30.5	-31.7	105.9
<b>Blended Churn</b>	<b>4.5%</b>	<b>4.7%</b>	<b>4.6%</b>	<b>4.0%</b>	<b>3.9%</b>	<b>4.3%</b>	<b>5.2%</b>	<b>6.7%</b>
<b>VAS as % of total revenue</b>	<b>8.3%</b>	<b>8.0%</b>	<b>8.2%</b>	<b>8.9%</b>	<b>9.8%</b>	<b>9.5%</b>	<b>9.5%</b>	<b>10.1%</b>
YoY growth (%)	-13.5	-13.0	-8.9	6.0	18.1	18.8	15.9	13.7
QoQ growth (%)	-1.2	-3.6	2.5	8.5	10.1	-3.1	0.0	6.5
<b>Total Cell Sites</b>	<b>17,105</b>	<b>21,197</b>	<b>24,793</b>	<b>27,594</b>	<b>33,377</b>	<b>39,289</b>	<b>44,230</b>	<b>48,067</b>
YoY growth (%)	na	na	na	109.7	95.1	85.4	78.4	74.2
QoQ growth (%)	30.0	23.9	17.0	11.3	21.0	17.7	12.6	8.7
<b>Total capex (Rs m)</b>	<b>12,352</b>	<b>11,946</b>	<b>19,161</b>	<b>19,817</b>	<b>11,950</b>	<b>na</b>	<b>na</b>	<b>na</b>
YoY growth (%)	na	na	na	79.1	-3.3	na	na	na
QoQ growth (%)	11.7	-3.3	60.4	3.4	-39.7	na	na	na
<b>Total Population Centres covered</b>	<b>8,413</b>	<b>11,104</b>	<b>13,308</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
YoY growth (%)	177.6	207.8	200.3	na	na	na	na	na
QoQ growth (%)	38.7	32.0	19.8	na	na	na	na	na
<b>Total employees</b>	<b>na</b>	<b>na</b>	<b>4,945</b>	<b>5,139</b>	<b>5,309</b>	<b>5,604</b>	<b>5,658</b>	<b>5,864</b>
YoY growth (%)	na	na	na	na	na	na	14.4	14.1
QoQ growth (%)	na	na	na	3.9	3.3	5.6	1.0	3.6

Source: Company data, Macquarie Research, August 2009

**Reliance Communications (RCOM IN, Outperform, Target price: Rs275.00)**

Quarterly Results					Profit & Loss						
		4Q/09A	1Q/10E	2Q/10E	3Q/10E		2009A	2010E	2011E	2012E	
<b>Revenue</b>	m	61,237	63,640	67,764	69,872	<b>Revenue</b>	m	229,411	273,155	315,292	357,608
<b>Gross Profit</b>	m	33,936	40,074	42,607	43,978	<b>Gross Profit</b>	m	133,385	171,869	198,407	224,033
Cost of Goods Sold	m	27,301	23,566	25,157	25,894	Cost of Goods Sold	m	96,026	101,286	116,885	133,575
<b>EBITDA</b>	m	23,832	24,965	27,087	28,118	<b>EBITDA</b>	m	92,875	109,122	127,199	145,072
Depreciation	m	9,856	11,770	12,328	12,914	Depreciation	m	37,743	50,524	57,463	62,103
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	650	650	650	Other Amortisation	m	1,645	2,600	2,600	2,600
<b>EBIT</b>	m	13,976	12,545	14,109	14,554	<b>EBIT</b>	m	53,487	55,998	67,137	80,369
Net Interest Income	m	1,678	1,224	1,224	1,224	Net Interest Income	m	7,867	4,896	6,235	5,582
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	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
<b>Pre-Tax Profit</b>	m	15,654	13,769	15,333	15,779	<b>Pre-Tax Profit</b>	m	61,354	60,894	73,372	85,951
Tax Expense	m	-485	-688	-767	-789	Tax Expense	m	123	-3,045	-7,337	-12,893
<b>Net Profit</b>	m	15,169	13,081	14,567	14,990	<b>Net Profit</b>	m	61,476	57,849	66,035	73,059
Minority Interests	m	-625	-307	-342	-352	Minority Interests	m	-2,399	-1,358	-1,550	-1,715
<b>Reported Earnings</b>	m	14,544	12,774	14,225	14,638	<b>Reported Earnings</b>	m	59,077	56,491	64,484	71,344
<b>Adjusted Earnings</b>	m	14,544	12,774	14,225	14,638	<b>Adjusted Earnings</b>	m	59,077	56,491	64,484	71,344
EPS (rep)		6.67	5.86	6.52	6.71	EPS (rep)		27.16	25.91	29.57	32.72
EPS (adj)		6.67	5.86	6.52	6.71	EPS (adj)		27.17	25.91	29.57	32.72
EPS Growth yoy (adj)	%	-0.2	-16.4	-7.1	3.8	EPS Growth (adj)	%	9.3	-4.6	14.1	10.6
						PE (rep)	x	10.1	10.6	9.3	8.4
						PE (adj)	x	10.1	10.6	9.3	8.4
EBITDA Margin	%	38.9	39.2	40.0	40.2	Total DPS		2.00	2.00	1.00	3.00
EBIT Margin	%	22.8	19.7	20.8	20.8	Total Div Yield	%	0.7	0.7	0.4	1.1
Earnings Split	%	24.6	22.6	25.2	25.9	Weighted Average Shares	m	2,175	2,181	2,181	2,181
Revenue Growth	%	15.3	19.6	20.0	19.4	Period End Shares	m	2,181	2,181	2,181	2,181
EBIT Growth	%	-8.7	-5.1	7.0	11.1						
Profit and Loss Ratios					Cashflow Analysis						
		2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E	
Revenue Growth	%	20.3	19.1	15.4	13.4	<b>EBITDA</b>	m	90,747	102,119	115,712	127,864
EBITDA Growth	%	13.3	17.5	16.6	14.1	Tax Paid	m	0	0	0	0
EBIT Growth	%	-0.8	4.7	19.9	19.7	Chgs in Working Cap	m	-7,448	5,009	43,034	30,508
Gross Profit Margin	%	58.1	62.9	62.9	62.6	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	40.5	39.9	40.3	40.6	Other	m	962	0	0	0
EBIT Margin	%	23.3	20.5	21.3	22.5	<b>Operating Cashflow</b>	m	84,261	107,128	158,746	158,372
Net Profit Margin	%	26.8	21.2	20.9	20.4	Acquisitions	m	0	0	0	0
Payout Ratio	%	7.4	7.7	3.4	9.2	Capex	m	-131,484	-151,661	-138,235	-120,163
EV/EBITDA	x	8.3	7.1	6.1	5.3	Asset Sales	m	-3,596	0	0	0
EV/EBIT	x	14.4	13.8	11.5	9.6	Other	m	-2,846	4,896	6,235	5,582
<b>Balance Sheet Ratios</b>						<b>Investing Cashflow</b>	m	-137,926	-146,765	-132,000	-114,581
ROE	%	18.9	15.5	15.3	13.8	Dividend (Ordinary)	m	0	-4,979	-2,490	-7,469
ROA	%	6.2	5.3	5.7	6.2	Equity Raised	m	0	0	0	66,297
ROIC	%	13.3	10.2	9.1	9.7	Debt Movements	m	55,125	60,880	-5,204	-83,942
Net Debt/Equity	%	48.2	66.1	52.0	23.8	Other	m	0	0	0	0
Interest Cover	x	nmf	nmf	nmf	nmf	<b>Financing Cashflow</b>	m	55,125	55,901	-7,693	-25,114
Price/Book	x	1.8	1.5	1.3	1.0	<b>Net Chg in Cash/Debt</b>	m	1,460	16,264	19,052	18,677
Book Value per Share		156.3	179.0	207.5	266.0	<b>Free Cashflow</b>	m	-47,223	-44,534	20,510	38,209
						<b>Balance Sheet</b>		2009A	2010E	2011E	2012E
						Cash	m	120,259	137,525	156,577	175,253
						Receivables	m	49,523	37,419	42,327	47,028
						Inventories	m	5,335	5,239	6,047	6,858
						Investments	m	0	0	0	0
						Fixed Assets	m	660,516	819,963	900,736	958,797
						Intangibles	m	35,654	35,654	35,654	35,654
						Other Assets	m	101,003	89,804	101,066	111,691
						<b>Total Assets</b>	m	972,290	1,125,604	1,242,407	1,335,282
						Payables	m	291,091	258,409	293,733	328,994
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	289,926	402,837	397,634	316,181
						Provisions	m	39,411	62,917	87,605	98,989
						Other Liabilities	m	0	0	0	0
						<b>Total Liabilities</b>	m	620,428	724,163	778,971	744,164
						Shareholders' Funds	m	340,847	390,427	452,421	580,104
						Minority Interests	m	11,014	11,014	11,014	11,014
						Other	m	0	0	0	0
						<b>Total S/H Equity</b>	m	351,861	401,441	463,435	591,118
						<b>Total Liab &amp; S/H Funds</b>	m	972,290	1,125,604	1,242,407	1,335,282

All figures in INR unless noted.

Source: Company data, Macquarie Research, August 2009

**Important disclosures:**

<p><b>Recommendation definitions</b></p> <p><b>Macquarie - Australia/New Zealand</b>  Outperform – return &gt;5% in excess of benchmark return  Neutral – return within 5% of benchmark return  Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie – Asia/Europe</b>  Outperform – expected return &gt;+10%  Neutral – expected return from -10% to +10%  Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b>  Outperform – expected return &gt;+10%  Neutral – expected return from -10% to +10%  Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b>  Outperform – return &gt;5% in excess of benchmark return  Neutral – return within 5% of benchmark return  Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b>  Outperform (Buy) – return &gt;5% in excess of benchmark return (Russell 3000)  Neutral (Hold) – return within 5% of benchmark return (Russell 3000)  Underperform (Sell)– return &gt;5% below benchmark return (Russell 3000)</p> <p><b>Recommendations</b> – 12 months</p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – 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.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ/Canada stocks only</p>	<p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made:  Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense  Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / <i>efpowa</i>*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation  *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																												
<p><b>Recommendation proportions – For quarter ending 30 June 2009</b></p> <table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> <th>EUR</th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>40.38%</td> <td>48.53%</td> <td>40.00%</td> <td>44.02%</td> <td>57.42%</td> <td>40.20%</td> </tr> <tr> <td>Neutral</td> <td>39.25%</td> <td>17.08%</td> <td>45.00%</td> <td>37.45%</td> <td>32.90%</td> <td>39.21%</td> </tr> <tr> <td>Underperform</td> <td>20.38%</td> <td>34.40%</td> <td>15.00%</td> <td>18.53%</td> <td>9.68%</td> <td>20.59%</td> </tr> </tbody> </table>				AU/NZ	Asia	RSA	USA	CA	EUR	Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	40.20%	Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.21%	Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	20.59%
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