

Reliance Communications Limited

RCOM Feb-09 net adds down, GSM launch effect waning off; we remain cautious - ALERT

Neutral

RLCM.BO, RCOM IN

Price: Rs157.90

17 March 2009

- Reliance Communications added 3.3MM subscribers in February:** This compares with 5MM additions in Jan-09. The RCOM subscriber base as of Feb-09 stands at 69.6MM. January was exceptionally strong given its GSM services launch. While RCOM benefited in February from other new circle launches, some of the effect of circles launched in January has begun to wane off. We expect the monthly net-add number to further go down in Mar-09. Assuming the net adds for CDMA were stable at 1.4MM, GSM net adds in new circles was down from 3.1MM in Jan-09 to 1.5MM in Feb-09.
- Net adds down sharply in circles launched in Jan-09:** The net adds in circles, launched in Jan-09 – Gujarat, Karnataka, Mumbai, Rajasthan and UP(E) – were down sharply (80%-90% M/M). While there was some offset from the new circles in Feb-09, the risk is a similar trend in these newly launched circles. In its old GSM circles RCOM added 400,000 subs vs. 390,000 in Jan-09.
- Investment view:** RCOM continues to benefit from new circle launches and has shown good subscriber momentum; however, we believe it would be difficult to sustain these levels. Further, we see limited near-term revenue generation from new subscribers, and expect pressure on APRUs in the next few quarters. We maintain our cautious view on the sector and RCOM.

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Table 1: Reliance Communications – Net adds

Net Adds ('000)	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	M/M Growth
All India -GSM	376	376	377	381	390	391	400	2.3%
All India – CDMA + 14 GSM circles	1,376	1,381	1,382	1,384	1,385	4,559	2,945	-35.4%

Source: Company reports.

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 2: Reliance Communications – CDMA + 14 GSM circles net adds

Net Adds ('000)	Jan-09	Feb-09	M/M Growth
Andhra Pradesh	87	609	597%
Bihar	42	66	58%
Chennai	6	2	-72%
Delhi - NCR	64	148	132%
Gujarat	825	34	-96%
Haryana	33	240	635%
Himachal Pradesh	-3	7	-353%
Jammu & Kashmir	0	8	-49394%
Karnataka	646	37	-94%
Kerala	58	41	-29%
Kolkata	14	18	25%
Madhya Pradesh	60	70	18%
Maharashtra	253	488	93%
Mumbai	740	49	-93%
Orissa	4	8	130%
Punjab	34	184	442%
Rajasthan	661	103	-84%
Tamil Nadu	164	372	127%
U.P. (East)	747	93	-88%
U.P. (West)	105	339	223%
West Bengal	21	30	43%
All India	4559	2945	-35%

Source: Company reports.

Table 3: Reliance Communications – Eight existing GSM circles net adds

Net Adds ('000)	Jan-09	Feb-09	M/M Growth
Bihar	62	67	7%
Himachal Pradesh	46	8	-83%
Madhya Pradesh	115	84	-27%
Orissa	30	45	49%
West Bengal	41	93	126%
Kolkata	22	99	353%
Assam	60	3	-95%
North East	15	2	-89%
All India	391	400	2%

Source: Company reports.

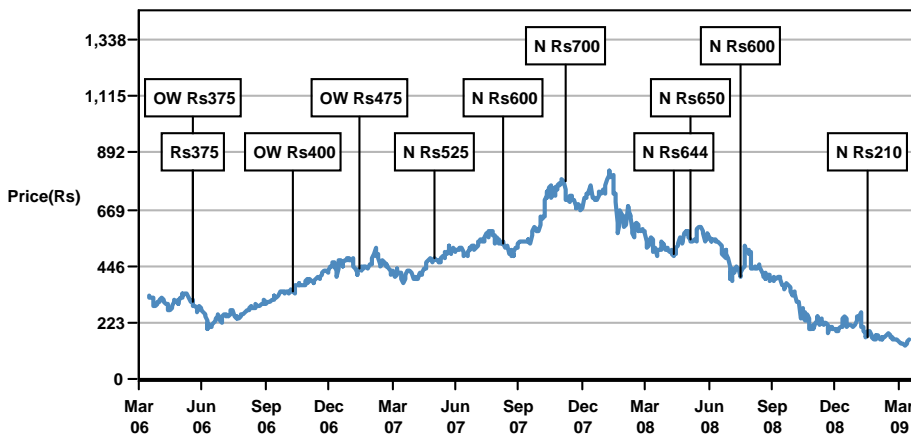
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Reliance Communications Limited (RLCM.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
18-May-06	OW	311.30	375.00
10-Oct-06	OW	347.50	400.00
13-Jan-07	OW	433.75	475.00
02-May-07	N	477.10	525.00
08-Aug-07	N	532.35	600.00
06-Nov-07	N	779.30	700.00
10-Apr-08	N	496.35	644.00
04-May-08	N	554.25	650.00
17-Jul-08	N	399.30	600.00
14-Jan-09	N	168.00	210.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage May 18, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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