

Stock statistics	9 December 2007
Market Cap (Rs Mn) :	1,513,614
52-Week high/low (Rs) :	815/277
Face value :	5
BSE Code :	532712
NSE Code :	RCOM
Industry :	TELECOM
Shares outstanding :	2,06,13,02,001
Avg. daily vol. (30 days) :	87.61

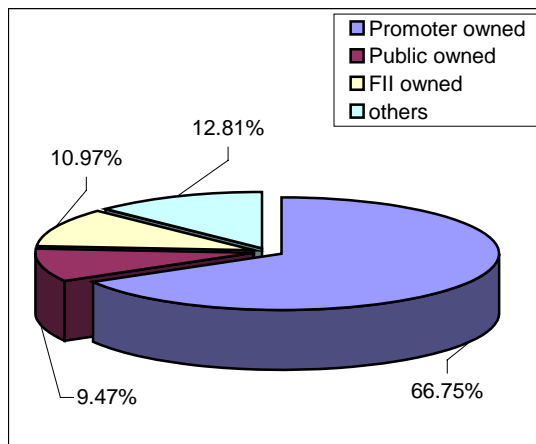
Business Overview

Reliance Communications, a part of Anil Dhirubhai Ambani group is the second largest integrated telecom solutions provider in India, having a total subscriber base of 33 million as of March 2007. Of these, 28.7 million subscribers were based on CDMA technology, while balance 4.3 million subscribers were GSM-based mobile services users. RCL is aggressively expanding the reach of its network at the expense of customer satisfaction in order to reach more subscribers by extending its services. The company offers the full portfolio of telecom and telephony solutions, including mobile services (on both CDMA and GSM technologies) wire line services, national and international long distance services, enterprise broadband, global voice and data services, provision of bandwidth to global corporates, infrastructure and managed services.

Investment Rationale

- Reliance communications is all set to grab an order worth Rs 228.88 million for setting up 70 million lines. This is the biggest order ever met by any Indian telecom company. The company is all set to provide GSM services and enter into competition with the existing players like Vodafone Essar and Bharti Airtel. The company is into talks with companies like LM Ericsson AB, Alcatel-Lucent and Motorola to put its GSM plans into action.
- The company is working on expansion of its passive infrastructure of telecom towers and is expecting to have 40,000 telecom towers by March 2008. This will add on to the subscriber base of the company creating more opportunities. The company adds on an average 1.5 million CDMA customers monthly. Keeping pace with the company's ongoing growth, it is expected to create a GSM base of 12.8 million by March 2009.
- Reliance Communication owns the world's largest submarine fibre optic cable system, FLAG Telecom, connecting countries across the globe. Through this, the company has become the leader in the international long-distance (ILD) market. The Company is also in a strong position to tap the burgeoning demand for bandwidth from Asia and the Middle East and is a leading bandwidth provider globally.
- The company is among the few players in India with a pan-India network comprising over 80,000 route km. of ducted fibre optic cables in intercity backbone and over 20,000 route kms. of ducted fibre optic cables installed in the leading cities in India.
- Reliance Communications is also expected to benefit from the investment made in E-band communications by the Reliance group. E-band communications enables wireless transmission speeds up to 10 gigabits per second, which will help out the company immensely and add to its available transmission system.

Shareholding Pattern (as on 30 Sep'07)



Key Statistics (as on 9 December 2007)

CMP	:	734
BV (FY'07)	:	99.94
PE	:	48.90
PB	:	7.34
Beta	:	0.95
Turnover (Rs Mn)	:	1399.05
Net worth (Rs Mn)	:	205255.40

FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	Q2FY07	Q3Y07	Q4FY07	Q1FY08	Q2FY08
Revenues	28231.90	30434.50	31402.90	32289.30	33283.90
Growth (%)	12180.08	7.80	3.18	2.82	3.08
Total Expenditure	17638.40	17665.80	19406.30	19262.80	20873.80
Operating Profit	10593.50	12768.70	11996.60	13026.50	12410.1
Growth (%)	6699.42	20.53	(6.05)	8.58	(4.73)
OPM	37.52	41.95	38.20	40.34	37.29
Other Income	154.20	10.60	9.10	7.60	8.2
EBIDTA	10747.70	12779.30	12005.70	13034.10	12418.30
Interest	755.90	620.10	695.40	109.50	295.50
Depreciation	4909.40	4268.60	4717.30	4155.30	4681.4
PBT	5082.40	7890.60	6593.00	8769.30	8032.40
Tax	32.80	(30.00)	63.50	(396.30)	(20.00)
Reported PAT	5115.20	7860.60	6656.50	8373.00	8012.40
Growth (%)	5953.49	53.67	(15.32)	25.79	(4.31)
NPM	18.12	25.83	21.20	25.93	24.07
Adjusted PAT	4965.20	7710.60	6867.50	8373.00	8012.40
EPS	2.50	3.80	3.30	4.10	3.90

The financial figures of the company for the quarter ended Sep 07 depict the story of success of the company. The company has posted excellent results on YoY basis. Revenues of the company have witnessed a growth of 18 % with the sales figures rising from Rs 28231.90 million in Q2FY07 to Rs 33283.90 in Q2FY08. The operating profits of the company have jumped from Rs 10593.50 million in the quarter ended Sep 2006 to Rs 12410.10 million in Sep 07. The operating profit margins of the company have remained on the same level, as they were a year before at 37%. The EBIDTA for the company stood at Rs 12418.30 million for the quarter-ended Sep 07 posting a growth of 15.54% on YoY basis. The EBIDTA margins of the company stood at a stable level with 38% reported in Q2FY07 compared to 37% in Q2FY08. The net profit of the company has virtually jumped from the year ago level. The company posted a PAT of Rs 5115.20 million in the quarter ended Sep 06 which has risen to Rs 8012.40 million in the quarter ended Sep 07, showing a robust growth of 57%. Same story has been depicted by the net profit margins of the company that have increased sharply from 18.12% in Q2FY07 to 24.07% in Q2FY08. Earning per share of the company for the Sep 07 qtr stood at Rs 3.90. The yearly EPS of the company stands at Rs 15.1 (calculated on TTM basis).

Valuation

Reliance communications is all set to enter the GSM arena of telecom services after getting the approval of the Department of Telecommunications (DoT). The company ever since the launch of its CDMA – based mobile services, has transformed the industry in a positive manner, and now its entry into the GSM services is expected to add another level of competition into the sector. The company has also been reducing the cost of mobile services further in an already tariff – falling regime. The falling tariffs have brought about a significantly greater number of subscribers into the mobile telephony fold and the ultimate winner has undoubtedly been the consumer. The company has been contemplating to sell 5% in its tower business and is expecting to raise USD 9 million. This would enable greater efficiency and will be helpful in enhancing the value of the business. The company 's foray into the BPO business is all set to create extensive synergies, which can be capitalized upon. RCom's global business also appears set for good growth, as international bandwidth demand, particularly in Asia and the Middle East, seems well – set to grow at exponential rates, due mainly to an increase in consumer internet usage as well as investments in the infrastructure of the region.

At the current market price of Rs 734.30, stock trades at 48.90 times to its current year earning of Rs 15.10 and 7.34 times to its book value. Therefore, we initiate a 'BUY' signal on the stock and a short-term target price of Rs 830.

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