

# Reliance Communications

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## Shareholding (%)

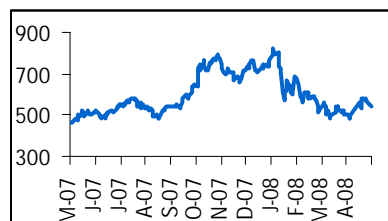
Promoters	66.7
FII's	9.9
MFs	3.1
Others	20.9

## Share price performance

52-week high/low (Rs)	845/454		
	-1m	-3m	-12m
Abs (%)	7.0	-16.0	16.1
Rel* (%)	-1.1	-16.2	-9.0

\*to Nifty

## Stock chart



## Making the right connection

A 64% increase in the subscriber base and a 33% growth in minutes of usage enabled Reliance Communications (RCOM) to post a 36% YoY growth in topline during Q4FY08. In line with this growth, the company's topline increased from Rs38,736mn in Q4FY07 to Rs52,500mn in Q4FY08. During the quarter, RCOM's EBITDA improved by 44% YoY to Rs22,550mn, and net profits increased 47% to Rs15,032mn.

Considering the growth opportunities in the sector, RCOM's aggressive growth plans and strong operating capabilities, we continue to maintain a **'BUY'** on the stock.

## Key highlights of Q4FY08 results:

- Robust growth in revenues:** During Q4FY08, RCOM's net sales increased by 36% YoY, from Rs38,736mn to Rs52,500mn; this growth was volume-driven, with the company adding 4.83mn subscribers during the quarter. RCOM's overall subscriber base increased by 64% YoY to 46mn, increasing the minutes of usage by 33% to 56.5bn. An increase in the subscriber base strengthened the company's market share from 17.4% in Q4FY07 to 17.9% in Q4FY08.
- Yields continue to drop:** RCOM's Average Revenue Per User (ARPU) fell by 16% YoY, from Rs377 in Q4FY07 to Rs317 in Q4FY08; during the same period, the company's Average Minutes of Use Per customer declined by 21%, from 541 to 430. The combined effect was a 6% YoY increase in Revenue per minute to Re0.74 in Q4FY08 from Re0.7 in Q4FY07. Going forward, we believe that RCOM's ARPU would continue to remain under pressure as competition intensifies due to the entry of new players.
- Future rollout of services:** RCOM plans to incur an overall capex of \$6bn in FY09 for (a) the rollout of GSM/IPTV/DTH services, (b) setting up of towers, and (c) expansion in global and broadband services. The company had secured the spectrum for 14 GSM circles on January 12, 2008; it plans to rollout services in these circles in Q3FY09. Within a short span, it would also foray in DTH and IPTV services. In the tower business, it plans to scale up the number of towers from about 35,000 presently to 60,000 by March 2009, and 70,000 by March 2010.

# Buy

## Rs542

May 6, 2008

### Market cap

Rs bn 1,003

US\$ bn 25

### Avg 3m daily volume

6,981,064

### Avg 3m daily value

Rs mn 3,853

### Shares outstanding (mn)

2,064

### Reuters/Bloomberg

RCOM.BO/RCOM.IN

### NSE/BSE

RCOM/532712

### Sensex

17,373

### Nifty

5,145

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▲ **Valuations:** We believe that RCOM's growth would be primarily driven by the GSM segment; it has already received additional spectrum for 14 circles. The company's growth would also be supported by its foray in IPTV and DTH services. Besides, the entry of new players would provide strong boost to its tower business segment in the medium term.

Considering the growth opportunities in the sector, RCOM's aggressive growth plans and strong operating capabilities, we continue to maintain a **'BUY'** on the stock.

Table 1. Operating parameters comparison

	Q4FY08	Q4FY07	YoY (%)	Q3FY08	QoQ (%)
<b>Wireless</b>					
Subscriber base (mn)	46	28	64	41	12
GSM Wireless	7	3	107	6	17
CDMA Wireless	39	25	58	35	11
Wireless market share (All-India)	17.9%	17.4%		17.9%	
Minutes of usage (bn)	56.5	42.5	33	52.5	8
Minutes Of Use per customer per month	430	541	-21	449	-4
Revenue per minute (RPM) (Rs/min)	0.74	0.70	6	0.75	-1
Avg. Revenue Per User (ARPU) (Rs)	317	377	-16	339	-6
<b>Global</b>					
Total ILD minutes (mn)	1769	1503	18	1747	1
Total NLD minutes (mn)	5964	4873	22	5795	3
<b>Broadband</b>					
Service areas operational	18	18		18	
Towns active (wireline only)	42	40	5	42	0
Access lines	1.0	0.6	66	0.9	14
Access line net adds	0.13	0.09	44	0.11	19
ARPL (Rs/line)	1760	1932	-9	1,797	-2
Buildings directly connected	0.79	0.49	61	0.73	8

Source: IISL research, company

Table 2. Segmental

Revenues (Rs mn)	Q4FY08	Q4FY07	YoY (%)	Q3FY08	QoQ (%)
Wireless	41608	29692	40	39567	5
Global	15257	12938	18	13299	15
Broadband	5100	3299	55	4564	12
Others	683	947	-28	1544	-56

Source: IISL research, company

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Table 2. Quarterly result table (Consolidated)

Rs mn	Q4FY08	Q4FY07	YoY (%)	Q3FY08	QoQ (%)
Net Sales	52500	38736	35.5	47763	9.9
Total Expenses	29950	23017	30.1	27677	8.2
Access charges and license fees	9962	9978	-0.2	11188	-11.0
Network operations	6562	4424	48.3	5446	20.5
Employee costs	3430	2452	39.9	3087	11.1
SG&A costs	9996	6164	62.2	7956	25.6
EBITDA	22550	15719	43.5	20086	12.3
Other Income	614	633	-3.1	979	-37.3
Depreciation	7856	6378	23.2	7252	8.3
PBIT	15308	9974	53.5	13813	10.8
Interest (net)	-81	-391		-1518	
Exceptional items	-611	-27		0	
PBT	16000	10392	54.0	15331	4.4
Tax	-272	148		1379	
Minority Interest	1240	0		223	
PAT	15032	10244	46.7	13729	9.5
Equity capital (Face value Rs 5)	10320	10320		10320	
No of shares	2064	2064		2064	
EPS (Rs)	7.3	4.9	46.7	6.7	9.5
<b>Key Ratios (%)</b>					
EBITDA Margin	43.0	40.6		42.1	
NPM	28.6	26.4		28.7	
EBITDA Margin	43.0	40.6		42.1	
<b>% of sales</b>					
Access charges and license fees	19.0	25.8		23.4	
Network operations	12.5	11.4		11.4	
Employee costs	6.5	6.3		6.5	
Access charges and license fees	19.0	25.8		23.4	

Source: IISL research, company

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