

## UPDATE

### Share Data

Reuters code	RCVL.BO
Bloomberg code	RCVL IN
Market cap. (US\$ bn)	8.8

### Major shareholders (%)

Reliance ADAG	37
Foreign (FIIs, GDRs, etc.)	32
Indian Institutions	8
Retail	23

## Reliance Communications Ventures Ltd.

Not Rated

Price: Rs. 318

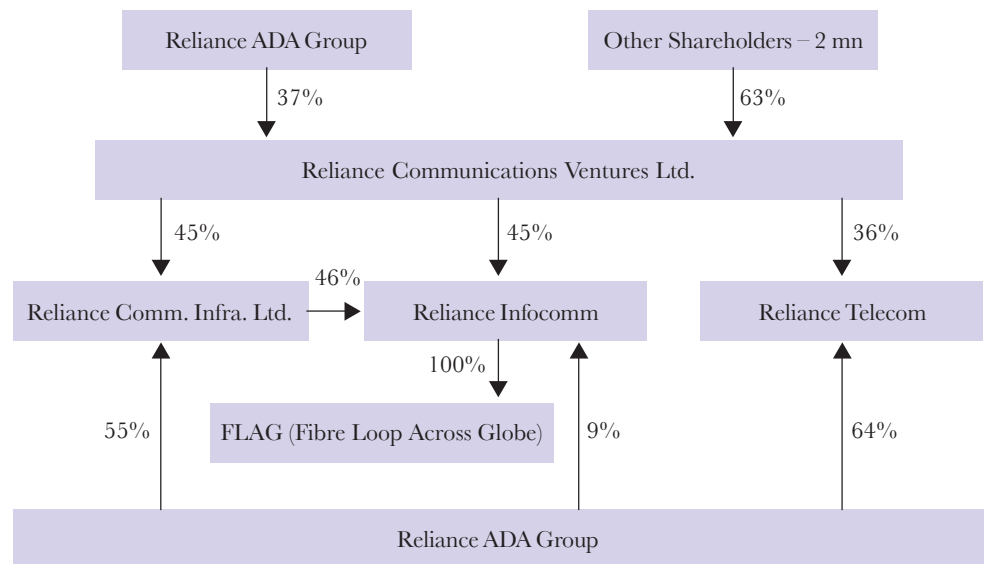
BSE Index: 10804

14<sup>th</sup> March 2006

Reliance Communications Ventures Ltd. (RCoVL) will be undergoing a restructuring to simplify ownership structure of the company and become an operating unit rather than being a holding entity.

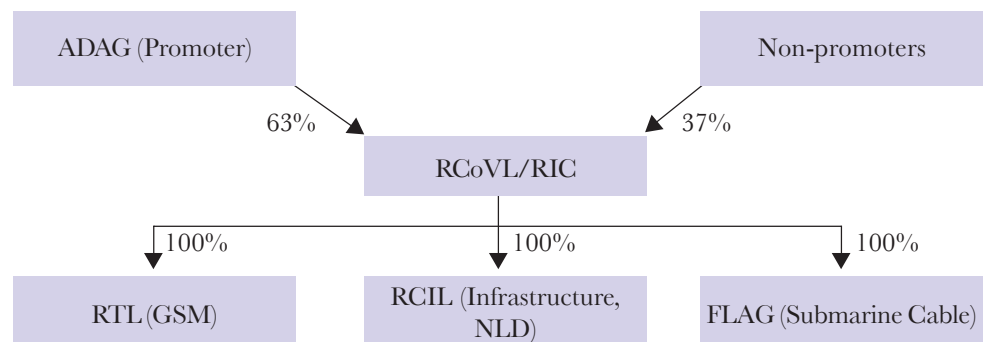
RCoVL currently holds 36-66% stake in three subsidiaries: Reliance Infocomm Ltd. (RIC, 66%), Reliance Telecom Ltd. (RTL, 36%) and Reliance Communications Infrastructure Ltd. (RCIL, 45%).

### Existing ownership structure



Post this restructuring, RCoVL would be merged with RIC and would have 100% stake in RTL, RCIL and FLAG Telecom (a wholly owned subsidiary of RIC).

### Proposed ownership structure



*Simplified structure to reflect 100% value of all operating units*

The restructuring would result in non-promoter stake in RCoVL coming down to 37% from 63% at present, however, the effective stake in respective entities pre and post restructuring compares as follows:

#### Change in effective stake

(%)	Effective stake as per existing structure				Effective stake as per proposed structure	Net Change			
	RIC	RTL	RCIL	FLAG	All entities	RIC	RTL	RCIL	FLAG
Reliance ADAG	58.6	77.3	71.7	58.6	63.0	4.4	(14.3)	(8.7)	4.4
Foreign	21.0	11.5	14.4	21.0	18.0	(3.0)	6.5	3.6	(3.0)
Indian Institutions	5.3	2.9	3.6	5.3	5.0	(0.3)	2.1	1.4	(0.3)
Retail	15.1	8.3	10.4	15.1	14.0	(1.1)	5.7	3.7	(1.1)

#### *Restructuring would dilute equity by 67%*

The scheme of arrangement would increase equity capital of RCoVL from Rs. 6,120 mn to Rs. 10,220 mn. The additional Rs. 4,110 mn equity will be issued to promoters (ADAG) and would constitute a dilution of 67%; however, there would not be any change in free float of the company (~750 mn equity shares).

#### Effect on valuations

We have valued the company on a broad level (in absence of financial details as per individual entities), vis-à-vis its GSM counter part – Bharti Tele-Ventures (BTVL).

#### RTL

RTL is the GSM arm of the company, operational in 7 category B and C circles against BTVL's pan-India presence, however it has better profitability levels. Thus, we have valued this business at a 10% discount to Bharti's EV/subscriber of US\$ 635 (based on estimates of average subscriber base for FY07).

#### EV calculation for RTL

(Rs. mn)	RTL	Bharti
Average subscriber base for FY07 (mn)	3.1	23.3
EV/subscriber (US\$)	571	635
<b>Total EV of RTL</b>	<b>76,555</b>	<b>647,487</b>

#### RIC and RCIL

RIC is in the CDMA business including CDMA-wireless, Wireline and ILD segments. RIC also holds 100% stake in FLAG Telecom, which can be valued at US\$ 300 mn including FALCON. RCIL provides the network backbone to the company's operations and has presence in IDC, NLD and ISP segments. For the wireless business, we have taken a 15% discount to BTVL's EV/subscriber because of better profitability, higher ARPU's, higher non-voice revenues as well as larger geographical presence. It reported positive earnings for the first time in 3QFY06, yet its net profit was 43% lower than that for BTVL. RIC is yet to roll out its services in 3 category C circles and has a lower market share than BTVL in mobile segment.

**Wireless business, comparison**

<b>For existing subscriber base (mn)</b>	<b>RIC</b>	<b>Bharti</b>
Mobile subscribers	16.4	18.5
Fixed wireless subscribers	2.8	0.02
Total wireless subscribers	19.2	18.5
ARPU <sub>s</sub> (Rs.)	412	470
<i>EBITDA margin (%)</i>	<i>31.9</i>	<i>36.5</i>

We have valued global and broadband businesses based on 12x FY07E EBITDA of Rs. 11,878 mn, against a target 11x FY07E EBITDA for BTVL, on account of larger revenue base as well as network compatibility for future technologies in these segments.

**EV for CDMA, global and broadband segments**

<b>(Rs. mn)</b>	<b>RIC+RCIL</b>
<b>Wireless</b>	
Average subscriber base for FY07 (mn)	22.5
EV/subscriber (US\$)	540
Wireless EV	531,924
FLAG+FALCON	13,140
Global and Broadband	142,541
<b>Total EV for RIC+RCIL</b>	<b>687,605</b>

This gives an EV of Rs. 764,160 mn for RCoVL's business. It has Rs. 36,310 mn net debt on books and thus the market cap post restructuring should be Rs. 727,850 mn.

**In terms of value as per effective stakes pre and post restructuring, this valuation translates into:**

<b>(Rs. mn)</b>	<b>RTL</b>	<b>RIC+RCIL</b>	<b>Total EV</b>	<b>Market Cap.</b>
Value of business	76,555	687,605	764,160	727,850
Value reflected in RCoVL pre-restructuring	27,560	436,128	463,688	441,655
Value reflected in RCoVL post-restructuring	76,555	687,605	764,160	727,850
Value of non-promoter's stake – pre-restructuring	17,363	274,761	292,123	278,688
Value of non-promoter's stake – post-restructuring	28,325	254,414	282,739	269,305
<b>Difference</b>	<b>10,963</b>	<b>(20,347)</b>	<b>(9,384)</b>	<b>(9,384)</b>
<i>% change</i>	<i>63.1</i>	<i>(7.4)</i>	<i>(3.2)</i>	<i>(3.4)</i>

While this restructuring gives the minority shareholders an advantage of Rs. 11 bn in RTL, it takes away Rs. 20 bn in RIC and RCIL combined, with net value for minority stakeholders decreasing by Rs. 9 bn.

We believe that the valuations for Reliance would gradually catch up with that of BTVL, as the company is able to leverage out of its extensive infrastructure. Going forward, as data segment comes to fore and starts driving growth, because of its CDMA network, Reliance will be better equipped to tap the opportunity. Also, CDMA as a technology is more efficient and thus operating leverage is superior to that in GSM. As the corporate structure simplifies, there would be greater clarity in the functional units and the contribution thereof. This helps in bridging the gap between valuations for BTVL and RCoVL further to some extent. The indicated Market cap, translates into stock price of Rs. 356, to be reached in medium term. We currently do not have a rating on the stock.

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**Analyst Certification**

I, Poonam Nishal, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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