Equities

14 November 2011 | 11 pages

Reliance Communications (RLCM.BO)

2Q – Weak Overall

- Company Update
- Estimate Change

- **2Q below** — EBITDA at Rs16bn (flat qoq; -3.3%yoy) came in 8% below estimates with sub-par performance across all three segments – 1) wireless rev was slightly ahead on mins growth but margins declined on higher ad spend, 2) Global EBITDA remained flat despite benefit of Rupee and 3) "others" losses widened. PAT at Rs3.2bn (+45%qoq) was ahead on lower-than-expected net interest exp. FY12-14E EBITDA is cut by 4-5%. Core business is benchmarked off Bharti at 15% disc to Sep-12E EV/EBITDA (6.6x vs 6.3 earlier). As a result, TP remains unchanged.
- **Wireless topline benefits from mins growth; margins hit by ad spend** — Overall traffic grew 1.6%qoq despite seasonality. Rev/min at 45p too increased marginally with the 0.2p increase coming from tariff hike. Mgmt expects an incremental 1p rise over the next 2-3 qtrs. Wireless revs as a result grew 2%qoq, net revenue meanwhile grew 6%qoq (4% in 1Q) highlighting focus on on-net traffic. Margins declined 50bps primarily on higher ad spend even as network opex remained broadly unchanged and employee cost declined. The company disclosed 2.1m active 3G subs.
- **Other businesses were lackluster** – NLD volume growth at 4% qoq was healthy while ILD volumes remained flat. Global and enterprise EBITDA (linked to global macro) was up only 1% despite some benefit of Rupee movement. This segment could get hit from the deteriorating global macro. Meanwhile losses in "Other" (primarily relates to DTH) continue to remain high.
- **B/S details** – Net debt (ex-equip payables) at Rs319bn has fallen Rs5.4bn from the peak. Equipment supplies payable is a further Rs10bn. Capex came in at Rs3.5bn (1H at Rs7bn) with the full-year guidance maintained at Rs15bn. The company has US$925m of FCCBs coming up for redemption in Feb 12.
- **Attractive assets available below replacement cost** — RCOM's asset basket consisting of CDMA/GSM/3G spectrum, fiber backhaul and tower portfolio is geared toward mobile data growth. We estimate RCOM's replacement cost at Rs118/share. The stock provides decent risk adjusted returns at current levels. Maintain Buy.

Buy/High Risk	1H
Price (14 Nov 11)	Rs81.85
Target price	Rs117.00
Expected share price return	42.9%
Expected dividend yield	0.6%
Expected total return	**43.6%**
Market Cap	Rs168,941M
	US$3,378M

Price Performance
(RIC: RLCM.BO, BB: RCOM IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	48,450	23.47	-21.2	3.5	0.4	11.3	1.8
2011A	14,937	7.24	-69.2	11.3	0.4	3.4	0.6
2012E	14,214	6.89	-4.8	11.9	0.4	3.1	0.6
2013E	20,258	9.81	42.5	8.3	0.4	4.3	0.6
2014E	25,498	12.35	25.9	6.6	0.3	5.2	0.6

Source: Powered by dataCentral

Gaurav Malhotra, CFA
+91-22-6631-9885
gaurav.a.malhotra@citi.com

Ravi Sarathy
+852-2501-2773
ravi.sarathy@citi.com

Jitender Tokas
jitender.tokas@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	3.5	11.3	11.9	8.3	6.6
EV/EBITDA adjusted (x)	6.5	5.4	7.1	6.1	5.1
P/BV (x)	0.4	0.4	0.4	0.4	0.3
Dividend yield (%)	1.8	0.6	0.6	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	23.47	7.24	6.89	9.81	12.35
EPS reported	23.47	7.24	6.89	9.81	12.35
BVPS	210.08	216.04	222.36	231.61	243.40
DPS	1.50	0.50	0.50	0.50	0.50
Profit & Loss (RsM)					
Net sales	222,502	231,077	217,916	240,824	258,716
Operating expenses	-181,461	-205,300	-189,693	-205,167	-215,855
EBIT	**41,041**	**25,777**	**28,223**	**35,657**	**42,861**
Net interest expense	11,863	-10,723	-13,262	-13,148	-11,766
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**52,904**	**15,054**	**14,961**	**22,509**	**31,095**
Tax	-4,454	-117	-748	-2,251	-5,597
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**48,450**	**14,937**	**14,214**	**20,258**	**25,498**
Adjusted earnings	48,450	14,937	14,214	20,258	25,498
Adjusted EBITDA	78,868	90,816	70,636	82,745	91,886
Growth Rates (%)					
Sales	-3.0	3.9	-5.7	10.5	7.4
EBIT adjusted	-23.3	-37.2	9.5	26.3	20.2
EBITDA adjusted	-15.1	15.1	-22.2	17.1	11.0
EPS adjusted	-21.2	-69.2	-4.8	42.5	25.9
Cash Flow (RsM)					
Operating cash flow	**97,977**	**162,067**	**1,558**	**58,347**	**57,170**
Depreciation/amortization	37,827	65,039	42,412	47,088	49,025
Net working capital	23,563	71,368	-68,330	-22,147	-29,119
Investing cash flow	**-42,191**	**-128,840**	**-13,514**	**-13,781**	**-14,407**
Capital expenditure	-42,191	-128,840	-13,514	-13,781	-14,407
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-106,186**	**8,116**	**-14,423**	**-14,309**	**-12,927**
Borrowings	-114,566	20,000	0	0	0
Dividends paid	-3,483	-1,161	-1,161	-1,161	-1,161
Change in cash	**-50,400**	**41,343**	**-26,379**	**30,256**	**29,836**
Balance Sheet (RsM)					
Total assets	**925,686**	**1,043,820**	**965,794**	**958,461**	**960,098**
Cash & cash equivalent	48,637	63,117	37,801	68,057	97,893
Accounts receivable	33,117	35,303	33,293	36,793	39,526
Net fixed assets	712,539	717,476	691,797	662,783	632,457
Total liabilities	**485,496**	**589,731**	**498,663**	**472,233**	**449,532**
Accounts payable	125,476	209,711	118,643	92,213	69,513
Total Debt	318,763	338,763	338,763	338,763	338,763
Shareholders' funds	**440,190**	**454,089**	**467,132**	**486,229**	**510,565**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	35.4	39.3	32.4	34.4	35.5
ROE adjusted	11.3	3.4	3.1	4.3	5.2
ROIC adjusted	4.7	3.4	3.5	4.2	4.7
Net debt to equity	61.4	60.7	64.4	55.7	47.2
Total debt to capital	42.0	42.7	42.0	41.1	39.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Quarterly Summary

Figure 1. Quarterly Summary

Rs m	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Q/Q%	Y/Y%
Net Revenues	50,927	51,092	51,183	50,041	78,761	49,401	50,402	2.0	(1.5)
Access and IUC	(4,887)	(5,625)	(5,510)	(5,467)	(5,000)	(5,390)	(5,263)	(2.4)	(4.5)
Other operating exp	(25,947)	(25,060)	(24,983)	(23,891)	(28,279)	(24,038)	(25,056)	4.2	0.3
License Fees	(4,074)	(4,087)	(4,095)	(4,003)	(4,261)	(3,952)	(4,032)	2.0	(1.5)
EBITDA	16,019	16,320	16,595	16,680	41,221	16,021	16,051	0.2	(3.3)
PBT	13,306	2,276	4,245	5,046	3,610	2,201	3,234	46.9	(23.8)
PAT	11,383	2,995	4,906	5,260	1,899	2,225	3,220	44.7	(34.4)

Source: Citi Investment Research and Analysis

Figure 2. Wireless Summary

Rs m	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Remarks
Wireless Revenue	41,528	41,613	40,644	41,978	43,267	44,170	2% rev growth on both increase in rev/min and mins growth
Net revenue	28,047	28,333	27,474	28,987	30,152	31,963	Higher off-net calls
Wireless EBITDA	11,989	12,101	11,792	11,490	11,727	11,756	
Wireless EBITDA margin (%)	28.9	29.1	29.0	27.4	27.1	26.6	Margins down on account of higher ad spend, network opex flat and employee costs down
ARPU	130	122	111	107	103	101	
MoU	295	276	251	241	233	227	
Pre-paid as % of net adds	101.6	100.6	101.8	100.7	98.9	95.7	Decline primarily from GSM
Minutes of usage (bn min)	94.4	94.6	91.5	94.4	97.3	98.9	Mins growth despite seasonality
Revenue per min (Rs)	0.44	0.44	0.44	0.44	0.44	0.45	0.2p uptick from tariff hikes, expect additional 1p over next 2-3 qtrs
EBITDA per min (Rs)	0.13	0.13	0.13	0.12	0.12	0.12	

Source: Citi Investment Research and Analysis

Figure 3. Global and Broadband Summary

Rs m	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Remarks
NLD mins (m)	15,265	16,383	16,569	16,578	16,264	16,924	4% increase after being flat in the previous4 qtrs
ILD mins (m)	3,123	3,753	4,084	4,538	5,019	5,043	Flat qoq
Global Business Revenue	18,137	18,391	19,233	44,758	22,916	23,353	Includes higher margin broadband segment
Global Business EBITDA	3,317	3,393	3,966	29,122	5,643	5,694	
Margins (%)	18.3	18.4	20.6	65.1	24.6	24.4	
Net retention per LD min (Rs)	0.25	0.25	0.25	0.25	0.25	0.25	
						0.9%	
Broadband Business							
ARPL (Rs)	1534	1494	1377	1523	NA	NA	
Towns active (wireline only)	42	44	44	44	44	44	
Buildings directly connected (nos)	1,049,914	1,065,243	1,081,221	1,100,683	1,122,697	1,133,924	Sustained pace of rollout

Source: Citi Investment Research and Analysis

Earnings revision

1. We have kept our wireless topline assumptions - rev/min, MoU, ARPU and overall traffic growth unchanged. Margins however are down ~1% incorporating the 2Q trends – higher ad spend though network opex remains flat on cost efficiencies.

2. Global and broadband segment witnessed lackluster growth possibly on pricing pressure as global macro deteriorates. We downgrade segmental EBITDA by 3-5%.

3. In addition, the losses in the "other" segment (primarily relates to DTH) have been quite sticky and not declining as rapidly as was previously expected.

Consol EBITDA is down ~4% for FY12-14E to reflect the above changes. FY12E EPS remains broadly unchanged to incorporate the 2Q trend (lower-than-expected net interest exp). FY13-14E EPS is down 5-6%.

Figure 4. KPI and Earnings revision

	FY12E			FY13E			FY14E		
	New	Old	Change	New	Old	Change	New	Old	Change
ARPU (Rs)	104	103	1.0%	100	100	0.0%	96	96	0.0%
Rev/min (rs)	0.45	0.45	1.1%	0.46	0.46	0.0%	0.46	0.46	0.0%
MoU (Mins)	231	231	-0.1%	216	216	0.0%	209	209	0.0%
Traffic growth (%)	8.0%	8.0%	0.0%	8.0%	8.0%	0.0%	6.0%	6.0%	0.0%
Wireless Margins (%)	27.4%	28.8%	-1.4%	28.7%	29.8%	-1.2%	29.5%	30.6%	-1.2%
Consol EBITDA (Rs m)	70,636	73,723	-4.2%	82,745	86,380	-4.2%	91,886	95,780	-4.1%
EPS (Rs)	6.9	7.0	-1.2%	9.8	10.3	-4.8%	12.4	13.1	-5.6%

Source: Citi Investment Research and Analysis

TP at Rs117; asset value at Rs118

RCOM's core business value remains unchanged at Rs100/share despite the EBITDA and EPS cut. The core business is benchmarked off Bharti – at a 15% discount to its imputed multiple on its DCF (Sep FY12E at 6.6x vs 6.3x earlier as we had adjusted Bharti's estimates post its 2Q results). We believe that discount to Bharti is justified given:

1. Inherent risks in dual network and lower capacity utilisation in GSM.

2. High leverage (FY12E net debt at Rs300bn) with FY12E net debt/EBITDA at 4.1x leaves RCOM's BS exposed to any adverse regulations (read retrospective 2G spectrum payments)

RCOM's net towerco value remains at Rs25/share. The current 2G controversy surrounding the allotment of spectrum at allegedly below market price to the new entrants in 2008 means that there is a risk of penalties. While the chance of this occurrence is low, assuming a 50% probability of this event, the hit on RCOM would be Rs8/share which we include in our TP (based on Rs41bn for 4.4MHz based on 3G spectrum 3x more efficient versus 2G).

RCOM's stock has taken a big hit since Jan, falling 40% YTD on concerns of being embroiled in the 2G spectrum controversy. We believe the stock at current levels provides decent risk adjusted returns. Besides, it currently trades below its replacement value and given its asset portfolio (CDMA, GSM and 3G spectrum, fiber network, towers), geared towards the upcoming data opportunity, it is an attractive acquisition candidate, in our view.

Figure 5. Replacement value

	Base case	Comments
Number of towers	50,000	
EV/Tower (Rs)	3,825,000	US$85k/tower
Value of towers (Rs m)	191,250	
Active equipment	112,500	50% discount to the Rs3m cost per BTS
Under sea cable (Km)	87,000	
Cost per Km (Rs)	900,000	3x the cost of laying out domestic fiber
Under sea cable (Rsm)	78,300	
Domestic fiber business	190,000	
Cost per km (Rs)	300,000	
Domestic fiber business (Rs m)	57,000	
Others	27,615	Book value
Spectrum		
Value of 3G	64,388	75% of price paid
Value of GSM spectrum	48,987	2x the initial price paid, based on 3G being 3x more efficient than 2G
Value of CDMA spectrum	14,850	Valued at 70% of the value of Rs16.5bn paid for GSM spectrum in 2008
Total replacement value	594,889	
Net debt + equipment supplies payable	351,523	
Equity value	243,367	
Per share	**118**	
Current share price	81.9	
% discount	*44.2%*	

Source: Citi Investment Research and Analysis

Reliance Communications

Company description

RCOM is an integrated player in the Indian telecoms sector. It was listed on the Indian stock exchanges following the de-merger of Reliance Industries. RCOM is the second-largest player in the mobile segment, has an 80,000km-long India-wide optic-fiber network and owns the FLAG submarine cable network. RCOM has three business units: 1) Wireless, which includes a nationwide wireless network on CDMA and GSM; 2) Global Business comprising wholesale voice and data; and 3) Broadband for both retail and enterprise.

Investment strategy

We rate RCOM Buy/ High Risk (1H) with a target price of Rs117. The company has been hit by a combination of deterioration in its business and high leverage (dual network strategy and 3G). In addition, the stock has been hit by the ongoing 2G controversy which has resulted in a sharp sell-off in the last few months. However it currently trades below its replacement value (Rs118/share), which we believe adequately captures its business and leverage related concerns.

Valuation

Our target price of Rs117 comprises (i) core business value of Rs100, based on 6.6x Sep EV/EBITDA, at a 15% discount to Bharti's implied target multiple; plus (ii) towerco value accretion of Rs25 based on long-term external tenancy of 0.5x. We believe a 15% discount to Bharti on the core business valuation is justified on account of the inherent risks of dual network and higher leverage. Our towerco net value accretion of Rs25 is based on the following assumptions: 1) Long-term tenancy of 2.15x with captive tenancy of 1.65x; 2) Capex recovery of 12%, 3) WACC of 11.3% and terminal growth rate of 3%. Note that the incremental value accretion to RCOM is calculated after netting off the contribution from the captive tenancy. Thus, it only reflects the value of the external revenues. The current 2G controversy surrounding the allotment of spectrum at allegedly below market price to the new entrants in 2008 means that there is a risk of penalties. While the chance of this occurrence is low, assuming a 50% probability of this event, the hit on RCOM would be Rs8/share which we include in our TP (based on Rs41bn for 4.4MHz based on 3G spectrum being 3x more efficient versus 2G).

Risks

We assign a High Risk rating to RCOM given that the stock is deemed to be relatively volatile by our quantitative risk-rating model (based on stock price movements in the past year) and because of its lackluster business momentum and possible penalties by the Government on 2G spectrum especially in the context of its high leverage. Key downside risks that could prevent the stock from reaching our target price include: 1) further deterioration in core business, 2) higher-than expected penalties related to GSM spectrum allotted in 2008 and 3) inability to deleverage through asset sale.

Appendix A-1

Analyst Certification

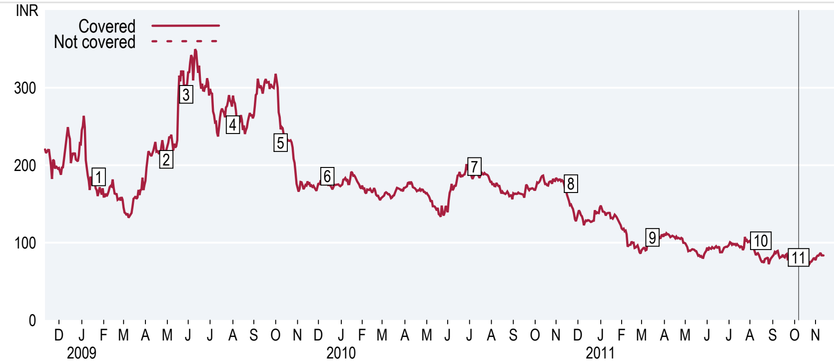
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Reliance Communications (RLCM.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	26-Jan-09	*3H	*150.00	160.15
2	30-Apr-09	3H	*190.00	214.95
3	28-May-09	3H	*270.00	297.35
4	2-Aug-09	*2M	*310.00	275.65
5	8-Oct-09	*3M	*210.00	246.30
6	12-Dec-09	3M	*160.00	183.65
7	8-Jul-10	3M	*165.00	187.95
8	22-Nov-10	3M	*155.00	149.30
9	16-Mar-11	*1H	*127.00	102.95
10	16-Aug-11	1H	*117.00	77.40
11	7-Oct-11	Stock rating system changed		

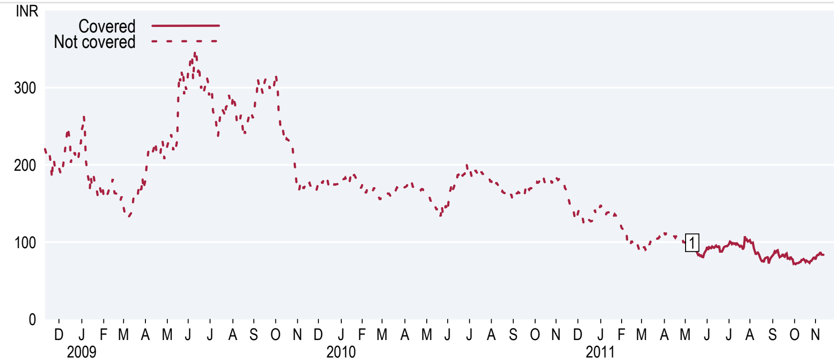
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Communications (RLCM.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	91.55

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Reliance Communications in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Reliance Communications.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Reliance Communications.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 10 Oct 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited	Gaurav Malhotra, CFA; Jitender Tokas
Citigroup Global Markets Asia	Ravi Sarathy

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 14 November 2011 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Reliance Communications. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.
Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by

the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.
Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.
Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.
Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.
The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.
Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.
With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.
The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST