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Reliance Communications - Buy

Reliance Communications, the flagship company of the Anil Dhirubhai Ambani Group (ADAG) of companies was established in 2002 is India's leading integrated telecommunication company with over 85 million customers. It is the 5th largest wireless operator in the world and 2nd in India after Bhati Airtel.

RCom's business encompasses a complete range of telecom services covering mobile and fixed line telephony. It includes broadband, national and international long distance services and data services along with an exhaustive range of value-added services and applications.

Management

The management of the company is led by Anil D Ambani -Chairman. While other board of directors includes J Ramachandran, S P Talwar, Deepak Shourie and A K Purwar.

Business Overview

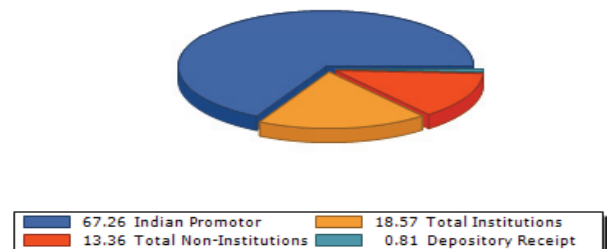
Reliance Communication's an integrated telco having its presence in wireless, Infratel, Globalcom and Enterprise. It is one stop shop for all kinds of enterprise connectivity solutions.

Wireless- Reliance Mobile services now cover over 20,000 towns, 5 lakh villages and counting. Its pan-India wireless network runs on CDMA2000 1x technology, which has superior voice and data capabilities compared to other cellular mobile technologies. CDMA200 1x is more cost-effective as it utilises the scarce radio spectrum more efficiently than other technologies do. Enhanced voice clarity, superior data speed of up to 144 kbps and seamless migration to newer generations of mobile technologies are some of the differentiators that set CDMA200 1x technology apart from its competitors.

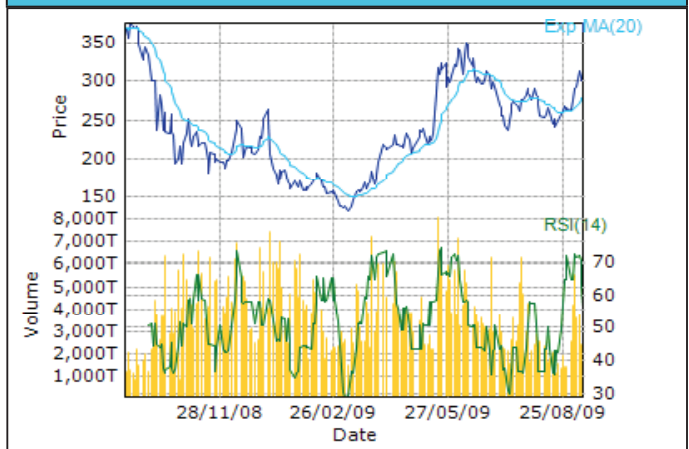
Broadband- The uniqueness of Reliance Communication's broadband initiative lies in the fact that its entire nationwide network is being conceptualised and built from ground zero. Its network is designed to deliver affordable quality education, drive governance, transform healthcare, enhance efficiency in business and, finally, generate new job opportunities for millions of unemployed Indians. The mass roll out of broadband being carried out by Reliance Communications across the length and breadth of the country, offering speeds

Stock Data		14/09/09
Current Mkt Price (Rs)		292.45
52 Week High		404.95
52 Week Low		131.35
Mkt Cap (Rs. in Million)		602076.64
Return in last one Month (%)		18.08

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	150866.60	147920.50	1.99
Other Income	7986.50	5205.80	53.42
Total Expenditure	116330.40	99948.30	16.39
Operating Profit	42522.70	53178.00	-20.04
Interest	9635.20	8700.50	10.74
Profits After Tax	48026.70	25864.50	85.69
Reserve & Surplus	0.05	0.02	112.78
Reported EPS(Rs)	23.27	12.53	85.71
Core EBITDA Margin (%)	28.19	35.95	-21.60



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of up to 100 Mbps to millions of users, in itself is a technological marvel.

Reliance Communications is a National Long Distance (NLD) and International Long Distance (ILD) service provider, rendering national and international transport links between other telecommunication service providers' networks. The acquisition of Flag Telecom by Reliance in January 2004 has strengthened the bouquet of its service offerings to national and global service providers and companies.

RTIL, a subsidiary of RCom is an independent wireless telecommunications infrastructure company in India, engaged in the business of building, owning and operating communications towers and related assets, which it will lease to the wireless operators under long-term contracts.

RCom has world's largest submarine cable network with presence in 60 countries with wide range of services including Capacity services, MPLS-VPN, Ethernet, Managed services, etc.

Latest result analysis

- Net sales of the company for the quarter ended June 30, 2009 declined by 14.79% to Rs 3,032 crore from Rs 3,558 crore in the corresponding previous quarter.
- Net Profit reported a growth of 6.51% for the quarter to Rs 370 crore from Rs 347.38 crore.
- Total income of the company declined by 10.17% to Rs 3,197 from Rs 3,559 crore in the same quarter last year.
- The other income component of the company posted a huge surge of 15077.06% to Rs 165.43 crore from Rs 1.09 crore in the corresponding previous quarter.
- ARPU declined by 6.3% Q-o-Q to Rs.210 inspite of a sharp fall in ARPU witnessed amongst its peers - Bharti and Idea.
- EBITDA margins improved by 170 bps Y-o-Y but fell by 180 bps Q-o-Q to 38.6% in Q1FY10.
- Net profit margin of the company increased to 12.20 from 9.76 in the corresponding previous quarter
- The company has repurchased and cancelled 297 FCCBs of \$ 1,00,000 each, at a discount resulting in a saving of Rs 2,449 lakh, that's why the other income witnessed a huge gain.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	30316.40	35579.70	-14.79
Expenditure	27819.80	23675.40	17.51
Other Income	1654.30	10.90	15077.06
EBITDA	4150.90	11915.20	-65.16
Interest	-5712.30	2487.40	-329.65
Net Profit	3700.00	3473.80	6.51
EBITDA Margin (%)	0.14	0.33	-59.11
NPM (%)	0.12	0.10	25.00
EPS	1.55	1.68	-7.74

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	150866.60	147920.50	1.99
Total Income	158853.10	153126.30	3.74
Total Expenditure	116330.40	99948.30	16.39
Operating Profit	42522.70	53178.00	-20.04
Profits After Tax	48026.70	25864.50	85.69

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	10320.10	10320.10	0.00
Reserve & Surplus	506583.10	238080.20	112.78
Total Liabilities	825939.30	451264.60	83.03
Investments	313647.50	138441.40	126.56
Current Liabilities	57747.40	72143.10	-19.95
Net Current Assets	161775.50	72771.30	122.31
Total Assests	825939.30	451264.60	83.03

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	23.27	12.53
Core EBITDA Margin (%)	28.19	35.95
EBIT Margin (%)	38.30	23.49
ROA (%)	5.81	5.73
ROE (%)	9.29	10.41
ROCE (%)	7.00	7.70
Price/Book (x)	0.70	4.22
Net Sales Growth (%)	1.99	15.96
EBIT Growth (%)	66.33	20.74
PAT Growth (%)	85.69	7.37
Total Debt/Mcap (%)	0.86	0.19



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Industry Scenario

India is the third largest telecom market in world after China and US. At current levels, telecom intensiveness of Indian economy, measured in terms of ratio of telecom revenues to GDP of 2.1% is comparable to 2.8% in developed economies. This speaks itself of how the sector has run through an unprecedented growth story in last few years. The industry, which was a government monopoly, was gradually thrown open to the private sector after deregulation begun in 1990s. The accelerated growth that telecom industry has witnessed over last decade has been primarily driven by the wireless segment.

The Indian telecom industry has so far maintained its high growth rate despite the slowdown being witnessed in most other sectors. With comfortable cash position and successful business model, telcos are not facing any troubles on capex side either.

With the 3G services in pipeline, established companies have vast growth potential. It will also help stabilize the declining revenue per usage as subscribers will be lured into more sophisticated applications of telecom technology. In the times of financial crisis and economic slowdown, telecommunication is perhaps one of the sectors that will witness least negative impacts as the global recession story unfolds over coming months.

Latest developments

RCom and Aircel have reportedly reached an agreement on sharing telecom infrastructure like towers worth \$300 mn. The deal will cover end-to-end telecom infrastructure agreement for towers, voice carriage and bulk bandwidth, and is expected to boost RCom's revenue by over Rs 1,500 crore.

Reliance Communications (RCom) has signed a telecom infrastructure sharing agreement with STel, the new telecom operator. The deal covers telecom towers, transmission and fibre backbone sharing in Orissa, Bihar, Himachal Pradesh, North East, Assam and Jammu & Kashmir and will be executed by RCom through its tower subsidiary, Reliance Infratel.

Reliance Communications and Bharti Airtel has submitted a joint proposal to Bangladesh Telecommunication Regulatory Commission or BTRC to build a fibre optic network in Bangladesh to connect India's seven sisters in the northeast,

thus offering Bangladesh access to the alternative submarine cable in exchange. As per the proposal, Bangladesh could use the companies' undersea cable network as an alternative to its lone submarine cable SEA-ME-WE-4.

Recommendation Factors

Reliance Communications (RCom) has prepaid a term loan of Rs 5,000 crore raised from Indian banks a year earlier. The pre-payment would help the company make interest savings of Rs 700 crore a year.

During the first quarter, the Company has repurchased and cancelled 297 Foreign Currency Convertible Bonds (FCCBs) of \$ 1,00,000 each, at a discount, this has resulted in a saving of Rs 2,449 lakh. Consequent upon such repurchase and cancellation, the Company's obligations to convert the said FCCBs into Shares, if so claimed by the FCCB holders and / or to redeem the same in foreign currency, have come to an end.

For the company, the peak capital expenditure cycle is also over with the GSM rollout.

In July the company has signed a ten year telecom infrastructure sharing agreement with Etisalat DB Telecom having operations in the Middle East with large operations in 17 countries across Asia, Middle East and Africa. This agreement is worth Rs 10,000 crore and is for the provision of ~30,000 towers over the next 18 months in 15 circles across India.

On the concern side the auctions of 3G spectrum could increase RCOM's funding constraints. However, the shareholder approval for qualified institutional placement (QIP) may mitigate near-term funding constraints. But the recent attempt by the company to raise \$500 mn by a QIP issue has so far not met success also RCom will need at least Rs 7,000 crore for rolling out 3G services, including Rs 4,000 crore for the nation-wide 3G infrastructure and a minimum of Rs 3,500 crore as base price for spectrum auctions.

The scrip is currently trading at Rs 292 and a P/E multiple of 25.5. We would recommend a BUY with a long term outlook and a price target of Rs 674. keeping in view the better growth prospects of the company as it is with its different valued services is best positioned to serve all customers and also the industry outlook which is pointing towards a massive growth in the coming time.



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