



Dated: March 26, 2007

ESL Equity Research

Target Price: 480

CMP: 427.50

BSE SENSEX -- 13,124.32 (-1.22%)

NSE NIFTY --3,819.95(-1.06%)

Key Data	
Bloomberg	RCOMIN@IN
Reuters Code	RLCM.BO
BSE Code	532712
NSE Code	RCOM
Face Value	5.00
Mkt. Cap	86,937.24
52 Week High	518.85
52 Week Low	10.00

RELIANCE COMMUNICATIONS LTD.

Reliance Communications is the flagship company of the Anil Dhirubhai Ambani Group (ADAG) of companies. Listed on the National Stock Exchange and the Bombay Stock Exchange, it is India's leading integrated telecommunication company with over 25 million customers.

The 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.

Shareholding Pattern (%)	
Promoters group	66.75%
Public (Instt.)	19.07%
Public (Non-Instt.) & Others	12.24%
Custodian	1.94%

The company is providing wireless, wireline, long distance, voice, data, and Internet communications services through a number of operating subsidiaries. The company sells communications and digital entertainment products and services through its chain of Reliance WebWorld retail outlets. The company's Reliance Infocomm subsidiary provides wireless communications services throughout India.

Financials		
Particulars (Cr.)	Q3FY06-07	FY07-08E
T.Income	3044.5	4059.33
Change QoQ (%)	6.5	---
Change YoY (%)	25.6	---
PAT	771.1	1028.13
Change QoQ (%)	31.6	---
Change YoY (%)	198.2	---
EPS	3.77	5.03
P/E Ratio	---	84.99

Reliance Mobile (formerly Reliance India Mobile), launched on 28 December 2002, coinciding with the joyous occasion of the late Dhirubhai Ambani's 70th birthday, was among the initial initiatives of Reliance Communications. It marked the auspicious beginning of Dhirubhai's dream of ushering in a digital revolution in India. The Company was instrumental in harnessing the true power of information and communication, by bestowing it

in the hands of the common man at affordable rates.

Peer Group comparison		
Particulars	EPS	P/E
Reliance Comm.	5.03	84.99
Bharti Airtel	19.38	35.92
Tata Telecom	21.12	13.24

Industry Outlook

Telecommunication is one of the fastest growing segments in the country with the teledensity (number of telephones per every hundred people) reaching 14.40% at the end of July 2006, compared to 8.6% in Dec 2004. This was primarily because of the liberalisation of the sector by Government of India, which made telecom services readily accessible and affordable. This phenomenal growth in Indian telecom has drawn the attention of the world. This unique report, the first of its kind provides a deep understanding of Telecom technology in India, Education, Research activities, Patents filed in the country, Major industry forums, profiles of major R&D centers & Investments. It has highlighted all the premier Institutes in terms of course offered and major Government Research Organisations in telecommunications. Major Players profiled in the report are: Midas Communication Technologies, NMSWorks Software Limited, Nexge Technologies, Integrated Softech Solutions, Nilgiri Networks, Amdale technologies Ltd, nLogue, Motorola India, Siemens India, Nortel India, Alcatel, Ericsson, Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL), Bharati Enterprises, HFCL Infotel Ltd, Reliance Communications, Tata Teleservices, Shyam Telecom Ltd, Aircel cellular, Hutchison Essar.

Future Plans

Reliance Communications plans to provide seamless coverage across all major national and State highways in Kerala. Once the plan was implemented, all the 159 census towns covering 48 short distance-calling areas in 63 taluks across the State would enjoy coverage. For the network expansion, the present 560 tower sites would be more than doubled to 1,200 and an estimated 800 km of optical fibre cable would be laid additionally besides the existing 3,000 km in the State. Some of the places of worship covered across the State include Chakkulathukavu, Parassinikadavu, Malayattoor, Muthalkodam, Madhur, Thirunelli, Pampa and Aruvikkara. With this expansion, 76 per cent of the villages in Kerala and 78 per cent of the population would get coverage. Reliance is planning an investment of Rs.11,000 crore in the **next six months** on a slew of projects.

Highlights

- The business of the Reliance Comm. spread across 673 cities and span a host of various kinds of services. The business is organised around the following categories: **wireless, wireline, wholesale, the webworld and village telephony**. The work is executed through different work centres like Engineering, Internet data centres, Billing and Collection centres, Systems and Application centres in ERP, CRM, OSS billing, revenue assurance and functions like Commercial, Finance, HR and IT.
- Company has approved to hive off its 13000 cell towers into a new entity Reliance Telecom infrastructure. We believe that this move will benefit the company to reduce its opex and capex and will come down the network operating cost somewhere 25% to 30%. Company has also entered into tower sharing agreement with Idea, Hutch, Bharti and MTNL in Delhi and Mumbai circle during the quarter.
- Reliance Comm. is only CDMA and having to make that transition into GSM. On **March 29 2006** Reliance Infocomm is the India's first telecom operator to launch seamless inter-standard international roaming service - 1World.1Number, with single number on international CDMA and GSM networks.

- Reliance Communications launched 'Hello Capital Plan' on **July 03 2006** to enable its subscribers in 19 state capitals to call each other at the local call rate of 40 paise per minute.
- Reliance Communications tied up with Disney on **June 22 2006** to offer on Reliance Mobile World India's first 3D animation on mobile.
- Reliance Infocomm introduces R World in Hindi to become the world's first operator to offer mobile data services in more than one language on the same handset. This will make it possible for millions of Indians to access the popular R World with hundreds of every-day-use applications in the national language.
- Reliance Comm. is the world's first Company to launch a TV channel TIMES NOW on Reliance Mobile Phones.
- Reliance Infocomm launched "One Nation, One Tariff" to enable Reliance IndiaMobile prepaid users to call anywhere in India at Re one per minute.

Concerns

- R Comm has strong Subscribers additions but ARPU dips sharply during the quarter, Rcom added around 4 mn mobile subscribers and maintained its market share at 20.5% over the last quarter. But ARPU of the wireless segment has witnessed a sharp decline of 7.3% QoQ to Rs. 328 as compare to Rs. 354 over the last quarter.

Impact of Budget on Telecom Companies

- Currently none of the major telecom companies are paying out dividend owing to their turbo charged expansion plans that require them to entail huge capex. As such, the increase in dividend distribution tax is not expected to impact the companies in the near future.
- All companies will have to bear the burden of additional 1% cess for higher education.
- **Reliance Communication** carries out the content development in-house. So, despite it having to bear the load so service tax it will be in a position to offer value added services at more competitive rates as opposed to its peers due the absence of revenue sharing agreements that its peers have with the content providers.

Valuations/outlook

At CMP of 427.50 R.Comm posted a strong set of numbers surpassing the market expectations. The **EPS** is **5.03** and **P/E** is **84.99** respectively. The **net revenues** rose by **6.5% QoQ** to **Rs.3044.5Cr** while net profit shot by **31.6% QoQ** to **Rs.771.1Cr**. On the back of strong net subscriber's addition of around 4 million and improved performance in global & enterprise segments, **EBITDA** margins have improved by almost **230** basis points **QoQ** to **40.7%**. Reliance Communications is capable of delivering a range of services spanning the entire infocomm (information and communication) value chain, including infrastructure and services — for enterprises as well as individuals, applications, and consulting. This stock is viewed with a lot of optimism and looks like stable and a good upward momentum is expected from current levels.

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