

### Reliance Communications - Hold

#### Investment overview

- Reliance Communications is India's leading integrated telecom company offering suite of telecom services across wide spectrum for every segment.
- The company is the leader in the Wireless Data Market which is expected to be the next growth engine for the industry.
- The company is focusing on high quality customers leading to increasing ARPU levels.
- RCom is the biggest Data Center Player in India with 18 data centers across the globe.

#### Business Overview

Reliance Communications is India's foremost and truly integrated telecommunications service provider. Reliance Communications is the flagship company of the Anil Ambani led Reliance Group. The company, with a customer base of about 150 million, including over 2.5 million individual overseas retail customers, ranks among the Top 4 Telecom companies in the world by number of customers in a single country.

Reliance Communications has established a pan-India, next generation, integrated (wireless and wireline), convergent (voice, data and video) digital network that is capable of supporting best-of-class services spanning the entire communications value chain, covering over 24,000 towns and 600,000 villages. Reliance Communications owns and operates the world's largest next generation IP enabled connectivity infrastructure, comprising over 2,77,000 kilometers of fibre optic cable systems in India, USA, Europe, Middle East and the Asia Pacific region.

The company'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. The company ranks among the Top 6 Telecom companies in the world by number of customers in a single country. Reliance Communications corporate clientele includes over 39,000 Indian and multinational corporations including small and medium enterprises and over 830 global, regional and domestic carriers.

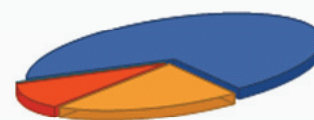
#### Financial Health

Reliance Communications for the second quarter ended September 30, 2013 has reported 800% rise in its net profit at Rs 81 crore for the quarter as compared to Rs 9 crore for the same quarter in the previous year. Total income of the company has increased by 13.50% at Rs 3472 crore for quarter under review as compared to Rs 3059 crore for the quarter ended September 30, 2012.

On the consolidated basis, the group has registered a growth of 561.76% in net profit after taxes, minority interest and share of profit / (loss) of associates at Rs 675 crore as

Stock Data	31/12/2013
Current Mkt Price (Rs)	129.80
52 Week High	164.45
52 Week Low	50.25
Mkt Cap (Rs. in Cr)	26791.10
Return in last one Month (%)	-8.78

#### Share Holding



67.8 Indian Promotor	20.43 Total Institutions
11.49 Total Non-Institutions	0.28 Depository Receipt

#### Performance in last one year



#### Y-o-Y Performance (Consolidated)

Particulars	Mar 2013	Mar 2012	Change(%)
Net Sales	23586.00	22133.00	6.56
Other Income	1218.00	705.00	72.77
Total Expenditure	17645.00	16348.00	7.93
Operating Profit	7159.00	6490.00	10.31
Interest	2499.00	1630.00	53.31
Profits After Tax	744.00	988.00	-24.70
Reserve & Surplus	32818.00	35264.00	-6.94
Reported EPS(Rs)	3.26	4.50	-27.59
Core EBITDA Margin (%)	25.19	26.14	-3.63

compared to Rs 102 crore in the same quarter previous year. Total income of the group rose 12.16% to Rs 5835 crore for quarter under review as against Rs 5202 crore in corresponding quarter previous year.

### Industry Scenario

Telecom industry in India has undergone a revolutionary phase over the past few years with tremendous growth in the telecom subscriber base. Over the last few years, the Indian telecom market has shown explosive growth due to the policy initiatives undertaken by the government. The country's telecom industry is one of the largest telecommunication networks in the world and one of the fastest growing. Moreover, with the introduction of advance services like 3G and WiMAX, along with the approval of National Telecom Policy (NTP), 2012, the industry has reached next level of revolution. With the ongoing investments into infrastructure deployment, the country is projected to witness high penetration of Internet, broadband, and mobile subscribers in near future. As far as broadband connections are concerned, India currently has a subscriber base of 13.8 m. Broadband penetration received a boost from the auction of broadband spectrum and bodes well for the future of broadband services.

The Indian telecom industry has grown at a dream pace in the new millennium. Private companies have taken a lead in a big way as declining tariffs and increasing disposable incomes help making telephones more affordable. The unprecedented growth witnessed in the wireless segment has all the potential to continue for at least another couple of year before saturation puts break as Indian companies shift their focus from saturating urban areas to still relatively untapped vast rural areas.

After a lull and so many controversies the Indian telecom sector is gradually on the recovery path and industry is now consolidated among 5 Pan-India Private Players accounting for over 84% of the revenue. Regional operators have rolled back operations in select circles and the recent Post Auction consolidation has considerably reduced competition. Various ratings agencies too have started terming Indian telecom sector to stable from negative Now the data business is expected to give a major boost to the sector.

### Investment Rationale

- Reliance Communication is among top 15 largest international long distance carrier with over 15 billion minutes of traffic. The company is a leading Enterprise Service Provider in India with 190,000 kilometer of fiber optic, connecting 600,000 villages and 24,000 towns to key business markets in India, USA, Europe, Middle East, and APAC regions and expects 30% annual growth in revenues and profitability from its enterprises division in the coming five years. For the second quarter the company reported a massive jump in its consolidated profit to Rs 675 crore as compared to Rs 102 crore in the same quarter last year. Excluding write back of provision, the PAT stood at Rs. 234 crore, a growth of

Q-o-Q Performance (Consolidated)			
(₹ in Cr.)			
Particulars	Sep 2013	Sep 2012	Change(%)
Net Sales	5361	5031	6.56
Expenditure	3507	3564	-1.60
Other Income	474	171	177.19
EBITDA	2328	1638	42.12
Interest	676.00	593.00	14.00
Net Profit	714	132	440.91
EBITDA Margin (%)	43.42	32.56	33.38
NPM (%)	13.32	2.62	407.61
EPS	3.27	0.49	561.76

Profit & Loss (Consolidated)			
(₹ in Cr.)			
Particulars	Mar 2013	Mar 2012	Change(%)
Net Sales	23586.00	22133.00	6.56
Total Income	24804.00	22838.00	8.61
Total Expenditure	17645.00	16348.00	7.93
Operating Profit	7159.00	6490.00	10.31
Profits After Tax	744.00	988.00	-24.70

Balance Sheet (Consolidated)			
(₹ in Cr.)			
Particulars	Mar 2013	Mar 2012	Change(%)
Share Capital	1032.00	1032.00	0.00
Reserve & Surplus	32818.00	35264.00	-6.94
Total Liabilities	90182.00	92265.00	-2.26
Investments	662.00	652.00	1.53
Current Liabilities	3205.00	1409.00	127.47
Net Current Assets	-11178.00	-9859.00	13.38
Total Assests	90182.00	92265.00	-2.26

Key Ratios (Consolidated)		
Particulars	Mar 2013	Mar 2012
Reported EPS (Rs)	3.26	4.50
Core EBITDA Margin (%)	25.19	26.14
EBIT Margin (%)	14.05	11.35
ROA (%)	0.82	1.06
ROE (%)	2.12	2.57
ROCE (%)	4.42	3.26
Price/Book (x)	0.34	0.48
Net Sales Growth (%)	6.56	-11.11
EBIT Growth (%)	31.93	-5.21
PAT Growth (%)	-24.70	-34.35
Total Debt/Mcap (%)	3.65	2.21

### Peer group comparison (₹ crore) (Standalone)

\*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Reliance Comm	201303	12627.00	2728.00	624.00	4.94	3.02	37.21
Bharti Airtel	201303	45350.90	13470.70	5096.30	11.24	13.42	28.85
Idea Cellular	201303	22043.44	5121.86	818.26	3.71	2.47	45.06
Tata Comm	201303	4416.12	1000.21	475.24	10.76	16.68	14.31

129% y-o-y. Telecom revenue from its Indian operations witnessed a rise of around 8% in voice, while there was a slight drop in non voice revenue in the second quarter as compared to same period last year. Though second quarter is seasonally weak quarter for the industry, still RCom posted a decent numbers.

- In the coming time shift to data from voice is going to be the major driver for the industry. The company had witnessed a growth of 92% in Mobile data (2G + 3G) y-o-y in 2012, while 3G grew at more impressive 196% y-o-y. Going further the company is expecting an incremental revenue from data of around \$3bn over 2013-15. Recently, RCom hiked its 3G data prices by around 27%, effective December 1, 2013 for new connections, while those subscribers on the old plan will continue with their old rates. This move comes four months after RCom had unveiled its plan making 3G cheaper than 2G, for both pre-paid and post-paid users. The company has also taken multiple initiatives to increase the data penetration by making data plans more affordable, offering bundled product & services and entering into exclusive tie-ups with social networking sites.
- Reliance Communications is planning to capture 40% of all new smartphones on its network in the 13 circles it offers 3G services. The company already had 26% of total smartphones on its network in the 3G circles with a customer base of 9.1 Million. The company is banking on its spectrum-linked market strategy to improve quality of services across these circles. Further, the company's exclusive tie-ups with cell phone manufacturers such as iPhone, HTC and BlackBerry would also help the company in obtaining in users on to its 3G network. The company has always been a first mover in offering new technology to its customers and has recently offered just Rs 2,599 per month for the iPhone 5c and Rs 2,999 per month for the iPhone 5s, both for a duration of 24 months-which include the handset cost, unlimited local and STD calls, SMS, national roaming and 3G data. And in another first in India, ever, RCOM is offering these much-awaited iPhone models at no down payment. Customers will not receive any usage bill for 24 months (except international calls and international roaming),

as the monthly payments include all usage charges.

- Reliance Communications has been constantly endeavoring for cost optimization and has outsourced Network Management Services to Ericsson (North & West India) and Alcatel-Lucent (East & South India) and has moved around 9,500 employees to partner rolls, providing them global opportunities. Recently it has inked a multi-crore deal with technology firm Amdocs to reduce the average call handling time at its customer care centers. The company will use Amdocs' CRM solution, which would reduce RCom's average call handling time and improve experience for its customers. The solution can support 15,000 CSRs and 1.5 million customer interactions daily.
- Reliance Communications is considering a bond issue to the tune of \$1 billion. The firm is said to have appointed bankers to finalize the issue and has short-listed European and Singapore markets as potential markets. Proceeds from the issue would likely go towards retiring and restructuring the company's existing high-cost debt. The debt-laden firm had total liabilities of Rs 41,169 crore as of September 2013. The issue, targeting fund-raising at the cost of debt of around 8 to 9 percent, would, however, depend on market conditions.
- At the CMP of Rs 129.80, Reliance Communications is trading at TTM P/E of 22.49x and EV/ EBITDA of 8.56x with an estimated FY14 P/E of 18.29 and EV/EBITDA 8.10x respectively, we recommend 'HOLD' and buying at dips in the scrip with a price target of Rs 146. RCom has significantly improved RPM with tariff hikes and strong focus on paid & profitable minutes. Going further the company is likely to get the advantage of its 3G license in 13 circles (highest number of circles by single operator) as data is going to be the next revenue driver for the industry and the company expects incremental revenue of 40% through data only. Further the company is anticipating 30% annual growth in revenues and profitability from its enterprises division over the next five years. The company is ideally positioned in the enterprises domain, already serving over 45,000 large, medium and small enterprises in India.

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