

CMP: Rs 103; SL: Rs 83; Target: Rs 155; Upside: 50%; Horizon: 6 Months

Bloomberg Code	RCOM IN
Market Cap (Rs bn/USD bn)	212.59/4.67
Face Value (Rs)	5
Book Value (Rs)	244.66
EPS (Rs)	11.37
Dividend Yield	0.80%
52 week H/L (Rs)	207.80/84.50
Daily Avg. Vol (mn)	5.3
Listed At	NSE/BSE
Equity capital (Rs cr)	1032.01

INVESTMENT THESIS

- The country's second biggest mobile network operator by subscribers, has moved up the ladder, in an all India bid for 3G spectrum and has won 13 circles including the metros of Delhi, Mumbai and Kolkata and is the only operator without capacity constraints on 2G in these circles. This advantage puts it in a unique position to offer an excellent 3G user experience.
- Reliance Communications owns and operates the world's largest next generation IP enabled connectivity infrastructure, comprising over 277,000 kilometers of fibre optic cable systems in India, USA, Europe, Middle East and the Asia Pacific region.
- Reliance Communications, the country's biggest integrated telecommunication service supplier and TELibrahma, a key provider of mobile solutions, inked a deal solely to offer up video updates in addition to replays from the ICC World Cup cricket matches for all cricket buffs.

Valuations: With the approval of Rs 8700cr loan by China Development Bank (CBD) which will lead to savings of Rs 500 crore annually in interest payouts and with the launch of new 3G services leading to the addition of more subscribers the company is expected to show healthy numbers for current and subsequent quarters. At the current price of Rs 103, stock is trading at 12.1x and 10.95x of our estimated FY11E and FY12E EPS of Rs 8.5 and Rs 9.4. We thus recommend 'BUY' with the target price Rs 155.

Reliance Communications is India's foremost and truly integrated telecommunications service provider. The Company, with a customer base of over 132 million including over 2.5 million individual overseas retail customers, ranks among the top four Telecom companies in the world by number of customers in a single country.

(Rs Cr)	Q3FY11	Q3FY10	VAR %	9MFY11
NET SALES	4824.58	5128.97	-5.90	14812.13
EBITDA	1667.72	1789.83	-6.80	4958.73
PAT	525.69	1164.06	-54.80	1315.23
OPM %	34.57	34.90	(33bps)	33.48
NPM %	10.90	22.70	(1180bps)	8.88
EPS (Rs)	2.33	5.37	-56.60	6.37

Price Performance %

	1M	3M	6M	12M
Absolute	6.4	(17.3)	(36)	(33.8)
Rel to Nifty	8.5	(8.7)	(28)	(37.6)

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RCOM TECHNICAL OUTLOOK



R-COM: In our view is making a “TRUNCATED ZIG-ZAG” a rarest pattern ever seen. The correction started from 11th Jan 2008 from the level of Rs 845 to the level of Rs 131.35 on 13th March 2009 which is called the 1st part of the TRUNCATED PATTERN. The 2nd part of that pattern started in the month of June 2009 with the price of Rs 359.

Every TRUNCATED PATTERN has three parts that is A-B-C. Now the stock is in the C-wave which is usually called a consolidated period and this C-wave has to be lower than end price of A-wave that is Rs 131.35 and in our opinion the C-wave is completed with the price touched the level of Rs 84.25 on dated 1st March 2011.

With the completion the C-Wave, it means the consolidation phase is over. It is very interesting that after the completion of correction which is TRUNCATED the up move is always very fast like a spike.

The minimum target price of the stock is Rs 690-707 within 30-36 months whether we buy at CMP or on decline till Rs 85-90. So it is better to accumulate strategically for the minimum investment of 3 years with the STOP LOSS OF BELOW Rs 84. If our price goes below the stop loss again we will be able to get our cost price in the pull back rally.

Our interpretation will only get wrong if the stock will close below Rs 85 on the weekly basis but the chance are minimal. We recommend a strong buy in the stock with the Stop Loss below Rs 83 for the target of Rs 155 for 6 months and long term target of Rs 232.50.



Stock Ratings

BUY	The stock's total return is expected to exceed 15% over the next 12 months
ACCUMULATE	The stock's total return is expected to be within 10-15% over the next 12 months
REDUCE	The stock's total return is expected to be within 0-10% over the next 12 months
SELL	The stock's total return is expected to give negative returns over the next 12 months
NOT RATED	The Analyst has no recommendation on the stock under review

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