Reliance Communications Limited Company Research Report

About the Company

Reliance Communications Ltd. is a telecommunications company headquartered in New Mumbai, India. It is a subsidiary of Reliance Anil Dhirubhai Ambani Group.

Does R.Com have the possibility to generate acceptable amount of cash flows through operations?

Total debt is not well covered by annual operating cash flow (-0.8%, less than 20% of total debt). Reliance Communications is making a loss; therefore interest on debt is not well covered by earnings.

However, R.Com is about to undergo an asset monetization scheme which is going to reduce its current debt liability of Rs 45,000crores to Rs 6,000crores. The same is going to be completed in 40 days flat according to the public speech given by Mr. Anil Ambani. Out of the current outstanding debt, Rs. 17,000 crores is to be realized from the monetization of wireless business, Spectrum, tower and fiber assets and another Rs. 10,000 by commercialization of DAKC through non recourse long term debt financing.

R.Com has already signed the deal with Reliance Jio for selling its wireless assets on 04-01-2018. The same will bring an upfront payment of an estimated Rs. 1,000 crores and a yearly rental of Rs. 800 to Rs. 1000 crores for about next 10 years.

Further,

- R.Com is going strictly into B2B model wherein it will provide services to Indian and Global enterprises like Google, Amazon, etc and Internet Data Centres.
- R.com is also goint to build the largest submarine cable network in the world.

The B2B business model is a stable business model as the contracts are usually long term. Also, it will ensure predictable revenues once the contracts are signed.

In addition to this, the merger of R.com and SSTL has already been completed gaining 4G and 5G spectrum for 16 years.

The above facts indicate that that the operating cash flows should be sufficient to cover its debt. However, a clear picture can only be drawn with proper figures once the contracts are signed and the business is resumed.

Is R.Com's level of debt at an acceptable level?

Reliance Communication's level of debt (200.8% of total debt) compared to net worth is high (greater than 40%). The level of debt compared to net worth has increased over the past 5 years (119.8% vs 200.8% today)

However, the approved resolution plan is going to bring down the debt of R.Com to Rs. 6,000 crores by March 2018 which is going to be an acceptable level. The relevant Debt equity ratio can be derived once the final financial statements are drawn out for the FY 2017-18.

Facts for a potential investor

1. Reliance communications is currently a loss making business so its value cannot be compared with the Global Wireless Telecom Industry Average or Indian market.
2. Since the revenues are going to be stable and the contracts are long term, a high growth rate in the revenues of R.Com is not expected.
3. R.Com is not paying dividends currently since its loss making thus the return is lower than low risk savings rate of 2.25%.
4. The shares of Reliance Communication is currently undervalued*
5. The banks have confirmed their exit from SDR under the debt resolution process ensuring no dilution of control.
6. The competition is low in the proposed business model by the Company. There is also an entry barrier because of huge requirement of investment in assets. Thus the risk of loss of business to competitor is very low.

News to watch out for:

China Development Bank (CDB) on Friday withdrew its insolvency filing against Reliance CommunicationsBSE 2.10 % (RCom), but Swedish gear maker Ericsson continued its battle against the Anil Ambani-owned telecom operator to recover its dues. Ericsson, operational creditor or a vendor who is owed by a client, is aiming to recover Rs 1,150 crore from RCom, while CDB, a secured lender accounting for 37% of RCom's total secured debt, has dues of Rs 11,460 crore.

The court will hear RCom's arguments on **January 18**. ET on Friday reported CDB planned to withdraw its insolvency filing, while Ericsson planned to continue to fight it out. Shares of RCom surged 7% post CDB's call, to finally close at Rs 34.05 a piece, up by 2.10% on the BSE on Friday.

Opinion:

If already a shareholder : **Hold**

If a potential shareholder : **Buy and hold for at least 5 years****

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Calculation of intrinsic value for Reliance Communication

The same will be calculated by discounting future forecast of free cash flow for next 5 years to their present value

Year	Cashflow	Disc Factor @ 23%	PVIF
2018	25,220.00	0.8130	20,504.07
2019	27,420.00	0.6610	18,124.13
2020	29,227.00	0.5374	15,706.12
2021	28,399.25	0.4369	12,407.56
2022	27,594.95	0.3552	9,801.76
Present value for next 5 years			**76,543.64**
Terminal Value			13,797.48
Terminal value based on Exit Multiple Method			275,949.50
PV of Terminal value		PVAF(23%,5)	98,431.30
Value of equity			174,974.94
No. of shares			2,489.00
Intrinsic value per share			70.30
Current market price			34.50
Status			**Undervalued**

(Cash Flow Data Source: Internet Analysts)

Notes: 1. Discounting rate has been taken as Cost of Equity

Cost of equity= Rf + Beta (Rm – Rf)

i.e., 7% + (2 * 8%) = 23%

(Source of Rm- Rf: Buffet)

2. The practical range of a levered beta in a stable company is between 0.8 to 2

Levered Beta= Unlevered Beta (1+ (1- tax rate)(Debt Equity Ratio)

3. The risk free rate of 7% is from the 10 years Government Bond rate.

4. The beta is taken by considering the beta of other companies in the same industry

**(Do not buy if extremely risk averse)