



RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for Quarter Ended 30 September, 2006

31 October, 2006

Moderator

Good evening ladies and gentlemen. I am Pratibha the moderator for this conference. Welcome to the Reliance Communications Conference Call hosted by JM Morgan Stanley. For the duration of the presentation all participants' lines will be in the listen only mode. After the presentation, the question and answer session will be conducted for participants at the international bridge followed by Q&A session for participants at the India bridge. I would now like to hand over to Mr. Vinay Jaising of JM Morgan Stanley. Thank you and over to you, sir.

Vinay Jaising

Thank you, Pratibha. Good morning, afternoon, or evening, ladies and gentlemen. We at JM Morgan Stanley are pleased to host this call and welcome you all to this analyst and investor briefing on the second quarter results for Reliance Communications. We would like to take this opportunity to extend our congratulations to the Reliance management on the great set of results. We have a full representation of the Reliance Communications senior management on the call today spearheaded by the Chairman, Mr. Anil Dhirubhai Ambani. On behalf of all the participants and JM Morgan Stanley, I would like to thank the senior management for taking the time to be with us on the call today and would now like to hand over the call to Dan Newman at Reliance Centre to initiate the proceedings. Over to you, Dan.

Dan Newman

Thanks Vinay and a warm welcome to all participants. Today, we have present from Reliance Communications, our Chairman, Mr. Anil Dhirubhai Ambani, and the leaders of our three strategic business units, Mr. B.G. Khurana, who leads Global, Mr. Prakash Bajpai who leads Enterprise, and Mr. S.P. Shukla who leads Personal, including Fixed Wireless and Mobility. In addition to the dial in participants, this call is also being audio-streamed to all the financial news channels in India.

Mr. Ambani will begin the call with some key observations about Reliance Communications today, the markets and our overall performance, following which our business leaders will summarize the performance of each business. There will then be time for Q&A. The call duration is scheduled for one hour. I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risks that we face. It is now my pleasure to hand over to Mr. Ambani.

Anil Dhirubhai Ambani

Good evening, and welcome to this call for our second quarter results. I thank all of you for taking the time to join us today. I would also like to extend a very warm welcome to the investors who are listening in through the TV channels across the country.

To begin with, I would like to spend a few moments on walking everybody through what really is Reliance Communications.

We are today only 239 days old as a publicly listed company and I take this opportunity to brief all of you on how Reliance Communications ranks on some of the key parameters. Our market capitalization crossed Rs.80,000 crores or roughly US\$17.5 billion yesterday. This ranks us amongst the top five private sector companies in India. Considering that Reliance Communications' focus is largely on a single geography, that is India, we have emerged as amongst the top six most valuable telecom companies in Asia. Our customer base of nearly 29 million customers ranks us amongst the top ten Asian telecom companies. Our customers include 750 of the top 1,000 enterprises in India, nearly 28 million individual consumers in India, and over 900,000 individual consumers overseas.

In addition to our customers and our over 2 million shareholders representing perhaps the largest shareholding family in India, Reliance Communications is ably supported by over 40,000 employees who are driving our growth.

As I turn to our three businesses, Global, Enterprise, and Personal, I must say that our highest growth potential is emerging from our Global and Enterprise businesses, though most of the analysts' attention is focused primarily only on our Wireless business.

First, let us talk about our Global business.

Reliance Communications is the only Indian telecom company which has operations and customers in 28 developed countries globally.

We have the world's largest next generation IP-enabled connectivity infrastructure comprising over 150,000 kilometers of fiber-optic cable systems in India, the US, Europe, Middle East, and the Asia Pacific region. This is comprised of 88,000 kilometers of fiber-optic voice and data networks reaching deep into every part of India; and 65,000 kilometers of international submarine cable networks – the largest private submarine cable network in the world – giving us a presence in six continents.

We have the leading market share of over 40% in all international voice calls to and from India. This is a market of over Rs.5,000 crores or US\$1 billion per year. We are the only Indian telecom company which has 900,000 retail customers of our own in the United States, Canada, UK, and Australia. These customers use Reliance Communications' services to make calls to 170 countries globally, in addition to, of course, making calls to India. We are the #1 private sector player in the national long distance market with a market share of 22%. The national long distance market is a roughly Rs.6,000 crores or US\$1.3 billion per year market.

I would now like to move to our Enterprise business. The enterprise business is the youngest business in our portfolio of services. Reliance Communications offers unique and value-added products and services to large and medium size corporates for their communications, networking, and IT infrastructure needs across the country. This is a market of over Rs.5000 crores or over a US\$1 billion a year growing at an exponential rate of 40% per annum. Currently, EBITDA margins are in the range of 40-50%. Within a year of launch, we have emerged as a market leader in this space with a share of 65% in all new business acquisitions. We serve 750 of the top 1,000 large corporates in India and over 10,000 small and medium businesses including marquee customers such as Yahoo, Google, UBS, GE Money, Wachovia Bank, Infosys, Microsoft, Hindustan Lever, Proctor & Gamble, and Star TV. We are the #1 provider of internet capacity in India and also the #1 operator of internet data centres with a market share of over 60%.

To move to our Personal business, which comprises our Fixed Wireless and Mobility businesses, we presently have 27 million fixed wireless and mobile customers representing roughly a 20.5% market share. We are growing our wireless customer base consistently at over 1 million additions per month. Our GSM franchise is by far the most profitable in the whole of India and is also the fastest growing GSM operator in India. We are the #1 private sector operator in the public call office market with a market share of over 50%. We are also the #1 electronics retailer in India, selling over 1 million handsets each month through our Reliance World outlets and distributors. We support our growing customer base through our 24x7 multi-lingual 6,000 seat contact center, the largest and most advanced network operating center in the world, located at the Dhirubhai Ambani Knowledge City near Mumbai, and the largest internet data centre capacity at multiple locations in India.

In summary, our unique, fully integrated, IP-based telecom operations put us in a class of our own in the fastest growing telecom market globally, India, enabling us to deliver unmatched value to our over 2 million shareholders.

I would like to now make some comments on the markets and growth. Let me first share with you an overview of the acceleration and growth momentum achieved by the Indian telecom market. The country has witnessed strong economic growth over the last decade and is now targeting double-digit growth. Telecom businesses are an integral part of the infrastructure required for achieving such growth. In the past, the world looked at India or China. Now that has changed and people talk of India and China. China has more than 450 million mobile subscribers and growing. India, even now, has only about 125 million mobile subscribers. Not surprisingly, India has overtaken China in terms of net customer additions during the last quarter, when the Indian mobile customer base grew by more than 6 million customers in a particular month. We are confident that this growth will accelerate and the mobile subscriber base will reach 500 million over the next few years at which stage the penetration rate will still be under 50%. This indicates the very large long-term potential for continuous and rapid growth. Similarly, the potential for our other telecom businesses is reflected by the fact that India currently has over 120 million TV owners compared to 125 million mobile subscribers - even though television sets are more expensive than mobile handsets. Today, there are more than 50 million internet users, but less than 1 million broadband lines. There is a vast potential of exponential double-digit growth on a sustainable basis for a long period of time as far as broadband is concerned. Backed by supportive government policies and a regulatory-light regime, the telecom industry environment is conducive to competition and further market growth and we at Reliance Communications remain extremely optimistic on future growth prospects.

To quickly move to our financial performance, the highlights of our financial results in the quarter ended 30 September, 2006, are net profit of Rs.702 crores or US\$153 million compared to a loss of Rs.19 crores or a negative US\$4 million in the corresponding quarter last year. EBITDA of Rs.1,353 crores or roughly US\$294 million representing growth of 216% over the corresponding quarter last year. Revenue growth of 40% at Rs.3,526 crores that is US\$767 million compared to Rs.2,522 crores that is US\$549 million, with expansion of our EBITDA margin to 38.4% from 16.9% in the corresponding quarter last year. Our total assets were Rs.32,281 crores, roughly US\$7 billion. And our net debt reduced to about Rs.2,000 crores, that is just about US\$450 million, a net debt to equity ratio of only 0.16:1, providing substantial borrowing ability to fund our future capex.

The diversified nature of our business is a corner stone of our future success. Our objective of achieving profitable growth remains a key mantra for us.

I will now request my colleagues to update you on the progress made by each of our businesses during this quarter. I now hand over to Mr. Khurana who leads our Global business.

B.D. Khurana

Thank you, Mr. Ambani.

I would like to provide a brief overview of our Global business, which comprises of voice and data markets.

First in the voice market, we offer national and international long distance, that is NLD and ILD, calling services. We carry long distance traffic from most of the world's leading telecom operators, telecom service providers in India, as well as our own internal customers. In USA, Canada, UK, and Australia, we offer virtual calling card services. The service known as Reliance IndiaCall constitutes 40% of the total retail traffic from USA to India. In India, we are #1 in market share of international minutes and have the largest market share of any private sector operator in national long distance. Our competitive position is under-pinned by the unparalleled reach of our network, both within India and across the globe.

In our data business, we own the largest private submarine cable system in the world, the FLAG Global Network. We carry data traffic around the world - from the US to Europe, the Middle East, India, South East Asia, through to Japan. We are in all emerging and fast growing markets. We are the largest provider of data capacity in the Middle East and Asia.

Taking you through the highlights of the quarter, for our Global business, the key financial highlight of Q2 was the 183% growth in EBITDA to Rs.320 crores that is US\$70 million equivalent, compared to the corresponding quarter last year. EBITDA margins increased from 9% to 24.3% in the same period. This was achieved by delivering significant growth in our voice and data offerings. The Global business contributed 31% of our revenues during the second quarter. In the ILD business, we maintained our leading market share in the face of intensifying competition. Our NLD volumes showed more than 20% growth during Q2 over Q1 of the financial year as we significantly increased the traffic carried for other operators in India.

During Q2, we commissioned the FALCON Cable System. FALCON is the world's largest private submarine cable system to be constructed in the last five years. It was launched four months ahead of schedule and at 80% of the projected cost. FALCON debottlenecks the routes from India through the Gulf to Europe where demand is growing at a very high rate. Our focus on data has once again resulted in a higher contribution during the quarter, allowing us to keep growing the Global business segment with higher EBITDA margins and profitability.

I will now hand over to Mr. Prakash Bajpai to discuss the performance of our Enterprise business.

Prakash Bajpai

Thank you, Mr. Khurana and hello everyone.

I will now take you through the performance of our Enterprise business. In this segment, we offer the most complete portfolio of enterprise voice, data, video, internet, and IT infrastructure management services of any operator in India to the premier enterprise market segment. Our enterprise broadband services launched just over a year ago have leveraged our existing metro fiber-optic networks by extending the same to the customers' buildings. Having acquired a lead position in the top corporate segment, we are now beginning to proliferate to the vast SME segment, a majority of which is scattered over the top 100 cities of this country.

Let me talk about the performance highlights of the quarter for the Enterprise business. The Enterprise business emerged as our fastest growth business segment during the second quarter. Compared to the corresponding quarter last year, revenues grew three times to more than Rs.270 crores or US\$59 million. EBITDA increased more than 8 times to exceed Rs.120 crores that is US\$26 million, and our EBITDA margin increased to 45% in Q2 this year from 17% of the Q2 last year. During the quarter, we significantly broadened our SME customer base, while also penetrating further into premier enterprise accounts. Some of the acquisitions made in the quarter include names like Google, Deutsche Bank, UBS, Wachovia Bank, GE Money. We continue to win repeat growth business constituting a larger proportion of our customers' telecom and IT expenditure. The enterprise data market in India is around a US\$1 billion market, which is growing at a rate of around 40% per annum. Within the short period since our launch, we have become the service provider of choice for the most advanced services which are driving the growth of data market. We plan to now repeat the success in the SME segment, as well as expand building connectivity rapidly - and have in fact added 160,000 buildings in the first half of the financial year.

I will now hand it over back to Mr. Shukla for covering the Personal business.

S.P. Shukla

Thank you Mr. Bajpai and hello everyone.

To provide you with a brief introduction of our Personal business, we offer CDMA and GSM-based mobile and fixed wireless services. They include voice, data, and value-added services for individual consumers and enterprises. Our primary brands are Reliance Mobile for the mobile portfolio of services and Reliance Hello for the fixed wireless portfolio of services. Within three years of launch, we have become the largest provider of wireless communication services in the country, as measured by voice and data minutes of use.

The performance highlights of Q2 are: as on 30 September, we had 26 million wireless customers representing a 20.5% market share of the All-India wireless market. During this quarter, EBITDA of our Wireless business increased to Rs.929 crores that is US\$202 million from Rs.510 crores that is US\$110 million, an increase of 82% over the same period last year. Our revenues increased 45% to about Rs.2,600 crores that is about US\$550 million in the same period. This growth was delivered on the back of increasing momentum in new customer additions. We added 3.5 million wireless customers during Q2, which is more than double the additions compared to the corresponding quarter last year. This has established Reliance Communications as the fastest growing service provider in the country. Our share of wireless customer net additions increased to 19.9% in Q2 from 17.6% in Q1. Significantly, we added more than 1 million wireless customers every month during the quarter under review. Prepaid customers comprised over 94% of the new wireless additions in Q2 further improving the company's already strong customer credit risk profile. Users of wireless multimedia services increased further to 8.1 million in September, continuing the upward trend in usage of these services by our customers. While on the subject of value-added services, we launched CRBT that is caller ring back tones in the last quarter and acquired 1 million customers within six weeks who are already contributing to our enhanced VAS revenues. Our total traffic grew by 7% over the quarter. We still maintain our revenue per minute at 77 paise. Capex during the quarter increased to about Rs.1,500 crores that is US\$330 million as we invested to support the continued strong momentum in customer acquisitions. Our network coverage has now expanded to over 6,000 cities and towns from around 3,000 this time last year, and today we cover more than 54% of the Indian population. Now, I hand back to Dan.

Dan Newman

Thank you, Prakash. At this point in the call, we will open the floor to Q&A. I would like to inform you again that subsequent to this call we will post the quarterly report containing detailed information on our performance on our website and circulate it to analysts and investors. I therefore request that as we have the Chairman and the top management available today, please do focus your questions on strategy and business development, because the investor relations team will always be available to respond to your financial questions off line and after you have seen the quarterly report. So, please can we have the first question?

Moderator

Thank you, sir. At this moment, I would like to hand over to Ameena to conduct the Q&A for the international bridge. Thank you, and over to Ameena.

Moderator

Thank you, Pratibha. We will now begin the question and answer session for participants connected to the international bridge. Please press 01 to ask a question. The first question is from Mr. Henry Cobbe from Thames River; go ahead.

Henry Cobbe

Hi, there. Thanks very much for the conference call and congratulations on the results. My question is - I want to focus just on the broadband and on the data segments. How big a market is it, the size of the market for corporate data services, what percent of share do you think you have at the moment and how fast is it growing? And second perhaps on the broadband revenues, how much of that is actual retail broadband revenue? And third question, could you give some direction on the capex for this year and next year? Given the substantial growth we are seeing in subscribers, it will give confidence to know what your capex estimates are? And, lastly, just the strategy of CDMA and GSM, what are the issues relating to GSM spectrum, will we be able to get hold of sufficient spectrum in that area, do you intend to target the high-end business customers with GSM offerings?

Anil Dhirubhai Ambani

Thank you Henry, for all those questions. I will ask Mr. Bajpai to answer your questions on the broadband enterprise and data perspective. Let me take the two questions that you have asked on capex and capex guidance.

Our capex guidance for the year is pretty much on track at roughly US\$1.5 billion this year. We would post as a part of policy in January of every financial year, the capex number for the next financial year. In January of 2007, I think we should be able to provide you guidance on the next financial year capex.

As far as GSM spectrum is concerned, I am sure you are already familiar that we are already an existing GSM player in a large number of circles, and we have substantially improved our customer base to over 3 million customers recently in GSM and we have expanded our coverage substantially. Also, we have expanded our capacity. So, we will be able to grow our GSM business very rapidly in the coming months. As far as GSM spectrum availability is concerned, it is an industry wide requirement to support the growth of the Indian market and if the target of 500 million is to be achieved, one of the only requirements that the Government of India and the Department of Telecom can really do is to provide spectrum. We are expecting shortly, roughly 20 MHz of spectrum to be released for GSM so that the industry can move to its next level of growth. And then over the next 12 to 18 months, I believe there will be release of even more spectrum so that we can fuel the growth of the wireless and the mobility businesses. Now, I will just turn to Prakash to talk about broadband.

Prakash Bajpai

Relative to the enterprise market segments, we recognize them in two parts; one is the top and the organized part of the industry which is the top corporates and the larger companies, and the second is the small enterprises that are just scattered all over. Talking about the top corporates, the assessment is around US\$1 billion at this time which is their spend on data and IT telecom services. The small enterprise segment would be larger in size but broadband services are yet to be consumed in a meaningful way there because of the lack of availability of infrastructure. So that is about the size of the corporate market, but this is a very under-serviced segment and therefore together with the business need, it is growing at a very fast pace of around 40% CAGR every year and we believe that this is a very good segment to be in, and where we have leadership position. We will also begin to focus on the small and medium enterprise segment which is scattered over about 100 cities and that is the way forward for us.

Henry Cobbe

Do you expect the broadband revenue to grow in line with the market at 40% per annum?

Prakash Bajpai

Yes, that is the way the market will expand and certainly we will have our fair share of the market. Talking about retail broadband, which is the other question that you had asked about the home segment. Again, it is something to do with the availability of broadband infrastructure. At this time, India is quite poor in its broadband infrastructure availability with penetration being less than 0.2%. Everyone wants this penetration to go up at a very fast space. So, there will be gradual proliferation of broadband infrastructure capability in the country as more homes get connected with broadband. There will be services like digital home and IPTV services which should become popular. So, at this time, this market is primarily telephone and dial up internet service.

Moderator

Thank you. Next I have Suresh Mahadevan from UBS.

Suresh Mahadevan

Good afternoon. Thanks a lot for the call. I have three questions. First of all, I wanted to understand - your wireless growth does not seem to be as high as your competitor which also reported results a few days ago. They reported 16% quarter on quarter growth. From your financial disclosure I can see a 6% quarter on quarter growth. So, I just wanted to hear from Mr. Shukla how it is going to develop in the future quarters; that is number one. The second question I want to understand is that obviously there has been a lot of positive news flow, positive data points coming out of Indian mobile. I want to understand from Mr. Anil Ambani what he sees as some of the risks specifically for the industry as well as for Reliance Communications; that is question number two. And finally, a quick question for Mr. Bajpai on broadband margins. The broadband margin seemed to be pretty rock solid at around 44%. So, I was just wondering - obviously, we have been seeing a lot of growth in this business - how sustainable is the 44% plus margin going into the coming quarters and coming years? Thanks a lot.

S.P. Shukla

This is Prakash Shukla. We are focusing on revenue growth through more than one initiative. First and foremost is the additional focus on getting our value-added services to grow. As I mentioned earlier, towards the end of the last quarter we had launched CRBT which is our caller ring back tones. There has been a phenomenal uptake of this service. Within a few weeks of launch, we crossed one million subscribers who have opted to subscribe to this service and we still have 25 million customers to go who can use this service among the existing subscriber base. Services like this provide tremendous upside to our revenues and this is what we will be focusing on.

Second focus which is coming is – as you are aware we have had, in the industry as a whole, a large number of customers who initially came in through what we call incoming plans whether life time, or two years, or one year. All these customers begin by taking a subscription and then their revenue usage grows over a period of time. This is very similar to what we have had in the past – people when buying a VCR thought that they will watch one movie in a week or every alternate week, and they ended up watching a movie every day. So, these customers – and we are already seeing that their usage has started increasing on a regular basis – provide us another up tick. Results of these have been very encouraging and we are looking forward to accelerating revenue growth in the quarters to come. I would hand over to Mr. Bajpai to answer your next question.

Prakash Bajpai

To talk about the sustainability of margins, the question that was asked relative to the enterprise broadband segment, let us see where it is coming from. The corporate broadband service demand is related to increasing IT-led automation to improve productivity and operational excellence in all sectors of businesses and economy and particularly in the services sectors like financial services, BPO companies, KPO services. These are remarkable growth sectors in themselves, but they have very stringent requirements on high quality of services and SLA parameters. So, our growth is going to be multi-faceted in all the three segments of the market, the top corporates, the SMEs, and the small enterprise segment, and all the three segments are quite under serviced today. Yet another area of margin expansion and growth is going to come from international data services like IPLC, managed VPN services, and IDC services. These are likely to get a very strong fillip as we commissioned FALCON last month and de-bottlenecked India. So, with the present low penetration of broadband in India, I have no doubt that it will be a long journey of growth for us.

Anil Dhirubhai Ambani

In relation to your question on the risks for those in the industry who are participating in this sector like Reliance Communications, I think that clearly India as a country is moving towards a double digit rate of GDP growth as a target and then once we sustain it, any slowing down at the economic level is a risk not only for the telecom industry, but all industries who are participating in the growth story of India. The second one is really a fiscal risk. If there are any fiscal changes either in direct or indirect taxation which can really affect competitiveness. Just let me give an example – if there is an import duty of 5% on mobile phones and if that is changed to 100%, for example, then the cost and the ability of growing the market and getting first time mobile customers in semi-urban and rural locations, would be very very difficult. And the third one would be really regulatory. May it be interconnect, may it be spectrum, or may it be spectrum charges, or how computation of revenues is done – any changes in the definition would be a risk.

I would just summarize it in saying there are country-specific and economic risks, there are fiscal risks, and there are regulatory risks. I do not see - for Reliance Communications and most of the leading operators - I do not see execution as a risk. I think that execution is something that we have adequately displayed and I think it is completely sustainable. Thank you.

Suresh Mahadevan

Thanks a lot.

Moderator

Thank you. Next I have Mr. Tien Doe from GIC.

Tien Doe

Has Qualcomm softened their stance or have they come back to talk to you about reducing the royalty payments etc or is their stance still hard-line as before. The second question is about your aspirations for your operations outside of India - are there any acquisitions or organic expansion opportunities on the horizon in the next couple of years around submarine cables or wireless, or do you think the opportunity in India is the one to concentrate on?

Anil Dhirubhai Ambani

Tien, I think that your first question, which we could hear partly, was regarding Qualcomm and royalties, am I right?

Tien Doe

Yes, that is right. Have they softened their stance or are they still as hard-line as before?

Anil Dhirubhai Ambani

I wish they had softened their stance. They remain tough as steel and it is really hampering our competitiveness and hampering our ability. So, what you are seeing in terms of our economic performance, even in the second quarter is in spite of Qualcomm. As far as your second question, in terms of aspirations outside India, may it be submarine cable systems or wireless. You may have seen certain reports that we did make a bid in Kenya. Then somebody decided to bid 50% higher than us, but that is okay with us. As far as we are concerned, we are committed to economics and profitable investment opportunities. Selective internationalization of our businesses will continue to receive focus and attention may it be driven by FLAG, like the recent completion of the FALCON project, or may it be by wireless opportunities in different parts of the world.

Tien Doe

Okay, bye, bye. Thank you very much.

Moderator

We will move to questions from the India Bridge. Participants connected to the India Bridge, may please press *1 if you wish to ask a question. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question, please press *1 now. Next question comes from the line of Mr. Vinay Jaising of JM Morgan Stanley.

Vinay Jaising

Hi, this is Vinay Jaising from JM Morgan Stanley. Two quick questions from my side. Firstly, if you are looking five years forward, we understand broadband and global businesses will be growing faster. What can we expect as, let us say, a revenue mix or an EBITDA mix for the company? Secondly, assuming we get the spectrum in the next six months, what would be the advantages, both on the capex and opex front, assuming incremental capex in the wireless business would go into the GSM business. Obviously, the cost advantage in terms of the cost per minute has been extremely low for Reliance Communications, being largely CDMA-centric. Would that change or would that improve or worsen? Thank you.

Anil Dhirubhai Ambani

Vinay, I wish I was Nostradamus and could predict five years from now. As I said in my opening comments, this company is under one-year old after being listed, but let me take a crack at trying to predict. I strongly believe that roughly 40% to 50% of our business would come from wireless and mobility, and a good 25% each would come from our Global and from our Enterprise businesses. That is the potential mix. If you look at our EBITDA breakdown, it is roughly in the same pattern. So hopefully it will track that and as we introduce more services, which are potentially consumer driven services, I think that the potentiality of those EBITDA margins increasing is much better.

To come to your question on GSM and CDMA and capex, I think that I have to remind you that we are a GSM player already, we are a CDMA player already, we are the most profitable GSM company in India compared to anybody else and our own view is that the capex guidance would not materially change going forward whether we are implementing CDMA or GSM. And just a pointer in that direction is that you may have read recent reports of the various agreements that we have signed on co-location and on sharing passive infrastructure with other operators. Now, those are our effective strategies that could be more cost efficient, make us more competitive, and enhance our ability to enter the market at very quick turnaround times and maintain, sustain, retain, and enhance our market shares going forward.

Vinay Jaising

Thank you sir.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Shubham Majumder of Macquarie Securities.

Shubham Majumder

Hello. I have a few questions for the management. Firstly, in the view of the management, for the mobile business, what is the key matrix to look at in terms of measuring the effectiveness and profitability and sustainable returns for the business? How much importance would you give to ARPU in the overall scheme of things? Or are you going to focus on the permanent economics of the mobile business as such?

Anil Dhirubhai Ambani

Shubham, you want to give us all three questions, or is that it?

Shubham Majumder

The other question I had was - what is the management's take on the 3G recommendations of TRAI? What is the reaction on the reserve prices for the bids that have been set? And what would be the approach of Reliance Communications for the 3G bidding, what are the spectrum bands you would ideally like to pitch in, certain thoughts regarding that.

And on the third issue is, what is the kind of sustainable revenue growth on a year on year basis in wireless business that we foresee over the next two to three years? Would the company aggressively go for higher ARPU customers, meaning it is a trade-off really; so some thoughts with regard to how would you balance marketing and subscriber acquisition costs and how do you balance the revenue target achievement?

Anil Dhirubhai Ambani

I think that your first question and the last are really interconnected. As the Indian industry grows from 125 million mobile customers to 500 million in the next four to five years, you are going to find a large portion of this growth coming in from the first time users of phone services, coming from smaller towns and cities and smaller villages, etc., on a nation-wide basis. This will definitely bring down the overall ARPU for the industry. The good matrix that you asked - that is how we should monitor, I think - is really on what sort of realization per minute we are having. Also, what we have seen is what is really happening to minutes of use by customers or how is that changing. So, I think those are the three or four dynamics that we would like to focus in on - that is ARPU, minutes of use, and RPM. At the same time, as more and more customers subscribe to value-added services, and as Mr. Shukla mentioned for example, that within weeks of launching a new value-added service, we had one million customers coming to our subscription base, which ultimately drives future revenue. Also, I think that when we start looking at growth, the potentially higher growth is going to come from what we describe under telecom jargon as C category circles because they have the lowest tele-density, they have the lowest penetration in any case. I think the industry has to be prepared for some of these challenges in time to come.

As far as the 3G recommendations are concerned, I believe that it will be a very challenging set of principles that will have to be factored in in trying to make a business case that can support these very large investments not only in the license fee but also in the network infrastructure. And when we look at global examples, it is very difficult to see how people have really made money for shareholders from 3G services. When we look at India, India is still very much a 2G market and if voice is the killer application going forward, then I think a very large portion of future growth is going to come from 2G. As far as Reliance is concerned, our own preparation is concerned, we have the ability in Reliance Telecom, which is our GSM company, to exercise our option in terms of 2.1 MHz WCDMA. And in our CDMA business we have the option of either taking a clean slate and going to WCDMA and the other option is of going to EVDO in 800 MHz and in rural areas on 450 MHz. So, we have a pretty wide menu in front of us to choose from and see what is cost efficient, what is capital efficient, which combination ultimately creates shareholder value. But I think it is going to be a really challenging exercise.

Shubham Majumder

Anil, thanks for that. Would you go for a pan-India kind of 3G spectrum bidding broadly as the visibility is today?

Anil Dhirubhai Ambani

I think that when we start looking at the top 110 cities, it becomes nation-wide growth. So, we would be looking at the nation-wide play on 3G and we would also be looking at a nation-wide play as and when the recommendations are through on WiMax.

Shubham Majumder

And just a very quick second take on your reply on the ARPU and the matrix in the business.

Dan Newman

Shubham, can I interrupt you? The time is limited and I am sure there are some other people who, in the time we have left, would like to ask questions. Pratibha, can we have the next question.

Moderator

Sure sir. Next in line, we have a question from Mr. Chetan Sehgal of Templeton Emerging Market.

Chetan Sehgal

This question is for Mr. Ambani. Given the fact that now you are running a group with several companies, do Reliance Communications shareholders actually benefit from the other activities? And especially with regard to the proposed DTH launch as well.

Anil Dhirubhai Ambani

I think, Chetan, just for clarity, the DTH business, subject to regulatory approvals, will be embedded in Reliance Communications. So, naturally the benefit goes to Reliance Communications shareholders. Second is your question, in terms of across the group are there any synergies. You may have seen one of our recent campaigns is to provide life insurance on a mobile phone. It will be these and similar initiatives going forward which will really bring out group synergies and ultimately be to the benefit of our shareholders.

Chetan Sehgal

Thank you.

Moderator

Thank you very much sir.

Anil Dhirubhai Ambani

Pratibha, we will just take two more questions, as the time is near the limit.

Moderator

Sure sir. Next, we have Mr. Bajrang Kumar from IDBI Capital.

Bajrang Kumar

Yes, I have two questions. One is your equity share capital which currently stands at Rs.204 crore shares. I just want to know whether that is inclusive of GDRs that the company has recently issued. You have mentioned that the current debt equity ratio stands at 0.16, is there any future plan for further dilution of equity to fund capex?

Anil Dhirubhai Ambani

The equity capital of Rs.204 crore is inclusive of all outstanding shares in whatever form, including GDR, and as we talk there are no plans for any issuance of any further equity.

Bajrang Kumar

Thank you.

Moderator

Thank you very much sir. Last question comes from the line of Mr. Sanjay Chawla of JPMorgan.

Sanjay Chawla

Thanks for the call. I have just one question. If you could throw some colour on the infrastructure sharing deals that Mr. Ambani mentioned, specially with regard to the scope in terms of geographies, number of circles, existing sites, new sites, and who are the operators that have agreed to this sort of sharing of infrastructure?

Anil Dhirubhai Ambani

Yes, I think that when we start looking at infrastructure sharing, this is industry wide. As far as we are concerned, we have already signed agreements with Hutch, with BPL, and are in the process of agreeing with nearly all the other operators very shortly. So, I think, these are primarily driven by co-location agreements whereby we allow people on our towers and in turn we get their towers in terms of locating our electronics and vice versa. If they do not need our towers, then they would just host it on their towers. So, these are pretty much standard patterns of infrastructure sharing transactions that are widely known globally and this is now also being practiced widely in India.

Sanjay Chawla

Just a follow up. Do the agreements extend to the new sites which will be built by Reliance Communications or only the existing sites will be shared.

Anil Dhirubhai Ambani

I think that the question is going to be always around who wants what sites, or other guest tenants who will come in do not really look at whether they are existing sites or new sites. So, I think they have access to all sites that we are building or we will build and vice versa as far as others are concerned

Sanjay Chawla

Thank you very much.

Anil Dhirubhai Ambani

Thank you so much.

Moderator

Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Vinay Jaising of JM Morgan Stanley for final remarks.

Vinay Jaising

Thank you so much. On behalf of all the participants and JM Morgan Stanley, I would like to thank the management of Reliance Communications for taking this time to be with us on the call today. Thank you again.

Moderator

Ladies and gentlemen, thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.