



RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for Quarter Ended 31 December 2006

1 February 2007

Operator:

Thank you for standing by and welcome to the Reliance Communications Global Earnings Call on the Reliance Audio Conference Platform. This call is hosted by Macquarie Securities. At this time, all participants are in listen only mode. There will be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, please press "star, one" on your telephone.

Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Shubham Majumdar, Telecom Analyst of Macquarie. Over to you, sir.

Shubham Majumdar:

Thank you. Good morning or afternoon, ladies and gentlemen. We at Macquarie Securities are pleased to host this call for the third quarter results of Reliance Communications. We would like to congratulate Reliance management on another strong quarter of performance.

Today, we have present from Reliance Communications, the Chairman, Mr. Anil Dhirubhai Ambani, and the senior management of the Company. The call will begin with some key observations by the chairman and senior management of Reliance, followed by Q&A. The duration is scheduled for 1 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 the Company faces.

It is now my pleasure to handover to Mr. Ambani. Over to you, sir.

Anil Dhirubhai Ambani:

Good evening, good afternoon and good morning to all of you joining us today from around the world and within India to discuss our third quarter results. I would also like to, once again, extend a very warm welcome to the investors listening in through the TV channels across the country.

I am being joined today by our senior leadership team, represented by Mr. Prakash Bajpai, who leads our Enterprise business; Mr. Punit Garg, who leads our FLAG business; Mr. Aggarwal, who leads our International business; and Mr. Shukla, who leads our Wireless business.

I would like to begin by updating all of you on the journey so far for Reliance Communications. Within a short span of just nine months since listing, we are amongst a select group of companies that have an annualized EBITDA of well over Rs. 5,000 crores or about US\$1.1 billion and EBITDA margin of over 40%. Our shareholders' equity stands at over Rs. 20,000 crores or US\$4.5 billion, the largest in the telecom space in India. Our current stock market capitalization is nearly Rs. 94,000 crores or over US\$21 billion and a customer base, as we speak, of nearly 34 million customers.

Reliance Communications is counted as Asia's fifth most valuable telecom company, measured both by stock market value and the number of our customers. In the past nine months, Reliance Communications' stock has outperformed the Sensex by more than 100%. Just to put things into perspective, it took us nearly 24 months to gain our first 10 million customers and just under 18 months to add 20 million new customers and to cross the 30-million customer mark.

I am sure that most of you know of us as a leading Indian wireless services provider. However, we also operate the single-largest private submarine cable system globally. We also carry nearly 40% of the total international traffic from India. The information connectivity requirements for three-fourths of India's top companies are catered by Reliance Communications. And we are rapidly penetrating several global markets via offering high standards of service and unmatched value.

We at Reliance Communications believe that the recent acceleration witnessed by the Indian telecom sector is only the early stage of a multi-year growth opportunity. Reliance Communications is strongly positioned to participate in this opportunity. We are confident that we will continue to achieve profitable growth, as we move forward, and create sustained long-term value for our more than 2 million shareholders.

Moving to our financial performance during the third quarter. The highlights are net profit of Rs. 924 crores or US\$209 million, up 198%. EBITDA of Rs. 1,527 crores or US\$346 million, a growth of 76%, and revenue growth of 26%, at Rs. 3,755 crores, or US\$851 million. Our EBITDA margin expanded to a record 41% from 29% with strong contribution across all our businesses; that is, our wireless business, our global business and our enterprise business.

Our shareholders' equity or net worth crossed Rs. 20,000 crores. That is more than US\$4.5 billion. Our net debt to equity reduced further to just 0.07:1. Given our current balance sheet strength, we can potentially borrow on a conservative basis Rs. 20,000 crores, or close to US\$5 billion, and still maintain a debt-equity ratio of just 1:1, conservative for a company growing as rapidly as Reliance Communications.

Our capex for the year ended March 2007 is now expected to cross Rs. 7,700 crores; that is, US\$1.75 billion, which is about Rs. 1,000 crores, or US\$200 million, more than our capex guidance for the current fiscal year. This figure includes the network expansion in our eight GSM circles that is under completion in the next few weeks. We have created an additional capacity of more than 10 million GSM lines and have expanded our coverage by over 1,600 towns to 2,200 towns in our GSM circles.

Moving to our growth initiatives. I mentioned in our call in the second quarter that we will give our capex guidance in the third quarter for the following year. So keeping that commitment in mind, I am happy to announce that we will be investing US\$2.5 billion or roughly Rs. 11,000 crores in the coming financial year ending March 2008. This will support the expansion of our India-focused businesses.

This accelerated capex will enable us to capture the multiple growth opportunities available to our profitable and integrated business model. This capex includes our planned aggressive rollout during the course of the next financial year of over 20,000 new towers for supporting our wireless business, and this will further enhance our coverage and our capacity on our nationwide business. Our planned investments outside India, including our US\$1.5 billion FLAG NGN project, will be in addition to this amount.

In the financial year 2008, we also plan to make investments, which are covered by our India-focused businesses to support the rapid growth in our enterprise broadband segment, and the launch, I should say the commercial launch, of our IPTV and our DTH businesses, which are projected to rollout in the third quarter of the coming financial year. Undoubtedly, there will also be large scale expansions of our various infrastructure facilities to support our integrated growth model.

While implementing this aggressive investment plan, we will follow the most prudent financial norms, optimally balancing internal accruals and external capital in the form of debt as may be required to meet our requirements. The objective, as always, is profitable growth and unlocking value and ensuring sustainable competitiveness of all our businesses.

While on the subject of creating and unlocking value, I would like to cover two of our recently announced initiatives.

Our Board in its meeting yesterday has approved the global listing of FLAG Telecom, a wholly-owned subsidiary of Reliance Communications. This listing would highlight the hidden value created in FLAG Telecom's business and provide further focus on the unique growth opportunities available to us. Over the past year, we have turned around the performance of FLAG Telecom and aligned it with our Indian franchise. FLAG Telecom now sees enormous growth potential in bridging the digital divide.

Our recently announced FLAG Next Generation Network, or NGN, project on completion will make us the largest fully IP-enabled undersea cable system operator in the world touching 80% of the world's population. The FLAG global network would span over 115,000 kilometres by December 2009 taking the total optic fiber assets of Reliance Communications group to over 230,000 kilometres. We expect the US\$1.5 billion project, a nearly Rs. 7,000 crores investment, to be independently financed by FLAG Telecom through pre-sales of future capacities and by leveraging the significant customer franchise created by this business globally.

Our Board has also noted that the shareholders have approved the scheme of transfer of our wireless towers business. The Board has now approved Reliance Telecom Infrastructure Limited to examine the available options for further unlocking the value of its assets. We plan to build out a significant number of towers over the next few years to expand coverage and further improve competitiveness.

I have already mentioned that we have a projected plan to build over 20,000 towers in the coming financial year. Reliance Telecom Infrastructure, operating as a fully-owned subsidiary but with an independent mandate, will seek to drive value by leveraging the substantial currency represented by its existing inventory of towers. Apart from capital efficiencies, we expect this initiative to deliver greater operating efficiencies, while functioning as an independent profit centre.

I am also happy to report that we have already undertaken a major capital efficiency initiative by signing more co-location agreements over the last few months. We now have tower-sharing agreements with Hutchison, IDEA, Bharti, Airtel, Spice and MTNL for Mumbai and Delhi, which has enabled rapid and cost-efficient network expansion.

Let me briefly discuss some other key business developments. Two months ago, we launched our proprietary range of handsets under the "Classic" brand. This handset range under the "Classic" brand has already emerged as the second-largest selling brand in the market, selling more than 1 million handsets every month.

Another important initiative currently underway is the subscriber verification exercise in compliance with the norms stipulated by the regulator. We have exercised complete transparency for this massive nationwide process that is expected to be completed by 31 March 2007. Our objective would be to appropriately reflect our subscriber numbers based on the findings of this verification process, when we report our 31 March 2007 numbers.

While on the regulatory front, all Indian telecom players are waiting for allocation of spectrum, including Reliance Telecom for its GSM businesses. For our CDMA business, we have all the spectrum that we need in 800 MHz. We expect that GSM spectrum will be allocated to eligible operators under existing transparent spectrum allocation policies during the second half of 2007 according to the government's publicly stated policy.

Lastly, on the subject of Hutchison Essar, I would like to state that we are monitoring the developments over the next few weeks. At present, the process of due diligence is on, and we are participating in that process. As I have said earlier and I would like to reiterate that being an in-market consolidation, it brings us significant cost and operating synergies. However, we will take a conservative stance on the opportunity keeping in mind our overriding objective of sustainable value creation and profitable growth. We expect barring unforeseen circumstances that the Hutchison Essar opportunity would be decided over the next few weeks.

With that, I complete my initial remarks. I would now request my colleagues to briefly update you on the progress made by each of our businesses this quarter. I now hand over to Mr. Prakash Bajpai, who leads our Enterprise business.

Prakash Bajpai:

Thank you, Mr. Ambani. I will now take you through the performance of our broadband business. In the broadband segment, we offer the most comprehensive and complete portfolio of voice, data, video, internet, and IT infrastructure services of any operator in India, with a current focus on the premier Enterprise segment.

Within a short span of just over a year, we have connected more than 379,000 buildings on our fiber network in the top 30 cities, an extensive and powerful connectivity. Having been acknowledged as the premier integrated solutions provider in the top corporate segment, we are now beginning to proliferate in the vast SME segment, which is scattered in the urban geography.

As in the previous quarter, broadband is our fastest growth business segment during the third quarter as well. Compared to the corresponding quarter last year, revenue grew 3 times to Rs. 316 crores or US\$72 million. EBITDA increased by 6 times to exceed Rs. 148 crores or US\$34 million. Our EBITDA margin increased to 47% in the third quarter this year from 20% in the third quarter last year, which reflects the revenue quality arising out of our premier range of enterprise solutions.

During the quarter, we significantly increased our penetration into the premier enterprise accounts. There was about 25% growth in the new order booking. Some of the acquisitions made in the quarter include names like HDFC Bank, ICICI OneSource, Apollo Tires, Accenture, etc.

Besides keeping the growth momentum with the top enterprise accounts, our penetration in the SME segment has broadened. We continue to win more than 20% repeat orders for the growth business capturing a larger proportion of our customers' telecom and IT expenditures. We have connected more than 110,000 buildings to the Reliance network within the last three months itself.

The enterprise data market in India, as I have mentioned earlier, is about US\$1 billion, but is growing at a growth rate of around 40% per annum. Within the short span of just over a year since our launch, we have become and continue to be the service provider of choice for most top corporates requiring the most advanced services that drive the growth of the data market. With the deployment of new network access technologies, we plan to now repeat the success in the SME segment as well, as we expand building connectivity rapidly.

I will now hand over to my colleague Punit Garg.

Punit Garg:

Thank you, Mr. Bajpai and hello everyone. I would like to begin with an overview of our Global business, which comprises voice, data, and the FLAG submarine network. Let me start with FLAG Telecom, which owns the world's largest private submarine cable network extending over 40 countries and four continents. FLAG provides capacity services to carriers, ISPs and content providers, such as Google and Yahoo. In addition, FLAG offers co-location, hosting, and managed services, international private leased circuits, internet services, global Ethernet and MPLS VPN services to enterprises and carriers and we sell to enterprises through our channel partners and system integrators.

During the third quarter, FLAG Telecom won over US\$100 million contracts, which is about Rs. 440 crores, the highest ever in the history of FLAG Telecom in one single quarter. In addition, as mentioned by Mr. Ambani, we have turned around the performance of FLAG Telecom over the past year and aligned it with Reliance Communications. FLAG Telecom has also recently announced its next generation network project. We have successfully participated in several international customer events and are seeing a big demand for this next generation IP network, which will expand and connect us now to over 60 countries, and to almost 80% of the population world over.

In the last quarter, we have introduced our services in the SAARC region and our overall focus is on providing a ubiquitous network to meet our client demands. I will now hand over to Mr. Vijay Aggarwal to discuss the performance of our Global Voice business. Thank you.

Vijay Aggarwal:

Thank you, Punit and hello everyone. I will give an overview of the Global Voice business. In the Global Voice business, we offer national and international long-distance services. We carry long-distance traffic from most of the world-leading telecom operators, telecom service providers in India, as well as our own internal customers. In US, Canada, UK and Australia, we offer virtual calling card services. The services comprise Reliance IndiaCall, which constitutes 40% of the retail traffic from US to India, and Reliance GlobalCall to call more than 200 countries.

I am proud to share that during Q3 we crossed the 1 million international customers landmark. For international traffic of India we have maintained our number one market share of 40%. We continually expand our international voice business into new segments. During the third quarter we have launched managed contact center services with significant contract wins. We have also expanded into the international transit/hubbing voice business.

Key financial highlights of the third quarter for the Global Voice and Data business combined show 68% growth in EBITDA to Rs. 355 crores, around US\$80 million, compared to corresponding quarter last year. EBITDA margins increased significantly from 15% to 27% in the same period.

I will now hand over to Mr. S.P. Shukla to discuss the performance of our wireless business.

S.P. Shukla:

Thank you, Mr. Aggarwal, and hello, everyone. I will begin with a brief introduction of our wireless 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.

Our highlights for the quarter are, as on 31 December 2006, we had 30 million wireless customers representing a 20.5% market share of the All-India wireless market. During the quarter our EBITDA increased to Rs. 1,029 crores, that is US\$233 million, from Rs. 636 crores, that is US\$144 million, an increase of 62% over the corresponding quarter last year. Our revenues increased 39% to Rs. 2,752 crores, that is US\$624 million, during the same period.

This growth was delivered on the back of an accelerating momentum in our new customer acquisitions every month. Last quarter, we recorded our highest ever customer additions aggregating to 4 million over three months during the quarter. This subscriber acquisition is almost double the number of additions we had in the corresponding quarter of the previous year. This has established Reliance Communications as the fastest growing service provider in the country, with our share of wireless customer net additions increasing to 20.2% in quarter three as against 19.9% in quarter two.

Prepaid customers comprised over 92% of the new wireless customers in Q3 with our customer churn further coming down from already low levels in the industry. Our aggregate minutes of usage grew by 14% to 38 billion minutes in the quarter.

During the quarter we took various initiatives. We introduced innovative bundled talk time offers. We expanded our value-added services range to our customers with the launch of a new service: missed call alerts. We also introduced customized, circle-wise pricing plans and offerings in the market that allowed us to optimize our network utilization and maximize revenue. We have also launched a focused initiative to expand our high-end, post-paid subscriber base. And last but not least: we took another major initiative on the handset front. We introduced our own brand, proprietary brand – Classic – in the market. As our Chairman said earlier, within two months of its launch, Classic has become a very popular brand in the market helping us to conceptualize and implement innovative bundled offers.

I would now hand over to our Chairman, Mr. Ambani.

Anil Dhirubhai Ambani:

Thank you, Prakash. Now, I would like to open the lines for Q&A. Thank you.

Operator:

Certainly, sir. At this time, if you wish to ask a question, please press "star, one" on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the "hash" or the "pound" key.

Our first question comes from Mr. Suresh Mahadevan from UBS. Please go ahead, sir.

Suresh Mahadevan:

Good evening, gentlemen. Thanks a lot for the call and congrats on an excellent set of numbers particularly at the EBITDA level. I wanted to check with you a few things, first of all, wireless revenue growth that has been coming in at single-digits for the past two quarters. I was just wondering if you look at some of your listed rivals, they are probably doing early to mid-teens kind of growth. So I just wanted to get your thoughts on what your plans are to kind of improve your revenue market share? That is number one.

The second question is, particularly to Mr. Ambani, what you see are the risks facing the industry, because the industry seems to be doing fairly well. Every operator seems to be doing well. But I just want to hear what your thoughts are in terms of the risks facing the industry as well as Reliance Communications?

And lots of things on the wireless front again. Your population coverage has stagnated at around 54% for the past few quarters. I understand certainly that you guys are spending capex. So I just wanted to hear your thoughts in terms of whether you are probably incrementally not expanding in terms of coverage or what has caused the population coverage to be around 54% for the past two to three quarters? Thanks a lot.

Anil Dhirubhai Ambani:

Okay. Thank you. Suresh, I think that as far as coverage is concerned, I think what I said on the call is that we expanded our capacity in GSM. You know in our circles we have gone to over 2,200 towns, and the fact that we are rolling out now nearly 20,000 towers in the coming year, would speak volumes about our capacity and our coverage going forward. So that is as far as capacity and coverage is concerned.

As far as risks are concerned, I think, for everybody who is participating in the telecom sector, the key raw material is spectrum. So timely availability of spectrum is important. And as I again mentioned in my comments that all the participants in the GSM sector are waiting for additional spectrum to be released. As far as our CDMA business is concerned, we have adequate spectrum in 800 MHz to continue our growth plans we have outlined for ourselves.

And if I look at Reliance specific risks, is what you are citing. They are more dovetailed with industry risks. I think the industry, and Reliance in specific, has shown the power of its execution. In the first 24 months of being in this business, we added 10 million customers. And in the next 18 months, we added 20 million customers. I think it speaks volumes about our ability to execute and convert opportunities into reality and into profitable financials.

So that is where I am. As far as topline revenue growth is concerned, I will now get Prakash to say a few words. Thank you.

S.P. Shukla:

Suresh, very perceptive question, thank you. Revenue growth always follows the subscriber growth. You would have seen that our subscriber growth has been picking up momentum in the previous 2-3 quarters. And most of the bundled offers result in giving free minutes initially. You will see revenue growth picking up and results will be visible very soon.

Anil Dhirubhai Ambani:

As you know, Suresh, that a lot of the new customers who come in are operating on bundled products, as Prakash mentioned, with incoming free or with free talk time for a few months. So as those free minutes really start disappearing, then you will see a revenue uptick. So we expect in the coming quarter, a higher revenue growth and going forward. I hope I have answered all your queries?

Suresh Mahadevan:

Yes. Thanks a lot.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Next in line we have Mr. Henry Cobbe from Nevsky. Please go ahead sir.

Henry Cobbe:

Hi there, it is Henry Cobbe from Nevsky Capital formerly known as Thames River Capital. And thank you very much for the call. I just wanted to confirm the Rs. 11,000 crores capex number you gave, whether that includes or excludes the FLAG project.

Second question, just on the net financial income, perhaps you could explain to us a bit what the gain was there. What part of the breakdown is under your interest income on cash or interest expense on debt. And what the gain on forex was, and why you have that forex exposure.

And thirdly, on the tax rates, perhaps you could give us some guidance for this year, next year. Where your tax rate is going to be, based on your current capex plans and other factors?

And the last two questions, first on the total number of employees as on March 2006 and December 2006 in the consolidated company. And lastly, comments on the impact of the roaming cuts announced by the regulator? And also on the proposal of the reduction in the ADC tax and how that may impact the margins on your mobile business? Do you expect them to be slightly reduced owing to those cuts in the next quarters? Thank you.

Anil Dhirubhai Ambani:

Thank you. That was a volley of questions.

Henry Cobbe:

I have got a few more.

Anil Dhirubhai Ambani:

I think as far as capex is concerned I will just reiterate what I have said. We are projecting a US\$2.5 billion capex for India-focused expansion across all our businesses. The US\$1.5 billion FLAG NGN is FLAG related capex, which is outside India.

So that puts clarity on those two numbers.

You speak about access deficit charges. A consultation paper has just been issued yesterday. And what I have seen and read from the regulator, TRAI, and I should say specifically from the regulator, it looks like they are quite consistent with their previous announcements that by March 2008 the sunset clause will be put into place and ADC will become zero.

So that is as far as ADC is concerned.

As far as roaming cuts are concerned, we are talking about a total impact for Reliance Communications, including our CDMA and our GSM businesses in the region of about \$5 million a year, and a much, much larger amount for other operators. But it is best that they comment on that.

As far as the total number of employees, we are talking about north of 40,000 people as we talk today.

As far as foreign exchange is concerned, we do not give those breakdowns. In any case, as far as the tax rate is concerned I think it is safe for us to assume and for you to assume that for March 2008, we will be at the minimum alternative tax levels, which are in the 11.5% type range.

Thank you.

Henry:

Okay. Thank you very much.

Operator:

Thank you, sir. Next in line we have Mr. Vivek Doval from Credit Suisse. Please go ahead, sir.

Vivek Doval:

Hello, there. I had just two very quick questions. First of all, just wanted to understand, you had actually applied for licenses in certain circles for GSM. I just wanted to know what the situation on that is, have you actually heard anything from the government? And second of all, just on your GSM capex strategy, in the event that you have to rollout your own network, what kind of capex increases do you actually foresee?

Anil Dhirubhai Ambani:

I think both are interesting observations. Let me take the second one first. As I have said that we are rolling out 20,000 new towers in the course of the year. We have rolled out in our GSM circles, which we are already about to complete, coverage to up to 2,200 towns. We have the advantage of co-locating our own electronics, that it is GSM or CDMA, on our own towers. In addition, we have now co-lo agreements with all the major operators and it is this combination that will give us the capital efficiency going forward.

As far as GSM spectrum is concerned, I already made it clear that all GSM operators are waiting for the next 20 MHz to be released going forward, and it is expected that that will be released over the next few months.

Vivek Doval:

Thank you.

Operator:

Thank you, sir. Next in line, we have Ronny Ganguly from Deutsche Bank. Please go ahead sir.

Ronny Ganguly:

Yes. Hi. Just a quick question on your IPTV launch. Could you tell us a little bit as to the planned timeline of your launch and little bit about the strategy, how many bookings you are looking at or you have tied up with any content providers and anything on that space?

Anil Dhirubhai Ambani:

Yes, I think that as I mentioned on the call, we are looking at the third quarter. And I think we will have a fuller update and a summary in the next quarter for you to get a better appreciation of our strategy towards cities, rollout, content, etc. So, give us another quarter and we will give you a better and fuller update.

Ronny Ganguly:

Sure. Thanks.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you. Next we have Mr. Sundeep Bihani from Lehman Brothers. Please go ahead, sir.

Sundeep Bihani:

Thank you, gentlemen, for the call, and congratulations on pretty strong EPS growth. I just have three questions. First of all, you mentioned in your MD&A that your CDMA network will see capex investments, as required, in a cost efficient way. Can I know how much of these 20,000 towers are more towards the CDMA angle?

The second thing is in terms of if you win the Hutch-Essar bid in that case what kind of capex savings from this US\$2.5 billion should we see? Alternatively, what are you building in here for the new GSM rollout in your non-GSM circles?

And third is on the taxes, you said its MAT level, 11.5%. In the first three quarters effective tax rate is in between 1 to 5%. So should we see a big jump in Q4 or am I missing something here.

Also any clarity on your proposed GDR issuance and sponsored listing would be helpful.

Anil Dhirubhai Ambani:

Thank you. I think let me take the last one first.

As far as the GDR offering is concerned, just to make it clear that what we are looking at is a sponsored program of existing stock. So there is no proposed new issuance in this sponsored offering. Also, let me also say that we have taken an enabling resolution for an FCCB issue and it is just an enabling resolution for us and then we can decide the timing of any such issue depending on our needs.

As far as MAT is concerned, I think I gave guidance that it will be fair to assume that the maximum rate of tax to be used in your consideration is the MAT rate. And based on our overall capex and the rules and regulations that are there under the tax law, if there is a possibility of being below that then that is fine. But for being conservative I would recommend that the maximum rate you would take is the MAT rate.

To talk about CDMA, GSM, Hutchison, coverage, capacity, let me repeat again what we are doing. We are rolling out 20,000 towers, which means we can co-locate CDMA and GSM electronics on the same tower. Second is that additional coverage and capacity is also available to us through our co-lo agreements with all the major operators. And third is that as far as the Hutchison transaction is concerned, clearly it will be inappropriate for me to put any numbers on the table. In any case, we believe that barring unforeseen circumstances, this issue should be resolved over the next few weeks.

Sundeep Bihani:

Thank you so much.

Operator:

Thank you, sir.

Shubham Majumdar:

Shubham Majumdar from Macquarie.

Operator:

Okay. Sir, go ahead with your question.

Shubham Majumdar:

Thanks for taking my question. Mr. Ambani and the team, I had three questions for you.

Anil Dhirubhai Ambani:

Go ahead.

Shubham Majumdar:

As far as GSM coverage is concerned, you did talk about the significant number of additions of new towers and expansion in GSM. Could you give us a sense of what percentage of the population is being covered of the GSM circles that you are present in after this expansion you talked about?

Anil Dhirubhai Ambani:

Our current view is that over the next few quarters, we would have the highest coverage that any GSM operator has in our circles, and we would go from 600 towns to 2,200. And from 2,200, we will go to nearly 4,000 in the next six months. If I look at it from a population perspective, any place that has 15,000 and more people would have service by us in our GSM circles.

Shubham Majumdar:

Okay. And in terms of the total capex allocation of US\$2.5 billion for Indian opportunities, can you just give us a breakdown by GSM, CDMA and broadband fixed-lines businesses?

Anil Dhirubhai Ambani:

Shubham, I wish I could do that. Then I would like to share with you village-by-village, city-by-city, business-by-business, but I am unable to do that.

Shubham Majumdar:

Okay. Sure. The other thing is on the Global business. As you look at your numbers, the growth on a quarter-on-quarter basis was 1.3%. And in the meanwhile, what has happened is the FALCON project was fully operational for three months in this quarter compared to one month possibly in the last quarter. And you have possibly seen significant increase in volume of NLD and ILD minutes on a quarter-on-quarter basis. So I mean we are missing something here, in terms of has there been any significant decline in revenue realization per minute on the voice business and what is the growth outlook going forward?

Anil Dhirubhai Ambani:

No. I think that we see robust growth opportunities. When we speak about our FALCON system being commissioned and operating one quarter ahead of schedule and US\$50 million below our projected cost we believe that you should look at the full FALCON capacity kicking in, in the coming year.

Shubham Majumdar:

Okay. And third was, you did mention about significant new co-location arrangements signed with six leading operators in India for the wireless business. What is the current occupancy ratio of your towers portfolio as a whole, if you could just give us some color?

Anil Dhirubhai Ambani:

Our towers have no other external tenants. So we have the ability and, I am just using a number, if we have 20,000 towers today, the only tenant on those towers is Reliance. So all those 20,000 towers are available to us to host other tenants.

In turn, we could effectively get to 20,000 corresponding co-lo towers from other operators.

Shubham Majumdar:

Okay. So would that mean that the co-location ratio on your towers portfolio will probably move up to two from one?

Anil Dhirubhai Ambani:

It could move from one to two, to three, to four depending on the location of the tower. Is it ground-based? Is it roof-based? What is the height, etc. But it will be fair to assume that we can easily scale up to at least one more external tenant without any problems.

Shubham Majumdar:

Okay. And my last question was on the individual cost elements, that is network opex and employee costs. We have seen on an absolute basis, costs being contained at similar levels over the last 2-3 quarters. Cost management has been very good. What is the kind of outlook going forward? Can you sustain margins at current levels?

Anil Dhirubhai Ambani:

I think as far as our cost position is concerned, we are committed to be cost competitive over lifecycles. The fact that we have been able to sustain it over a few quarters is a good enough indicator of what we can achieve and what our teams can achieve. And actually, it is left to the teams to sustain and further reduce our overall cost.

Shubham Majumdar:

Okay. Thank you.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Next in line, we have Ms. Priya Rohira from Enam Securities. Please go ahead, madam.

Priya Rohira:

Good evening to the management team. My first question relates to the transfer of towers. We know that the current 12,000 towers are likely to be transferred. Would it be possible to give the value of the same?

Anil Dhirubhai Ambani:

No. I think that we have just been through our shareholders' meeting on Saturday. The scheme is right now in the court and I believe that we will only talk about more details once the court process is over. And I do not want to breach anything in the legal process.

Priya Rohira:

I just want a clarification because in the EGM it was mentioned around Rs. 2,700 crores. So I just wanted to get an update whether there has been...

Anil Dhirubhai Ambani:

No. There is a self-explanatory statement in our notice to shareholders, which is reflecting a partial book value. But I would not want to be engaged into a valuation discussion.

Priya Rohira:

Okay. Sure. My second question relates to the ILD minutes. If you could have the break-up between transit and global calling cards.

Anil Dhirubhai Ambani:

Okay. Why don't we get one of our colleagues to talk to you separately and try to give you some more flavor around that?

Priya Rohira:

Sure. Thanks very much. Most of my other questions have been answered.

Anil Dhirubhai Ambani:

Thank you so much.

Operator:

Thank you. The next question comes from Mr. Rahul Singh from Citigroup. Please go ahead, sir.

Rahul Singh:

Hi, I had a question on tower sharing. Basically, I just wanted to understand... in your notice to the shareholders, you mentioned that you will decide on a reasonable rate, which the tower company will charge Reliance Communications or actually there is no obligation for the tower company to be charging anything. So I just wanted to understand, what, if any arrangements will there be. Will it be a totally arm's length relationship or will there be any discounts assuming that you will be anchor tenant and so on.

Anil Dhirubhai Ambani:

No. I think that it will be purely a commercial, arm's lengths relationship between the tower company and all its tenants including Reliance Communications or Reliance Telecom.

Rahul Singh:

Okay. And the follow-on question to this is, I have noticed that in the last two quarters the gross block on a quarter-to-quarter basis has been going up more than the capex for both the quarters. So, there seems to be some revaluation, which seems to be undertaken for possibly the passive infrastructure before sharing. Can we just get some details on the revaluations, because these are anyway part of the numbers, which you have given in the quarterly report?

Anil Dhirubhai Ambani:

Yes. So I will get Dan to talk to you separately and give you the specifics.

Rahul Singh:

Sure. Thanks.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Next in line we have Mr. Srinivas Rao from Deutsche Bank. Please go ahead, sir.

Srinivas Rao:

Srinivas here from Deutsche Bank. I have some questions on the EBITDA margin. Could we expect the current level of EBITDA margins in the Wireless and the Global business to be more or less sustainable or do you expect more competitive pressures in these businesses?

Anil Dhirubhai Ambani:

No. I think that, Srinivas, I do not give specific guidance on any specific number. But I think if you look at the ranges of our EBITDA margins, we think that those ranges are fair ranges to assume, going forward.

Srinivas Rao:

Thank you, sir. And I just want to clarify we are not looking at any equity issuance?

Anil Dhirubhai Ambani:

Well, I think I have made it clear that what was being considered or is being considered at an appropriate time is a secondary market sponsored offering of existing stock and a potential convertible, which is also being disclosed, at an opportune time if the need arises.

Srinivas Rao:

Thank you.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Next question comes from Rajeev Sharma from HSBC. Please go ahead, sir.

Rajeev Sharma:

Congrats on the set of numbers. I have just two quick questions. One is, do you have a backup plan in case you do not get the spectrum in the next six or nine months, because as you rightly said, spectrum will be allocated first to the existing guys, then the new guys? And second, will you be looking to an MVNO route if TRAI is permitting that? And does it change your Hutch Essar plans if MVNO comes in?

Anil Dhirubhai Ambani:

Okay. I think that MVNO is being discussed in the media. We will have to wait and watch how the regulators and the operators really try to do that. I think the current focus of the regulator as well as the DoT is trying to look at passive infrastructure and try to address the passive infrastructure issues. As far as our plan for spectrum delay is concerned, as all operators today in GSM wait for spectrum, what do they do to retain or maintain the quality of service? They just put additional capex, which is what all operators are doing right now.

So the backup plan is very simple. You do not stop growing and unless you want your quality of service to completely tank out, you just put additional capex. And that is the real backup plan. And I think that we also need to be clear that if the Government of India, the DoT wants 500 million customers to be using a mobile phone in the next few years, then the only catalyst for that is availability of spectrum and nothing else.

Also, I think that, I am sure you know the numbers better than me, that the telecom companies and the telecom sector is now a major revenue earner for the Ministry of Finance and the Government of India. So any propulsion in the telecom expansion is also good for the country in terms of revenue apart from the multiplier in the economic impact that it creates for the country.

Rajeev Sharma:

Just one follow-up question. You mentioned about your co-location agreements with six other telecom operators. Are they flexible, are the sites decided? And if they are, how many sites do you get with this co-location agreement which you have?

Anil Dhirubhai Ambani:

The general rule is that for every one site that you ask for, you give one, or you get one and you give one. That is the general rule. This is a pretty standard practice in the telecom space in India. A number of operators are already participating. For that matter, a number of the companies that I spoke about, we have already started co-locating our electronics on their network. So this is not a fairy tale story. This is reality. And the reality is already being displayed and executed.

Rajeev Sharma:

That means you have 12,000 towers, and you are getting 12,000 to 20,000...

Anil Dhirubhai Ambani:

I think there are operators who do not want to come on somebody else's towers. They just want people to come and be tenants on their towers. So there are two-prong approaches. One is, "You please come and be a tenant of my tower, I don't need anything from you except your money", which is a tenancy rental. Alternatively, the second option is, "I give you my 20 towers, you give me your 20 towers."

Rajeev Sharma:

Right. And does your capex number of US\$2.5 billion include any savings because you are forming a separate tower company and you are expected to have more tenants on that? And as you rightly said that this will reduce the capex for the wireless business.

Anil Dhirubhai Ambani:

No. I think that there will be capital efficiency and we also spoke about being arms' length. And all the stakeholders of Reliance Communications will be the stakeholders of Reliance Telecom Infrastructure and we have to be fair to all stakeholders.

Rajeev Sharma:

Thank you.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Once again, if you wish to ask a question, please press "star, one" on your telephone and wait for your name to be announced.

Anil Dhirubhai Ambani:

If there are any further questions... we will take one final last question. Otherwise I would like to thank everybody for being on this call and I look forward to see you again in April at the end of our fourth quarter results, and I look forward to your continued support. Thank you so much.

Operator:

Sir, we have one more question.

Anil Dhirubhai Ambani:

Okay. We will take it.

Operator:

Definitely. The question we have is from Vaibhav Doshi of Motilal Oswal Securities. Please go ahead.

Vaibhav Doshi:

Sir, just wanted to understand, you said that because of bundling of free minutes the ARPU has come down and that might start with the lag effect. But as a consequence, your MoU should have gone up. So I am just trying to understand this disconnect.

Anil Dhirubhai Ambani:

The minutes of use should have gone up.

Vaibhav Doshi:

Yes.

Anil Dhirubhai Ambani:

Is this the question? Prakash?

S. P. Shukla:

There are two different forces at play simultaneously.

One force is how can that you optimize your network utilization by curbing the usage of unlimited plans offered in the past. So we had said in previous two quarters' meetings also that we have been rebalancing our tariff plans to bring down the usage of older customers who - in the beginning when the network is empty, you get them to use more.

As time is passing on, we would like to generate revenues from the same minute by pricing them higher. Then we will have two forces running simultaneously.

Vaibhav Doshi:

When will this rationalization get over? I mean roughly in the next two quarters, three quarters...

S. P. Shukla:

It is a continuous process because people who came in 2005, you get them out in 2006, those who came in 2006, you want them out in 2007. So it is a continuous process.

Vaibhav Doshi:

Okay. Thank you.

Anil Dhirubhai Ambani:

Thank you so much. Thank you everybody and goodbye.

Operator:

Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect now.

END OF TRANSCRIPT