RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter Ended September 30, 2007

Conducted at 5 pm IST on November 1, 2007

Operator:

Thank you for standing by. And welcome to the Reliance Communications Global Earnings Conference Call on the Reliance Audio Conferencing Platform. This call is hosted by Morgan Stanley.

At this time, all participants are in a listen-only mode. There will be a presentation followed by 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. Vinay Jaising of Morgan Stanley. Over to you, sir.

Vinay Jaising:

Thank you. Good morning, afternoon or evening, ladies and gentlemen. We at Morgan Stanley are pleased to host this call for the second quarter results for Reliance Communications.

We would like to congratulate the Reliance Communications management on a fine set of results and a series of strong operational achievements during the quarter. Today, we have the entire senior management team from Reliance Communications, led by the Chairman Mr. Anil Dhirubhai Ambani and leaders of the company's strategic business units namely Mr. S. P. Shukla, who lead the Wireless division; Mr. Punit Garg, who leads Global Data including Flag Telecom; Mr. V. K. Aggarwal, who leads Global Voice; and Mr. George Varghese, who leads the Enterprise Broadband business.

The call will begin with some key observations from the Chairman and senior management of Reliance followed by a Q&A session. I would like to remind investors, as well as analysts, that the discussions may include some forward-looking statements that must be viewed in conjunction with the risk the company faces.

It is now my pleasure to hand over the call to Mr. Anil Dhirubhai Ambani. Thank you, again.

Anil Dhirubhai Ambani:

Thank you, Vinay. I thank all of you for taking the time to join us today and welcome you to this earnings call to discuss Reliance Communications' financial performance for the second quarter ended September 30, 2007.

To start with, I'd like to share our perspectives on the way forward for the Indian Telecom Sector. India is now the fastest growing telecoms market globally, adding subscribers at an annual run-rate of about 100 million. This rate of expansion far surpasses China, the largest telecom market in the world. We see the potential of significant and uninterrupted growth over several years that will connect hundreds of millions of people in both urban and rural India, in turn driving the ongoing economic development of our country.

We believe that the already impressive rate of growth could accelerate further, driven by increasing population coverage, greater affordability, reduction in network expansion costs, supportive Government policies, and many other favorable factors that are driving India and the market.

Reliance Communications is well positioned to participate in the growth opportunity, by creating the largest network in the country, bringing affordable handsets and voice, multimedia, e-mail, internet driven total connectivity to all Indians while maintaining the highest standards of service to deliver great customer value.

I will share with you some of the key developments for the quarter ended September 30, 2007. From both operational as well as financial perspectives we have maintained strong momentum, the recognition of which has resulted in the creation of ongoing and significant shareholder value by Reliance Communications during the last quarter.

As you may know, we have embarked upon the world's largest wireless network expansion that will add over 300 million more Indians to our coverage by the end of the current financial year and reach 23,000 towns and 600,000 villages in India. This is by far the widest, deepest coverage of any operator. Last quarter, we awarded our network deployment, upgradation and integration contract to Alcatel-Lucent and Huawei Technologies. The passive infrastructure rollout also continued in line with the plan and we are well positioned to create a network of over 40,000 multi-tenancy towers by the end of this financial year.

On the handsets side, we announced two key initiatives over the last quarter. We recently launched the Reliance Classic 732, the world's first lowest cost fully featured color handset for just Rs. 999 or US $25, yet again redefining the entry level pricing for mobile consumers by making color handsets more affordable than monochrome handsets. Reliance Classic handsets continue to set global benchmarks of affordability and customer value. For the record we have sold over 10 million Classic handsets.

At the high-end of the market, we have launched several innovative Blackberry wireless solutions, including the Blackberry 8830 World Edition smart phone that combines the data efficiency of CDMA with the ubiquitous connectivity of GSM. The Blackberry range also provides Bloomberg connectivity to subscribers for the first time in India on a CDMA platform.

These launches span across the entire mobility market, from the price sensitive value driven customer at the lowest end to the always connected global roamer at the highest-end and highlight the evolution of our handset strategy. We have maintained a substantial lead over the other operators who are just beginning to realize the importance of handsets in taking the complete value proposition to valued subscribers.

Turning to our Global business, taking forward the expansion of FLAG's next generation submarine cable network, we awarded turnkey supply contracts for building the four multi-terabit systems to Fujitsu of Japan. Upon completion of the NGN cable, FLAG will significantly extend its technology and network leadership in the global enterprise and institutional data services market. We expect that our planned undersea capex investments will be significantly financed from FLAG's operational cash flows and through pre-build commitments from customers.

I now turn to our financial performance during the second quarter of current fiscal year. Our revenues increased by 30% over the corresponding quarter last year to Rs. 4,579 crore or US $1.15 billion.

Our profitability continued to surge. EBITDA for the quarter, when compared to the corresponding quarter last year, expanded by 46% to Rs. 1,962 crore or close to US $494 million.

EBITDA margin increased from 38% to nearly 43%. This is the once again the highest for any telecom company in India. Our EBITDA margin on a net revenue basis is 54%, amongst the top 10 global telecom companies.

Our second quarter net profit recorded a remarkable increase of 86% to more than Rs. 1,305 crore or US $328 million. With this rapid expansion in profits, the return on net worth generated by Reliance Communications expanded to 37% in the second quarter, which has doubled over the last year.

We believe that the with the leverage of existing investments, that continue to drive growth across our integrated business model, Reliance Communications is positioned to further improve returns to drive value for all stakeholders.

We also expect to sustain our operating margins in the current range through our network expansion process. We are confident that even as we expand our network into rural India, we will continue to adhere by our principle of maintaining profitable growth.

I would like to highlight some of the key performance indictors that differentiate our business from other participants in the industry.

Revenue generated from each wireless subscriber, or ARPU, was lower by just 4% at Rs. 361 per month after remaining stable for the two preceding quarters. However, more importantly, net ARPU, a measure of retained revenues from each customer following payments of license fees, access charges and other related expenses, remained unchanged at Rs. 269. Our ARPU is now among the highest in the industry driven by innovative and unique customer propositions, including attractive talk time and handset bundles, as well as our unlimited talk plans.

Our revenue per minute of 74 paise from wireless customers also remained stable for yet another quarter. While other operators continue to see significantly lower revenues per minute every quarter, Reliance Communications has successfully maintained it in the range of 70 to 80 paise ever since this data point has been made available over the past two years.

I would also like to highlight a few key aspects of our balance sheet that provides a strong financial platform to drive accelerated business growth into the future. Our total asset base today stands at more than Rs. 48,000 crore or more than US$ 12 billion.

Our operating cash flow of about Rs. 8,000 crore or over US$ 2 billion and liquid assets of over Rs. 12,000 crore or over $3 billion in the balance sheet provide a significant resource pool for financing our aggressive growth plan.

During the second quarter this strong financial platform has enabled us to accelerate our capital expenditure to over Rs. 5,300 crore or more than US$ 1.3 billion in capex in this quarter, by far the largest commitment across any telecom operator in India.

With that, I will now request my colleagues to briefly update you on the progress made by each of our businesses this quarter. I will now hand over to my colleague Mr. Prakash Shukla, who leads our wireless business.

S. P. Shukla:

Thank you, Mr. Ambani. And good morning, good afternoon, good evening to all participants on this call.

I will now cover quarterly performance for our wireless business, which provides services in 23 circles across the country on CDMA as well as GSM platforms. Our portfolio of services includes wireless mobile voice, mobile internet, fixed wireless, wireless PCOs and rural telephony.

Our wireless revenues in the quarter ended September 30, 2007 have increased by 10.4% over the previous quarter. During the same period EBITDA has also shown robust increase from Rs. 13.4 billion to Rs. 14.9 billion, that is from US $330 million to US $374 million.

During the quarter we added almost 4.5 million wireless subscribers, which is 18.4% share of industry net additions. There are six circles, as you know, where we operate both CDMA and GSM services. In these circles our share of net adds was more than 30%.

As you are aware, Reliance is the only operator which offers an integrated package of handsets and talk time bundles to its customers. During the quarter ended 30th September, we have taken actions on both tariffs and handsets front to further optimize our capacity utilization and subscriber mix.

In Q1, we had initiated the process of rationalizing the free talk time bundles, which were offered at the time of customer acquisition. The capacity freed-up from this rationalization was monetized through the re-launch of our path-breaking unlimited talk time tariff plans. For a monthly fee of Rs. 399, our customers can speak Reliance to Reliance free for 24 hours a day, seven days a week and 30 days a month. ARPU from these customers is actually even higher because they top up their recharge vouchers over and above the commitment of Rs. 399, which they make while taking up this offer.

Our proprietary handset brand Classic continues to be the No. 1 operator owned brand in the country with overall second position on market share. After the tremendous success of our monochrome offers at the Rs. 777 price point in Q1, we have focused on our color range in Q2. The objective of this strategy, as mentioned by Mr. Ambani earlier, is to acquire better quality customers and stabilize ARPU trends.

Similarly, in our GSM service, we have recently introduced both Classic color and Classic color FM radio handsets. Response has been very encouraging. We are confident that this will become yet another marketing tool to leverage our efficiencies in standardization and large sale procurement to enable strong market growth.

The data capability of our CDMA wireless service is well known. Leveraging this unique capability, we were the first operator to launch data cards in India, which enable mobile internet on laptops. During the last quarter, we have made another initiative through the launch of a very sleek and compact USB modem at a unique price point of Rs. 2,890. This product has done exceedingly well with bookings running ahead of the availability of stocks in several cities. The product is well established in the market now and offers high ARPU potential and most customers opt for tariff plans with monthly commitment of more than Rs. 400.

As you know, our network coverage expansion continues at a fast pace. We are confident of becoming the first operator to achieve seamless coverage across the country with Reliance mobile wireless signal available in all 23,000 towns with a population of over 5,000.

We remain the best-placed operator in terms of coverage, economies of scale and synergies between CDMA and GSM to offer the best products and services to all segments of the wireless market.

I would now like to hand over to my colleague, Mr. Punit Garg.

Punit Garg:

Thank you, Mr. Shukla. Greetings from the Global Business, ladies and gentlemen. I would like to provide an overview of RCOM Global and FLAG Business.

In this quarter, the total value of contracts signed was Rs. 327 crores or US$ 82 million. This compares with Rs. 127 crores or US$ 33 million in first quarter.

Network services that include IPLC, IP Transit, Global Ethernet and VPN, as well as Value Added Services that include Managed Network Services contributed 56% of the contract value in the second quarter on an annualized basis. This compares with 42% contribution in the first quarter.

Capacity services contributed 44% of the annualized contract value at Rs. 126 crores or US$32 million in second quarter. The major customers for capacity services during the quarter included China Telecom, Verizon, British Telecom, Hanaro Telecom of Korea and Telecom Italia with aggregate contract value of over US$ 30 million.

We continue to demonstrate our leadership in Ethernet services. We won a major order from CERN, the European Organization for Nuclear Research to provide 1-gigabyte ethernet connectivity between CERN Research Center in Geneva and Tata Institute of Fundamental Research in Mumbai. This win demonstrates FLAG's capabilities in global Ethernet and validates global Ethernet as the preferred means of international data communication.

We are leveraging our global connectivity and network management expertise to build a Managed Network Services business as part of our Value Added Services portfolio. We signed a three year contract with GlassHouse to establish and manage Managed Operations Center Services out of India. GlassHouse is one of the largest vendor-independent Professional Storage Services companies providing Managed Storage directly to enterprise customers such as BP, Johnson & Johnson and several others.

We are expanding our network coverage for Connectivity Services. We signed a global partnership agreement with Vanco, one of the world's largest Virtual Network Operators that provides advanced connectivity services in over 230 countries. Vanco will sell connectivity to the Middle East, India and Asia on the FLAG network, whereas FLAG, Yipes and RCOM will gain access to 230 countries in which Vanco operates.

We continue to expand our connectivity services business in the Middle East leveraging our FALCON cable system. In the second quarter, we became the first and only service provider in Bahrain to provide IP Transit directly out of a port in Bahrain.

We are also rolling out our virtual points of presence in other FLAG and FALCON landing countries. We signed an agreement with ITC, the challenger in Saudi Arabia to establish two virtual points of presence in Saudi Arabia. We signed a one-stop-shop agreement with Du, which is the challenger in UAE, to up-sell IPLC in UAE. We have also agreed to establish a virtual point of presence in Qatar with the incumbent Qatar Telecom, which is known as Qtel. FLAG is the only company with such deep network and service delivery capability in the Middle East. In addition to offering this full gamut of services to operators in the Middle East, we have aligned with the local telecom operators to sell co-branded FLAG products as channel partners to local enterprises in the Middle East.

FLAG has consistently moved up the AS, which is Autonomous Systems, ranking over the last eight quarters. From 43rd position in 2005, we have now come up to 16th position in global ranking. Excluding US traffic, FLAG is already among the top five Global Internet traffic carriers. We plan to be ranked among the top 10 in the AS ranking, including carriage of US internet transit traffic, soon.

We are also emerging as one of the major carriers of internet content from the Middle East, China and SAARC countries and we intend to maintain our edge in providing connectivity to 'underserved' and 'underleveraged' regions of the world.

During the last quarter, we awarded a turnkey contract to Fujitsu for the construction of the FLAG Next Generation Network cable system. This initially comprises of build of two systems: the Mediterranean system between Egypt and France with nine landings and addressable GDP of US$ 4.7 trillion and the Asia System between India, Thailand and Hong Kong with eight landings and addressable GDP of US$ 1.9 trillion. Contracts for the Trans-Pacific and Africa Cable Systems are being finalized and would be announced shortly.

We plan to fund the project primarily through pre-build commitments from customers who purchase capacity on these systems. We have initiated discussions with target customers and have obtained encouraging response.

The Yipes transaction closure process is progressing as per schedule. We expect this to be completed in this quarter and definitely by mid-December 2007.

The final hearing on the VSNL arbitration, wherein FLAG has filed a damage claim of US$ 385 million, is underway from 30^{th} October to 10^{th} November, 2007.

I would like to conclude that we are very excited about the market opportunities available to us based on our horizontal expansion into new territories, vertical expansion involving new virtual points of presence in the Middle East, expanding network and strong contribution for value added services.

I am sure you agree that this makes us a unique play on the exponential growth of digital applications and content distribution spanning developed and emerging markets.

Thank you. Now I will hand over to Mr. V. K. Aggarwal.

V. K. Aggarwal:

Thank you Punit and hello everyone. I will give an overview of the Global Voice business. As you know, the Global Voice business comprises the international voice business as well as the national long distance business, both voice and data.

We maintained good performance in this quarter. Despite the competition, we were able to maintain our customer base and leading market share in both wholesale and retail segments.

International long distance minutes showed growth of 24%, compared to Q2 last year, increasing to 1.7 billion minutes during the quarter. National long distance minutes grew by 35% over Q2 last year to 5.9 billion minutes.

Despite the strong rupee, our international voice business delivered healthy performance with strong traffic growth in both wholesale and retail. The Reliance India Call business improved its price realization.

As you may be aware, we have a large base of international retail customers, who use our Reliance India Call and Reliance Global Call services. The customer base crossed the 1.3 million mark during the quarter. Despite growing competition, you will be happy to note that Reliance India Call remains the 1^{st} choice in the US for calling into India, with over 40% market share.

We continue to expand into new geographies and added more services to the portfolio. We have taken our services to Hong Kong and will be expanding into more countries in Asia-Pac, which have a higher community of interest with India.

On our retail platform, we also launched 'Reliance Passport' range of services for international travelers from India. Our calling card offers savings up to 90% with the convenience of buying before flying.

We continue to launch new services that are higher up the value chain, to improve our revenue mix from retail and enterprise customers globally. This gives us sustained captive traffic and enables us to meet competitive challenges.

We are now providing voice services on IP, a cost effective solution for medium and large call centers. We launched our Disaster Recovery Service for Call Centers available for the 1st time in India. Major international contact center customers like Accenture and Citibank have already contracted with us for these services.

A substantial long distance network and long standing carrier relationships are the key strengths of our business. We also have the highest number of interconnections with other networks that helps us provide good quality at competitive prices by maximizing carriage of traffic on our own domestic and international networks. In this regard, the expansion of our pan-India optical fibre network to 130,000 route kilometers is expected to further augment our capabilities.

To summarize, we will continue to expand our International Retail Voice business to new geographies and add more services. We will also aggressively expand the International Hubbing voice business. We will increase NLD traffic carriage by focusing on new players in this segment, providing us the opportunity to sell infrastructure and bandwidth.

I will now hand over to my colleague, Mr. George Varghese.

George Varghese:

Thank you VK, and good day to all participants. Let me now briefly take you through the second quarter performance of the Broadband segment of our Enterprise business.

It has been yet another successful quarter of high growth. We maintained our position as the most preferred Premier Integrated Solutions provider for top enterprises and also maintained our leadership position in voice and data networking solutions and managed internet data center products.

We registered the highest ever order booking in any quarter so far of Rs. 3.5 billion or roughly US$ 87 million. Our customers continued to strongly endorse the quality of our services, range of products and service levels. This is evident from the fact that 37% of our new orders by value came from existing customers.

In this quarter, we added names like Eureka Forbes, HT Media, Fullerton India, Adventity BPO, Asianet Satcom, Texas Instruments, Symbiotic, Global e-services and State Governments of Gujarat and Uttaranchal to our client list.

Under the e-governance segment we have won projects for setting up 1,504 rural multimedia kiosks in Gujarat and 2,098 in Uttaranchal to provide internet and e-governance applications to the rural masses in these states.

Our WiMax deployments in Pune and Bangalore have evinced large demand for the Premier Internet Package and Integrated Business Internet Package from the SMB segment. Our WiMax network provides wireline-like broadband speed and high level of reliability, resulting in growing customer satisfaction. We are now ready to deploy WiMax in Mumbai and Delhi. In less than a quarter, we have acquired more that 10,000 customers through WiMax deployment and now expect to repeat our success in Mumbai and Delhi.

Our building connectivity program in the premium residential neighborhoods is also catching pace. Despite the monsoon related interruptions, we connected 72,500 new buildings this quarter taking the cumulative number to 666,000 buildings. We are extending IP-centric metro gigabit Ethernet based last mile to all new buildings we connect so as to enable us provide unique multi-play offerings to the residential segments, including high speed secure internet, building/society intercom systems, home Wi-Fi systems, video surveillance applications and, of course, upcoming IPTV and HDTV services which are fully interactive real time video services.

On the IPTV front, we have finalized our technology partner. We are in the process of completing formalities and will be announcing this path breaking initiative shortly. We are in the final stages of preparing the platform with integrated BSS-OSS systems to launch IPTV services before the end of this year.

Similarly, the DTH platform will also be ready for launch of services before the end of this year. We are in the process of finalizing content agreements with national and international content providers.

Coming now to the financial performance of this quarter, the Enterprise segment of Broadband continues to be our fastest growing business. Revenues in the current quarter grew by 14% over the previous quarter to Rs. 4.37 billion. Our EBITDA grew by 14.5% over the previous quarter to Rs. 2.1 billion, reflecting the quality of revenue generated from our Enterprise business.

I will now hand it to Arvind.

Arvind Narang:

Thanks, George. We will now open the call to questions and answers. As you know, time is limited and we request you to focus on key strategic and business issues. We also request each participant to ask not more than two questions and to provide an opportunity for all participants to interact with the management. If there are detailed financial questions, I will be happy to answer those separately and please feel free to call me after the earnings call.

Moderator can we take the first question please.

Operator:

We have our first question from Mr. Sundeep Bihani from Lehman Brothers please go ahead, sir.

There is no response. I will take on the next question.

Next in line, we have Mr. Shubham Majumder from Macquarie Securities. Please go ahead, sir.

Shubham Majumder:

Thanks for the opportunity to ask questions. I have two questions. One is that Vodafone Essar has been adding higher customers than Reliance Communications for each of the last six months. The marketshare differential between RCOM and Vodafone is now at just 30 basis points on an All-India basis. When do you think we will see a significant increase in monthly net additions and the potential upside in market share of net adds, the consequence of the sharp increase in coverage that you are rolling out at this point in time? That's my first question.

And my second question is, what is the reason for a sharp increase of 18% quarter-on-quarter in inter segment eliminations to Rs. 10.1 billion, from Rs. 8.55 billion in June. You can throw some color on that?

Along with another financial question, which is that the sharp decline in SG&A cost as a percentage of revenues having fallen by about 270 basis points quarter-on-quarter to 16.8%. It was down 8% quarter-on-quarter in absolute terms as well. Is that sustainable at the SG&A line?

Anil Dhirubhai Ambani:

Shubham, your financial queries will be taken off-line by Arvind. Your question on the impact of customer net adds with the rollout. You answered actually the question yourself. As we complete our rollout and we expand our coverage and our capacity on a nationwide basis, clearly you will see stronger momentum in the coming months going forward and we will expand our market share in the coming quarter.

Shubham Majumder:

Okay. Thank you.

Operator:

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

Henry Cobbe:

Henry Cobbe from Nevsky Capital. Thank you very much for the call. And my question is on the GSM rollouts. How much of the GSM network have you already began to deploy because I just notice that in your balance sheet the construction in progress is now about Rs. 79 billion which means most of your capex is going into the construction in progress. So you haven't begun to depreciate these assets, which implies that they haven't begun to be utilized yet, which implies that this probably is GSM capex. So could you update us about this construction in progress, when you start depreciating it and what impact that will have on your depreciation expense?

And my second question is that I heard reports that Rs. 1.7 billion of your mobile revenue was actually a refund from the TDSAT and one-off in nature. Could you perhaps provide us more information about this?

Anil Dhirubhai Ambani:

As far as the TDSAT returns are concerned, it is accounted for in our revenues and that's over payment that was made in terms of what all the operators were being charged for in terms of the AGR calculations and the regulator, the appellate authority, ruled and I think all the operators have got their levels of return.

As far as GSM roll out is concerned I am sure you are familiar that in eight different circles in India, we operate both GSM and CDMA so naturally the GSM rollout is full steam ahead in those circles in line with our CDMA roll out. In the rest of India, naturally we are rolling out CDMA. As we move forward and as we get all the appropriate approvals, then the nationwide GSM capex will start only after that.

Henry Cobbe:

Could you just explain what the construction in progress is because it's about one-fifth of your total gross fixed assets whereas the industry average is usually like 3-4%?

Anil Dhirubhai Ambani:

You are categorizing the entire capex as the capex for mobility, which is not really true. As you know, we are an integrated company, we have several businesses so this is the gross capital work-in-progress for the entire company. This is not for the mobility business.

Henry Cobbe:

All right. Okay so this is more or less through FLAG, is it?

Anil Dhirubhai Ambani:

No, we have got our Enterprise business, we have got our Home business, we have got our International business, our FLAG business and our Wireless business.

Henry Cobbe:

So my question is, when does this get capitalized or get written up to book, and we start seeing depreciation expense increase.

Anil Dhirubhai Ambani:

As and when the assets are put to productive use, as soon as commercial production starts, depreciation would be charged.

Henry Cobbe:

Okay. Why is there such a delay in getting these assets utilized? What is the lead-time involved?

Anil Dhirubhai Ambani:

There is no delay at all. These are very large, different projects and you do not capitalize as you go along. When you complete the project and assets are put to productive use, then we will move forward.

Henry Cobbe:

Okay, and when will that be?

Anil Dhirubhai Ambani:

As and when the various projects start and if we talk about… one of my colleagues mentioned that the DTH project and the IPTV project will start at the end of the financial year. So the next year, naturally depreciation will be charged. I am just using this as an example.

Henry Cobbe:

Okay. Thank you very much.

Anil Dhirubhai Ambani:

Thank you.

Operator:

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

Srinivas Rao:

Sir, Srinivas here. Just wanted your thoughts on the attractiveness of your GSM rollout given the recent news flow on that sector. Probably the trade-off between CDMA and GSM becomes… Your view on how attractive it continuous to remain. That's my only question.

Anil Dhirubhai Ambani:

Srinivas, we are very, very clear that licenses are technology neutral. Customers buy products and services. And we still believe that we can create value by operating GSM and CDMA which is visible in our 8 Reliance Telecom circles where we are approaching pretty high market shares in excess of 35 to 40 percent.

Srinivas Rao:

Thank you, sir.

Operator:

Thank you Mr. Rao. Next question comes from Mr. Sundeep Bihani from Lehman Brothers.

Sundeep Bihani:

Thank you for the call. I just had two questions. First of all, what are your expectations on mobile number portability, when do you expect it to come, given that it would be a big positive for your GSM rollout.

Second is, any update on the various value unlocking initiatives whether it is FLAG, the BPO business or the Real Estate portion. Thank you.

Anil Dhirubhai Ambani:

Thank you, Sundeep. I think as far as we are concerned we support mobile number portability. We believe that the TRAI has recommended mobile number portability and we would expect this to be sooner than later because we think that it is in the overall interest of the growing number of more than 200 million mobile customers. That there is a critical mass, by which we can serve these mobile customers.

As far as the value unlocking initiatives are concerned, we had announced four of them. Reliance Telecom Infrastructure – you have already seen a 5% placement and on the three other initiatives which is SEZ, our BPO activity as well as the FLAG initiative, all this is work-in-progress and I am sure that as and when in the near term we have news to share with you, we will share it with you. But I think it is going to be sooner than later.

Sundeep Bihani:

Thank you.

Operator:

Thank you, We have a follow up question from Mr. Shubham Majumder from Macquarie Securities. Please go ahead, sir.

Shubham Majumder:

Thank you for the opportunity. I just wanted to have some color on the average revenue per user and minutes of use numbers. Its not really financial numbers that I am asking about but if you had to take out the Rs. 1.67 billion refund that you have got from TDSAT and you had to look at the ARPU numbers which is basically the core operational numbers which will be sustainable going forward, you would see that the ARPU number is essentially down significantly quarter-on-quarter by about 6 to 7% and minutes of use are also down a little more than expectations. And this is something that is a recurrent theme across the sector. In other competitor results also we have seen this thing play out. Is there a fundamental worry on the minutes of use structurally weakening in the sector and are we hitting a cap? And what are your thoughts on MoU and ARPU trends going forward, more a sort of structural thing across the industry.

Anil Dhirubhai Ambani:

I think Shubham your question is aimed more at... as you go from 200 million customers to 500 million customers and you look at first time mobile users you are likely to see in the short term a lower MOU because he is a first time mobile user, he has never used it and over the medium term to long term as he uses the product he is going to increase his MOU.

Second is, from our perspective, as we have just recently started launching, in various circles, unlimited calling, we will see over the next few quarters the MOU will rise as the critical mass of customers commit. This is like the surge we had when suddenly the industry announced lifetime plans and we saw huge a surge in customer base.

So I think these are trends that are important for us to monitor and you have rightly picked on both these themes and I think that the whole of the industry will be, in our view, looking at higher MOUs in the medium to long-term, not in the immediate short run, but it ultimately will depend on products and services.

Shubham Majumder:

So do we read that as pressure continuing in the immediate short-term – over the next couple of quarters – on MOUs, and there is likely to be an expansion in the medium to long-term.

Anil Dhirubhai Ambani:

I think it is critically linked with network rollout and it is also linked with what sort of bundling schemes we do between handsets and talk time.

Shubham Majumder:

And just a very small follow-up, you just mentioned about on-net free calling plans that you launched, re-launched in your circles in a new avatar in the recent quarter, and in the earlier quarter you had phased out a lot of the low or no revenue generating schemes. So what is the difference between what you phased out and what you actually started doing, qualitatively?

Anil Dhirubhai Ambani:

I think that there are different packages and here if somebody is committing, I am just using this as an example, Rs. 399, which is maybe 30 to 50% higher in ARPU terms compared to a normal customer and if customers want to buy those packages... and ultimately this is a segmented market, a highly segmented market. So you are going to have various sizes of packages going on and we will have to keep an iterative process on by which we will keep adding and subtracting as we move along.

Shubham Majumder:

Thank you. Thank you so much.

Operator:

Thank you, Mr. Majumder. Next question we have from Suresh Mahadevan from UBS. Please go ahead, sir.

Suresh Mahadevan:

Yes. Good afternoon. Thanks a lot for the call. I have two quick questions. One is about your GSM strategy. Now that there is some visibility about the GSM spectrum I want to know how much will it cost to put up a GSM network to match the CDMA coverage? So that is question number one.

Second is, I wanted to take Mr. Ambani's take on what will happen, I mean, how do you see this whole spectrum situation resolving itself because there seems to be a fair amount of new flow as well as activity, both legal and TEC reports and things like that. So how do you view this situation resolving itself? Thanks a lot.

Anil Dhirubhai Ambani:

I think that as far as nationwide GSM costs are concerned, we have projected that our electronics cost will be over Rs. 5,000 crores and as and when we get spectrum and actually the rest of the cost in terms of passive infrastructure, transport infrastructure will be then be assembled together and then we will have a definitive number which we will communicate.

To the resolution of issues, I think that the process of spectrum allocation for start up purposes is pretty clear in terms of what start up spectrum we are eligible for. As you are familiar we've already paid the fee and our eligibility starts from the day that we have paid fees.

So we are waiting now in the queue for spectrum and people have waited for sometime to get spectrum and we are now in the queue. So, hopefully as the defense ministry releases their 20 megahertz, we believe that towards the end of this year, which is another 60 days from now, I think that in 2008 there will be enough spectrum that is available for operators.

Suresh Mahadevan:

Okay. Thanks a lot.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, Mr. Mahadevan. Next question comes from Sanjay Chawla from JPMorgan. Please go ahead, sir.

Sanjay Chawla:

Hi. Thank you for the call. I have two questions. One is, if you could provide some color on the growth in the number of towers and BTS's, specially the passive infrastructure deployment which has been done by RTIL?

And the second question is, now that you are going to be getting the GSM spectrum under the same UASL held by RCOM, is there any possibility of redemption of the preference shares, which are owned in Swan Telecom and Luxfield and these companies?

Anil Dhirubhai Ambani:

I think, Sanjay as far as the pref cap is concerned, those have already been redeemed, so that is out of the way. And as far as, the tower infrastructure is concerned and Reliance Telecom Infrastructure, I have already said this in my opening comments that we are on track to complete 40,000 towers plus and have the widest and deepest coverage which we believe we will come to conclude at the end of this financial year. They are multi tenanted so we will have the advantage of them not only locating CDMA electronics but also have the ability to post GSM electronics.

Sanjay Chawla:

Has there been any significant change in the number of towers, I mean, you have deployed… some indication?

Anil Dhirubhai Ambani:

We don't give month-by-month towers and BTS's, etcetera. As I said that we will have the widest and deepest coverage on a nationwide basis by the end of this financial year.

Sanjay Chawla:

Thank you very much.

Operator:

Thank you, Mr. Chawla. Next in line we have Mr. Yogesh Kirve from Anand Rathi. Please go ahead, sir.

Yogesh Kirve:

Yes. Hi. Thanks for taking my question. I have just one small question. It's regarding your Global business. RCOM has lined up an aggressive submarine build out plan. It also coincides with the network build out by some of the other operators, in some cases on the same route that you are targeting. I understand that Verizon is planning to build a Trans-Pacific cable while there was news regarding VSNL building intra-Asia cable. Just want to understand what the strategy is and how would pricing shape up a year down the line?

Punit Garg:

Thank you, Yogesh. When you look at our strategy vis-à-vis any other operator, it is pretty significant. When you look at it from our angle, we are the only private cable service provider across the globe which has significant presence in 60 countries today. When you look at anyone else, when you talk about Verizon and all, they are participating in consortium build basically to protect their own turf. When you talk about their Trans-Pacific build, it's a consortium build between the Chinese, Korean, Taiwanese and Americans to meet their own customer demand and it is not to meet the requirement of the industry.

When you see that VSNL is building their Asia cable, they already have capacity between Chennai and Singapore, and between Japan and US. They are trying to bridge the gap in what they have and that's again through consortium build.

So our stance is to meet the requirement of our customers today who are carriers, enterprises, content service providers and ISPs in the Middle East and Europe and fill up the strategic gaps in the Mediterranean region, in the African region, in the Asian region and Pacific. Thank you.

Operator:

Thank you, Mr. Yogesh. Next in line we have Mr. Atul from Tata Mutual Fund. Please go ahead, sir.

Atul:

Congratulations on a very good set of numbers. I have one question. As now we have visibility of GSM rollout, actually what kind of breakeven or EBIT period we can expect from for this new GSM rollout?

Anil Dhirubhai Ambani:

I don't think that we are sharing numbers on pay back periods and rates of return by business and by technology. We think that if you look at our EBITDA numbers and the sustainability of those numbers, they are self-explanatory in terms of what sort of rate of return we are shooting for.

Atul:

Okay. But sir, as we will get new subscribers from rural areas or hinterland, those subscribers will have low ARPU, so on that front what is the new GSM rollout looking at?

Anil Dhirubhai Ambani:

The new mobile customer who is coming in from the villages and the rural areas, is undoubtedly a lower ARPU customer so whether it is CDMA or GSM, frankly it makes very little difference.

Atul:

Okay.

Anil Dhirubhai Ambani:

Thank you.

Atul:

Thank you.

Operator:

Thank you. Next question we have from Mr. Rajiv Sharma from HSBC. Please go ahead sir.

Rajiv Sharma:

Thanks for the opportunity. I have just two sets of questions. First is, what is your longer term approach to the CDMA network, would you shut it down once you have critical mass on GSM or would you use it as a high end data kind of network and also if say tomorrow 3G is there would you upgrade via CDMA based 3G or via GSM based 3G. Which one or would you do both? Thanks a lot.

Anil Dhirubhai Ambani:

I think that we are very, very clear that our CDMA investments are here for the long-term. We will continue to operate both CDMA and GSM, we will segment markets, products and services to serve our various customers. So we believe that we'll be continuing operating both those platforms. As far as 3G is concerned, as soon as there is a 3G policy framework announced by the DOT, we can only respond at that stage.

Rajiv Sharma:

Okay. Just a follow-up on your on this CDMA question. You have handsets subsidy which goes in for the acquisition of a mobile customer on CDMA where as on GSM this handset subsidy element is not there. So in that case would you be positioning GSM for acquisition kind of network and what will be the positioning for the CDMA network?

Anil Dhirubhai Ambani:

We are operating, as I said earlier, in eight circles on GSM today. If you are not subsidizing handsets, you are subsidizing minutes. So it is very difficult for you to say that GSM operators don't subsidize their services. Ultimately it is the bundle of handset and minutes and as far as we are concerned we will aggressively pursue bundling of handsets and talk time when we enter the GSM space.

Rajiv Sharma:

But if that is the case than you'll miss the scale because your scale will shift between GSM and CDMA and already CDMA lacks scale because there are just 2-3 operators in India with CDMA. So in that case your handset subsidies might go up for CDMA subscribers.

Anil Dhirubhai Ambani:

As you know that we've brought down our handset prices from over $50 to $25, so we are conscious about the competitive challenges and I think we have more than adequately responded to those challenges.

Rajiv Sharma:

Okay. Thanks a lot.

Operator:

Thank you, Mr. Sharma. I have the last question from Mr. Anirudh Gangahar from Goldman Sachs. Please go ahead, sir.

Anirudh Gangahar:

Thank you. Two questions from my side. One is, is it a commercial arrangement now between RTIL and RCOM and do you have any other external tenants on your RTIL towers? That's question one, and secondly just to reconfirm the capex expectancy for the full year, is still US$ 4 billion?

Anil Dhirubhai Ambani:

Yes. The capex guidance remains the same and yes, we do have in selective circles other external tenants on RTIL towers apart from Reliance Communications and Reliance Telecom.

Anirudh Gangahar:

Thank you very much, sir.

Anil Dhirubhai Ambani:

Reliance Communications
Anil Dhirubhai Ambani Group

Thank you so much and I Look forward to talking to all of you again at the end of the third quarter.

Operator:

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