RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter Ended September 30, 2008

Conducted at 5 pm IST on October 31, 2008

Operator:

Thank you for standing by and welcome to the Reliance Communications Global Earning Conference Call on the Reliance Audio Conferencing platform. This call is hosted by Enam Securities. At this time, all the 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.

Now, I would like to hand the conference over to Ms. Priya Rohira of Enam Securities. Over to you, Ma'am.

Priya Rohira:

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

We would like to congratulate the Reliance Management on a strong financial and operating performance during the quarter. Today, we have the senior management team from Reliance Communications led by the Chairman, Mr. Anil Dhirubhai Ambani alongwith other colleagues namely Mr. Satish Seth, Mr. S.P. Shukla, Mr. Punit Garg, Mr. George Varghese, Mr. Inder Bajaj, Mr. Arun Kapoor, Mr. Ramesh Venkat and Mr. Arvind Narang.

The call will begin with some key observations from the Chairman and Senior Management of Reliance Communications, followed by question-and-answer session. 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 hand over the call to Mr. Anil Ambani. Thank you.

Anil Dhirubhai Ambani:

Thank you. I welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the quarter ended September 30, 2008.

I'd like to start with a brief update on the Indian Telecom sector.

India with over 300 billion subscribers has emerged as the second largest wireless market in the world and now stands behind only China. India has been the top performing global telecom market, with consistently strong monthly net mobile subscriber additions that are now exceeding 9 million. Despite the downturn seen across global economies and tempering down of growth expectations in India, the telecom sector continues to deliver significant outperformance.

Adoption of wireless mobility services has been driven by ever more affordable handsets, lower calling rates, expanding network coverage, low base of mobile penetration and a supportive policy framework. In fact ongoing rationalization in the cost of mobility services has been the only source of some welcome relief to the common man in today's rising inflation environment.

As the benefits of affordable connectivity percolate deeper into the country as more and more Indians recognized the advantages of connectivity in their daily life, we at Reliance believe that the current growth momentum in the Indian telecom market is sustainable for the next many years.

Reliance Communications has a fully integrated and converged telecommunications service provider is best positioned to capture both existing and emerging growth opportunities in the Indian telecom sector. We have build unique cost advantages delivering our low cost telecom access model across one of the largest user bases worldwide to create one of the most profitable businesses globally with strong returns.

In addition to our strong presence in the Indian mobility space, we also have built a multi tenancy telecom infrastructure base that allows us to capture the emerging opportunity in this sector. The world's largest IP based network that allows significant participation in the rapidly growing demand for bandwidth globally. Our network and product portfolio that has allowed us to create a leadership position in the Enterprise IT and connectivity market in India, a capability we plan to extend to the rest of the world over the next few years and a strong presence within the emerging direct-to-home market in India. As we launched our direct-to-home services at the end of August and have already acquired half a million subscribers representing 40% incremental market share in less than 60 days of operation. This is the fastest ramp-up ever achieved by any DTH operator in the world.

We are also building sizeable presence in mobile value added services, internet data centers, consumer broadband and telecom retailing and several other related businesses. We believe that our fully integrated business model, operating on multiple growth drivers will allow us to expand value consistently over several years.

Our second quarter performance overview: At the close of the second quarter we had over 59 million customers including Globalcom, Enterprise and Home customers and over 56 million wireless subscribers.

In the second quarter, we acquired record 5.3 million wireless subscribers maintaining our position as amongst the Top 2 wireless operators in the country. We aim to improve our subscriber growth momentum over the coming months following the launch of our GSM services.

Covering our financial performance in the second quarter, our revenues expanded by 23% to Rs. 5,645 crores. Our EBITDA and profit after-tax grew by 17% to Rs. 2,302 crores and Rs. 1,531 crores respectively.

Our current margin of close to 41% incorporates significant coverage expansion in rural areas and lower margins in several recently instituted businesses that will deliver stronger contribution as we drive scale. Our expanded cost base also represents the infrastructure on which GSM services will be launched. I reiterate that going forward we aim to maintain our overall profitability benchmark in the same ranges as we broad based our businesses.

Discussing some of the key performance indicators, as far as our ARPU at Rs. 271 per month during Q2 was at Rs. 282 was stable. Our MOU per subscriber, per month was also stable at 423 as our multiple usage expansion initiative delivered good results and our revenue per minute were also stable at roughly 64 paisa.

I would also like to highlight a few key aspects of our balance sheet. We invested over Rs. 4,700 crores or over US$ 1 billion in the second quarter. Our total asset base now stands at over Rs. 73,000 crores or over US$ 15 billion. Despite this significant commitment over the last six quarters our net debt to equity is at 0.54:1. The current fiscal year represents the peak of our capex cycle. Going forward we expect a substantial reduction and a significant decline in our capex and our expanding our cash flows will fully cover our capital expenditure requirement.

In summary all our projects and expansion plans are on track and will be implemented on schedule or ahead of schedule. We will launch our GSM services in select major cities at the end of this year and then drive deeper coverage to complete our nationwide roll-out by the middle of 2009. Our network will certainly match and probably exceed the coverage of any other network in the country.

Reliance Globalcom NGN system, the first system in the Mediterranean region is making significant progress and will be completed on schedule by the second quarter of FY2009.

Our IDC expansion of over 1 million square feet remains on schedule for completion by the end of financial year 2010. This will make Reliance Communications a top three IDC services provider in the world.

Despite the current liquidity issues in the market, we have our funding requirements fully in place and our expansion plans are on track. We will finance our growth from 1) Our strong and expanding operating cash flow. 2) Existing approved lines of credit of long term project finance facility which is already in place of over US$ 1.5 billion which are available for us and 3) Our cash balance of over US$ 2 billion or over Rs. 8,000 crores that we have in the company.

Between these three we are fully protected and have all our financing in place.

With that I conclude my initial remarks and I request my colleague, Mr. Shukla, to talk about the wireless business.

S.P. Shukla:

Thank you Mr. Ambani, and good evening, good morning to all of you on this conference call. I would discuss a few highlights from last quarter covering our wireless business which has a subscriber base of 56 million, out of which 47 million are on CDMA platform and 9 million on GSM platform. During last quarter we added 5.3 million subscribers representing 18.6% of the industry net adds.

The July-September quarter has been a period of consolidation for us. We have further strengthened our position in the CDMA segment. Recently published ORG-GFK data on September shows that Reliance CDMA handsets have 60% of the market with just 30% with other players. Another 10% is held by operator neutral brands where again we have major share due to our market alliance programs.

Introduction of higher-end handsets including BlackBerry and HTC has been very well received by our high end customers who have been upgrading there devices and further improving there spend through increasing usage of new applications and data. This is also improving their stickiness on our network.

We have a unique product, FWP, in our portfolio which supplements our mobility range very well. While Post-paid Fixed Wireless has been popular in urban areas as a way of getting faster connection for homes and businesses, we have decided to focus on Prepaid FWP in rural areas. To make the selling proposition easier for the rural sales force, the tariff package was streamlined in last quarter to make it almost similar to mobile tariffing.

Lifetime offers were also introduce for our prepaid FWP customer to create simplicity of proposition for rural customers. Reliance has been a pioneer in the FWP segment and with these initiatives we are confident that we will maintain and strengthen our leadership position.

To further leverage the strength of our CDMA platform we have added to our data portfolio two new products; Prepaid BlackBerry and Prepaid Data Cards. Both of these products have received very enthusiastic response in the market from the customers who have a need for using mobile internet or mobile E-mail service, but do not have postpaid subscription available in their small town or the village where they reside. Similarly, even desktop users in semi-urban and rural areas will benefit from our prepaid wireless USB modems to access internet where wireline internet may be not available or is available may not be so reliable.

During the July-September quarter, we have commenced test launches of our GSM service in all 14 circles where we have received licenses. Major cities in these circles have already got excellent coverage, matching existing players. We are now working to spread the footprint in adjoining areas and those who have community of interest with the major cities.

To conclude, I would like to summarize our business outlook as follows:

One, our existing largely CDMA led business continues to drive revenue expansion with stable KPIs in line with our expectation and growth plans. These stable KPIs have been achieved in spite of our expansion into deep interior and smaller towns, villages of India.

Two, our GSM rollout is on schedule with commercial launches commencing by end of this year and to be concluded towards middle of next year.

Three, the cost base for our forthcoming GSM launch is largely reflected in our current wireless margins, which we expect to maintain at these levels even in future. Furthermore, the revenue upside from additional subscriber market share and additional revenue market share will kick in as soon as we launch our GSM services.

Fourth, entry into GSM segment will allow us to benefit from ecosystem of GSM handsets, broader spectrum of value added services, and inroaming revenue potential of visiting international tourist and business traffic. These are the obvious upsides which we will have after the launch of the GSM service, both on revenue and margin front.

And last but not the least, our increased coverage next year will allow us to take benefit of 2% USO fee reduction on our revenues outside the metros. This will straight away translate into corresponding margin increase.

We are fully geared to enter calendar 2009 with an enhanced product portfolio which offers compelling customer proposition across our range of mobility and fixed wireless products, both in voice and data, and on dual technology platforms.

Thank you. I now invite Mr. Punit Garg to take this forward on the call.

Punit Garg:

Thank you, Mr. Shukla. Greetings from Globalcom to our friends from different geography. Reliance Globalcom has now completed structuring its business under four core business segments of Data, Voice, WiMAX and NLD. We are in a unique position to deliver the most comprehensive range of global connectivity solutions to our customer base that includes 1,400 enterprise customers, 750 carrier partners, and over 2 million overseas retail customers.

Let's start with domestic front first. On the domestic front, the growth has been excellent. NLD voice traffic has grown by 22% quarter-on-quarter basis and 34% on year-on-year basis. We have signed agreements with three private service providers, Idea, Tata and Aircel, for NLD carriage of 1,100 million minutes per quarter. This means around 15 to 20% increase in our traffic, and incremental revenue of Rs. 100 crore per quarter.

With high margin on this traffic we would add almost 50% of EBDITA per quarter in our NLD business. We had very good quarter for international voice as well; the growth has been over 12% on quarter-on-quarter basis. We have maintained stability in margins through better rate management. Reliance Global Call maintains its leadership and growth in customer from all of the markets.

Our Data business continues to grow steadily in carrier space, as well as enterprises space. We have added Rs. 265 crore in new contracts with our existing client base, and we have added six new large clients in enterprise space with over Rs. 139 crore in new contracts. The new revenues will flow in network services and high margin services like IPLC and VPN.

Our new generation, submarine cable network is progressing as per schedule. In the Mediterranean region where we call our system as Hawk, the system will be operational in second quarter '09. We have already signed two new contracts over last quarter with revenues of Rs. 200 crore.

The integration of VANCO that we initiated in July 2008 is on the verge of completion. We have optimized headcount in VANCO from 930 to around 700. We have operationalized our global service center in DAKC, Navi Mumbai, to support the enterprise customers. We are off-shoring back office functions to DAKC without compromising the customer experience. Our efforts are driving higher synergies across Reliance Communications businesses.

On WiMAX front, Reliance WiMAX world is pursuing licenses in emerging markets and we would start rolling out services in the quarters to come.

Before I conclude, I would like to highlight that Reliance Globalcom's Q2 financials have two additional elements to make it comparable with the proceeding quarters. Firstly, the full quarter consolidation with VANCO, other the financials also incorporates gain from the final settlement of arbitration proceeding against Tata Communications. The gain from arbitration income is offset with excess expense over income from VANCO.

VANCO is on track for cash breakeven by end of current fiscal year. Reliance Globalcom is set to make entry this year in Gartner's Magic Quadrant. Reliance Globalcom is likely to appear in the leadership quadrant along with BT, Verzion and France Telecom.

Going forward we expect strong growth across every segment of Reliance Globalcom's business and expect margin expansion of about 2% percentage points in each of the next two quarters as our initiatives deliver results.

Thank. Now I invite Mr. Varghese.

George Varghese:

Thanks Punit. And my greetings to all participants. Let me now briefly take you through the second quarter performance of our Enterprise business.

We are pleased to announce that Enterprise business continues to maintain the consistent quarter-on-quarter growth that we have been showing. This quarter also we have maintained a 7.5% growth. We maintained the position as the most preferred premium integrated solution provider for top enterprises in this quarter also.

We continue to maintain market leadership in voice and data networking solutions and manage internet datacenter products. During the quarter, we booked more than 12,500 new orders amounting to Rs. 428 crores, a growth of 23% in value terms over the corresponding quarter.

Our customers continue to strongly endorse the quality of our services, range of product and service level as it is evident from the Customer Satisfaction Index of more than 8 on a 10 point scale and repeat business of 41% from our existing customers. In this quarter, our large new orders include names like Yahoo, Bennett Coleman, Cognizant, Bajaj Life Insurance, Next Retail, HDFC Securities, BSE, Sharekhan, Syndicate Bank to name a few.

Our network connectivity program continues to grow, and during this quarter we added 36,000 new buildings taking the total connected neighborhood to 858,000 buildings. We are continuing to adopt a multiple prong strategy of fiber to building, LMDS, microwave and WiMAX. The launch of WiMAX in ten cities has given us the edge in terms of our ability to further extend reach to Enterprise customers and help us to launch new products like telecommute.

We today, have the highest range of products in the Enterprise business. During the quarter, we augmented a datacenter capacity by adding two new datacenters in Navi Mumbai and Chennai. These two new datacenters give us an additional capacity of 90,000 square feet, which will be enhanced further in the coming quarters. We are also in the process of planning and constructing new datacenters in Hyderabad, Mumbai and Delhi.

We expect to continue to maintain our market leadership in the IDC business. This will also help us in up selling our other products and thus increasing our share or wallet of the Enterprise customers.

Coming down to the financial performance of this quarter Enterprise segment continues to be one of our fastest growing businesses. Revenues in the current quarter grew by 7.5% over the previous quarter to Rs. 602 crores, our EBITDA grew by 8.3% of the previous quarter to Rs. 294 crores, reflecting the quality of revenue generated from our Enterprise business.

Thank you. I will now hand over to Inder Bajaj.

Inder Bajaj:

Thank you, George. A very good evening and a good morning to all of you on this conference call. I would update you on the overall business of our telecom infrastructure that is Reliance Infratel. Overall we have positive sentiment for the telecom infrastructure business in India and we are well poised to capture this for the needs of our anchor tenant which is Reliance Communications Wireless, as well as the external companies including the new companies.

A brief update in terms of some of the positive drivers which are positive for the telecom infrastructure business has been basically the growth in terms of the wireless subscribers being added at about 9 to 10 million a month. And particularly, the addition taking place in the rural and in the B and C category circles, which is leading to this growth.

Another big driver has been the competitive intensity which is expected to increase. Last year of each one of the circles had number of operators of about six operator is expected to go to about 11 to 12 with the awarding of licenses. In fact in about 14 to 15 circles, 4 to 5 key large players have been allocated the spectrum already.

The other positive drivers which have come from the positive regulatory framework the government has notified sharing of active infrastructure. There has been a huge amount of spectrum tightening which is positive for the telecom infrastructure industry, as well as the rollout obligations which are there on each one of these licenses.

Another big boost which is expected for the telecom infrastructure industry overall is in another few months, rollout or the commencement of services of 3G as well as for WiMAX.

With this I think the Reliance Infrastructure which is the Reliance Infratel arm is well posed to basically capture this opportunity. We have executed over about 25,000 towers in the last 15 months and we will be commissioning about 48,000 towers by the end of this year and going to another 6 to 7,000 towers by the middle of next year.

In fact these towers in our case have a tenancy capability of at least about 150,000 slots currently, going up to about over 200,000 slots, with us having developed these towers to take on the multi tenancies. If you look at the offerings that Reliance Infratel makes to each one of new companies or the external tenants, we offer the entire integrated value chain offers to each one of these new companies.

We are offering services as a Reliance Communications group, not only the passive infrastructure but also the active infrastructure, the bandwidth and the gadgets as well. As we are rolling out GSM services, our current tenancy is to the level of about 1.3x. And as we roll out the GSM services for our own internal capability we will be getting to a tenancy capability of about 1.7x with new companies as well as external tenants we are at advance stages on discussing with them on the entire value chain offers in terms of passive and active and we would be commencing these new companies being our tenants very soon.

In summary we are well poised to capture this opportunity and we would be looking at this opportunity in this, starting with this coming financial year. And we will report the separate financial results from the next financial year.

With this, I handover to Arun Kapoor.

Arun Kapoor:

Thanks Inder. Good morning afternoon and evening to all of you. We launched our BIG TV DTH service on 19th of August this year. This has been the biggest launch ever attempted in the industry anywhere. Within two months of launch we have a sales and service presence in over 6,500 towns and over 105,000 retail outlets.

This is by far the biggest sales and service network for any operator in India. And with the first 60 days of launch we have achieved 0.5 million subscribers, representing 40% of the incremental market share. This is perhaps the fastest ramp up achieved by any DTH operator anywhere in the world. We have also helped in expanding the market considerably which has doubled over the last three months in terms of monthly gross adds. Our product and service is highly differentiated in terms of content, technology, service and distribution as well as pricing.

On the content front we offer over 200 channels which is by far the largest offering within the industry. No one comes even close to it. We have 32 movie channels offering movies in english, hindi and six regional languages.

On the technology front, we are India's first pan-India MPEG4 operation. MPEG4 gives superior picture quality and also allows for better transponder utilization.

On the service and distribution front as I said earlier we are in 6,500 towns. And on pricing we are very competitive. We offer competitive pricing, but a superior customer proposition.

The performance of August and September is also strongly continuing into October. Going forward from the next financial year we will be reporting the home business financials separately.

With this, I hand over to Arvind Narang.

Arvind Narang:

Thank you Arun. We'll now open the call for Q&A. We request all of you to focus on key strategic and business issues. Please feel free to touch base if you need any further information or clarification on Q2 financial results. Moderator, can we take the first question please.

Question-and-answer session:

Operator:

Certainly, sir. Our first question comes from Mr. Shubham Majumder from Macquarie. Please go ahead sir.

Shubham Majumder:

Thank you, gentlemen. I have a few questions. I'll start with the capex guidance for fiscal '09 in rupees billion, given how much rupee has been volatile vis-à-vis the dollar? If you could just have a reiteration of the guidance for the full year of March '09 on the capex side and it still be wonderful if you could keep up the breakup by active and passive infrastructure for the Wireless side of the business? My second question would be the base station numbers that Reliance Communications wireless has at this point in time and how much they have grown in the last couple of quarters and what would be the population coverage of being in population at this point in time? Three would be if you could just, Inder could just give us a little more color as to how many towers exactly do you have at this point and are you in line for the target of 60,000 for March 2009 at the end of the year and whether you've signed any MSA with any telco operator till date ex-RCOM?

Arvind Narang:

Shubham, we have the capex guidance for this year which is US$ 6 billion or Rs. 30,000 crores. In fact, we had given the guidance as FY'08, FY'09 around Rs. 50,000 crores which stands today. We, every year, in January give the capex guidance and we are reviewing our capex numbers and we will provide the further guidance in January '09 as part of our regular capex guidance.

Inder Bajaj:

Okay, Shubham. As far as the other questions on the BTS population coverage and towers is concerned as I mentioned to you as we talk right now. We are at approximately about 40,000 towers and we have a tenancy, internal tenancy of about 1.3x. So that would tell you an idea in terms of the number of BTS because currently we have only the internal tenancy as such. On the population coverage, on the CDMA front which is where we have rolled out our nationally, right, we would be covering over about 85% in terms of the population which is being covered. On the towers, the specific questions that you asked to in terms of the number of towers as I mentioned in my opening remarks, we would be hitting at about 48,000 towers by the end of this financial year. I had another 7 to 8,000 towers by the mid of next year. Right. So that is as far as the numbers of towers which are concerned. As I mentioned to you, we are concentrating in terms of the tenancy capability and not only in terms of numbers of towers. Each one of our towers has the capability of currently over about 3.5x tenants per tower and can go up to even 4.0x at marginal cost and as far as agreements that we have signed, as we stopped right now, we haven't signed any agreement. We had an advanced talks with what you call as a multiple number of new operators right now. And we would be out looking in terms of commencing in a few months, the tenancy from the external tenants.

Shubham Majumder:

Inder you meant, fiscal year right. When you said 48,000 by the close of the year.

Inder Bajaj:

That's right.

Shubham Majumder:

Okay. I have couple more, if I am allowed to ask.

Inder Bajaj:

Yes.

Shubham Majumder:

I just wanted to know the DTH operations and home business, you haven't reported the metrics separately. Firstly, if you just could give us some numbers from this quarter for the short one and half months time from that have been operational and to which segment, out of the four or five segments that you report is the home business, DTH business is included in. That's the first question, secondly on the GSM launch, how much would the pre-operative expense and how much should be the uplift in opex, once that business really goes online. If you would just give us some color if not actual numbers and finally, if you could just give us the reason for the continued decline in access interconnect charges in your wireless business, which has been consistently going down and how much longer can it continue to go down from here? Thank you.

Arun Kapoor:

Shubham, on the DTH business financials have been reported under the others heading. We just launched. It should be less than two months. We are not reporting our financial separately. We will do that from the next financial year and you will get these figures going forward.

Arvind Narang:

Yeah. Shubham, on the IUC charge, basically the access charge have been coming down because of our onnet traffic which has been consistently going up. In addition, we have also opened up new PoIs which has also helped to reduce our payments to the third-party carriers or operators. And this has been the strategy to reduce our access charges on a quarter-on-quarter basis.

Shubham Majumder:

Thank you.

Arvind Narang:

Okay. Thank you.

Operator:

Thank you, sir. Next, in line, we have the question from Mr. G.V. Giri from IIFL Capital. Please go ahead.

G.V. Giri:

You've disclosed other income to the exchanges of about Rs. 509 crores. So just wanted to know, what is this made up of because it is quite a significant number.

Arvind Narang:

Other income includes our DTH business. It includes our Reliance Web World Services limited and other subsidiaries which are part of Reliance Communications.

G.V. Giri:

Okay. Thanks. Thank you.

Operator:

Thank you, sir. Next in line, we have a question from Mr. Andrew Hawkins from Nomura. Please go ahead.

Andrew Hawkins:

Hello. Good evening. Just one very simple question, please? Can you remind me how it is with net debt you approach positive net financial income. Thank you.

Arvind Narang:

Our finance charges basically comprises of interest income and expenses on the foreign exchange gain and losses including the foreign exchange gain on the bank balance.

Andrew Hawkins:

So its foreign exchange gains that is boosting that figure.

Arvind Narang:

It also includes some of the amounts receivable by foreign subsidiaries.

Andrew Hawkins:

Right. Thank you

Operator:

Thank you, sir. Next in line, we have a question from Mr. Anirudh Gangadhar from Goldman Sachs. Please go ahead, sir.

Anirudh Gangadhar:

Yeah. Thank you very much for the opportunity. Two questions, one you mentioned the USO benefit of 2%, how close are we in our preparedness by March end to get this for all circles under coverage? That's question one. And second question is, if you can probably give us the debt split between short term and long term and what is coming up for maturity in the next six months. Thank you.

S.P. Shukla:

To answer your first question, we are confident of achieving the laid down criteria so that we can avail of 2% USO fee reduction, just in time when it becomes applicable.

Anirudh Gangadhar:

Second question was if you can just give us the split up of the debt that you've shown on the balance sheet between short term and long term and what is coming up from maturity in the next six months.

Ramesh Venkat:

The majority of our debt is long term and all of it comes due for payment in 2011 and onwards. There is only a small portion of the debt in rupees which is short term and which is being refinanced in the normal course.

Anirudh Gangadhar:

Right, sir. And if you can just go back to Mr. Shukla's comment? You did, sir, mention that we'll be in time to get this benefit across the entire country?

S.P. Shukla:

That is right.

Anirudh Gangadhar:

Right. Thank you.

Operator:

Thank you, sir. Next, in line, we have a question from Mr. Rajiv Sharma from HSBC Securities. Please go ahead.

Rajiv Sharma:

Thanks for the opportunity. Just a couple of questions, employee cost have significantly moved to 8.1% this quarter that is one. Also if you can give a color on your network cost which is at 18.2% and where do you think that it will settle down. Also why should your GSM roll out should not be viewed as a quasi new entrant, except for your admin charges or your some of the existing infrastructure which you enjoy on CDMA. Most of your cost will be semi fixed. So your suggestions that you margins would be maintained going forward despite GSM entry, if you could explain your strategy behind that. Also in your cash flow statement, your capex is not getting reflected, if I am missing something out there. Fifth, with just 48,000 towers, can you expect roaming and access charges to be contained at these levels. Will you have to enter into new roaming arrangements with other operators because CDMA and GSM roaming compatibility is not there. And if you can give a color on your VANCO revenues for the next quarter and some margin improvement was suggested if that could be reiterated here? Thanks.

Arvind Narang:

Rajiv, the employee cost is in line with the growth in the business and also we have integrated the VANCO as Punit had mentioned in his speech into Reliance Globalcom and part of the Reliance Communications expenses that is the reason that the staff cost has gone up marginally. What was your second question?

Rajiv Sharma:

First, then was network cost which has moved to 18.2% which is a big move and that is the next question? I will go one by one then.

Arvind Narang:

As we are expanding and setting up the GSM network, the sites have increased significantly across the country. Typical P&L cost which are related to the site rental cost or the fuel cost and all that for our testing various sites across the country has already been initiated. So these are the costs, which has started incurring as part of our P&L. However, we feel that we should be able to maintain our margins in the wireless side even after launching the GSM services because we are already a nationwide wireless operator and most of the cost are common and we don't see any significant increase or the pressure on the P&L when we launched the GSM services.

Rajiv Sharma:

On your roaming access, do you think with 48,000 towers on countrywide basis, will that be sufficient to contain your roaming and you will not have to enter into arrangements for deeper coverages for your GSM subscribers which you have going forward?

S.P. Shukla:

As you said earlier, we are starting our launches towards the end of this year and concluding by middle of next year. So this is a window of few months during which we will be gradually completing our national coverage. We would also like to add that already in eight circles, we are operating GSM services which is one-third of India. So if only two-third of India, we are talking about in terms of geographical coverage. So therefore, we will not be needing any roaming help from others to enable our subscribers to get full service all over the geographical license area. In fact, the benefit which we are seeing is most of the international roaming traffic which comes into India that arrives in the major top 10 cities, which will become operational very soon and we will be able to actually participate in inroaming traffic of international tourist of business traveler which today we are not part taking.

Rajiv Sharma:

Okay. And my next question was on your cash flow statement where increase in gross block and CWIP is not getting reflected.

Arvind Narang:

Rajiv, what is the specific question?

Rajiv Sharma:

Okay. We can take that after the call. The other question is on your enterprise business, how much revenues now we can look forward from VANCO, Yipes separately, if you can give me some numbers. Also, you mentioned about your new agreement with Idea, Airtel and Tatas for Rs. 100 crores per quarter end, what is the margin guidance on that carrier side and on the VANCO side, what is the margin? And I was wondering why the Tatas have joined your segment given that they have their substantial existing capacities?

Punit Garg:

As I said, we are integrating our data business. So our data business would be in carrier and enterprise space later on, not as Vanco or Yipes separately but just to say that the revenue which we are expecting from our enterprise segment is in excess of Rs. 300 crore per quarter and now, I think we have the deepest penetration as far as NLD is concerned. Obviously, all the private service providers do see value where we are reaching and that's why they are joining us. And I think that is a reflection on what you have been questioning in past that why we have rolled out our network in so much depth and now you are seeing the dividends of that coming in. Thank you.

Rajiv Sharma:

Thanks a lot.

Operator:

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

Srinivas Rao:

Yeah. Thank you very much, ma'am. Sir, my question is broadly over the next two years, could you throw some light as to what are the level of revenue growth, you expect in your three big segments which is Globalcom, Wireless and domestic Enterprise. The context is as mentioned; you expect the capex to come down significantly over the next two years. So the fruits of whatever we have done in the last two years, what kind of growth can we expect based on that?

Arvind Narang:

Srini, we don't give the revenue guidance but if you look at historical data points of last two quarters, it can give you the quarterly growth, they would have been achieving.

Srinivas Rao:

Okay. Let me rephrase, I mean, can we expect the growth of the next two years to be materially higher than what has happened in the last FY'08 and what is happening in FY'09 across all business segments?

Arvind Narang:

It should be in line with the industry and we are launching the GSM services and as Mr. Shukla has already covered in his speech that there are various upsides which are going to be there as part of our wireless business expansion and we have already demonstrated significant growth in our existing CDMA business historically.

Srinivas Rao:

Thank you, sir.

Operator:

Thank you, sir. Next, in line, we have the question from Mr. Vinay Jaising from Morgan Stanley. Please go ahead, sir.

Vinay Jaising:

Thank you so much. I have three questions, firstly on the wireless business. We have seen the margin shrink by about 140 basis points this quarter. This is before the GSM launch which is expected by the end of the year. So in the quarter of Jan to March when we see the GSM launch, there could be a probability of even further margin cut. Why did the margins get eroded this quarter? that's my first question. The second question is in the global business. Punit, did explain to us that the next two quarters, we would see margin enhancement of 200 basis points per quarter but if you see the historic margins, they were north of 25%. Last quarter on the call, we were suggested there were some extraordinaries on VANCO acquisitions which got the margins down by 400 basis points but this quarter, again we have not seen any margin growth coming in at all. Any point out there, is this quarter also an abrasion? The third question is related to debt and Forex actually. If I just add the mark-to-market for your debt realized losses, unrealized losses and losses pertaining to FCCBs, it comes to about Rs. 23 billion or about US$ 460 million. Any plans to hedge that totally, so that the dollars neutral both to the assets and the liabilities? Thank you.

Ramesh Venkat:

To address the last question first, most of the in fact practically all of the foreign currency liabilities are long-term in nature and there are no significant repayments due in the next two to three years. Keeping that in view we have dynamic hedging policy and which we review from time-to-time. So as the market settles we'll take a call on this and see how we want to proceed for the next quarter.

Vinay Jaising:

To say, I mean, just to push this part of the question again. We've had a net interest income this quarter of about Rs. 2.4 bn very similar to next quarter and we have a net debt seems to be perplexing me; how do you we go forward looking at the future cost interest expenditures for this company? Thank you.

Punit Garg:

Okay. Your question about global business. You got to look at the the net EBITDA increase if you look at quarter-on-quarter basis there is a 12% increase though the numbers looks steady, but if you look at compare with the increase in revenue and in spite of that, there is a Rs. 40 crore of increase and when I say there would be 200 point basis there would be increase. We are seeing there, as you see the new contract signed in area of NLD or in data business and as these contracts are implemented and we are carrying the traffic we expect our margins to further improve and that is how with the increased revenue we would be able to deliver the increase profits as well. Thank you.

S.P. Shukla:

And coming to our question regarding wireless margins, essentially there are two parts, one largely our cost related to GSM expansion and rollout are already reflected in our P&L which you are seeing now; keeping that in view our margins have been very stable and all the revenue upside is yet to come which will be reflected from coming quarters onwards.

We look at participating in three distinct segments as a result of being in GSM ecosystem. One, access to wider range of GSM handsets and all the brands, which a customer wants to buy, two, value added service which are offered by large number of vendors in GSM and three, inroaming of international traveler which is a very large part of revenue today and we don't participate in that in any significant way.

Besides that we will be participating in 7 to 8 million of subscribers in the GSM segment, which is added every month. When you look at all these upsides keeping this perspective in mind we are confident that we will be able to maintain our margins at current level. Thank you.

Vinay Jaising:

Just pushing the previous question on the net debt we've seen a net finance charge income actually of Rs. 2.34 billion. Can you just throw some light on that considering we have net debt in the books? Thank you.

Arvind Narang:

Yeah, Vinay. We can have a discussion on that and we can explain to you how that number has been derived. It is similar in line with last quarter results and we can have a discussion on that.

Vinay Jaising:

Thank you.

Arvind Narang:

Okay.

Operator:

Yes, sir. Next in line we have a question from Mr. Tien Doe from GIC Company. Please go ahead sir.

Tien Doe:

Hi. Good evening. Thanks for the call. I just have one question, just on your cash flows. The operating cash flows in the past few quarters and in this quarter has been very volatile and this quarter there's a big working capital outflow again. In the past that's been explain to me as partly due to the capex rollout and advances to subcontractors particularly on the tower rollout. I just would have expected that working capital outflow to became an inflow, given that your capex is falling as well, there would be fewer advances to subcontractors. So what is causing that working capital outflow and when do you think your operating cash flow will reflect your earnings in a more meaningful way. At the moment you are almost zero on operating cash flow but Rs. 15 billion or so of net profit. When does the operating cash flows starts reflecting net profit figure.

Satish Seth:

As we complete the roll out of the project, you will see this is happening. So over a period of next two quarters to three quarters you will see all this happening. Thank you.

Tien Doe:

Okay. So in the next few quarters, we should see that operating cash flow being double, what your net profit figure is, that is the case with other Telco's.

Arvind Narang:

Just hold on. Can you just repeat to your last statement please?

Tien Doe:

I'm just saying, should we expect within the next two quarters and your operating cash flow will be meaningfully higher than your net profit figure, in the next couple of quarters?

Satish Seth:

On the net cash flows for the future we generally do not give any guidance. So my answer to your query on the working capital was that over a period of next three quarters as we complete our roll out this numbers will fall in place.

Tien Doe:

Okay. All right, thank you.

Operator:

Thank you, sir. Next online we have a question from Miss Reena Verma from Merrill Lynch. Please, go ahead.

Reena Verma:

Thank you very much for the call. Just a few quick questions to Ramesh, I have three questions one is on your FCCB redemption premium is that captured in your interest charges given that both the FCCB's are out of the money? My second question is your short term forex loan you said most of your loans are long term, but your annual report showed that nearly 50% of your borrowing was classified as short term. I suppose due in the next twelve months, can you please clarify if that has changed over the last few months? And the third question on finance is, there has been a lot of worry in the market and I'm sure this is not news to you about the movement in your CDS spreads, and can you just please in light of, just clarify what your borrowing cost is for the Forex debt that you said you have tied up as part of your additional requirement? My last question on operations is for Mr. Shukla, which is that you said part of your GSM rollout is already reflected in the P&L, despite this you have almost 35% of your gross block sitting in CWIP. Should we assume that is mostly for electronics or we are missing something please? Thank you.

Ramesh Venkat:

To take your first question, the accounting for FCCB is consistent with that in the last few quarters. So there is no change in the policy on accounting for FCCB's. On the second point related to short term versus long term. Nearly 70% of the total debt is foreign currency all of which is long term. Of the balance rupee debt, there is some short term. But that number is not large and that's what is reflected under amounts due within one year. As I said earlier this year we have no significant repayments, we have repayments at all of the foreign currency side before 2011 and no significant repayments on the rupee side. The third question on the CDS obviously CDS prices of all Indian corporates and banks have move irrationally the past two weeks and we don't think that is an accurate reflection of the cost of the company debt at all. Our borrowing costs are nowhere close to the current CDS market quotes, which we are seeing. In fact for the Rs. 1.5 billion long term lines, which we have already tied up. The cost is entirely inline with what was our borrowing cost prior to the market turmoil. As a very board guidance we can say that the total cost of these borrowing is less than LIBOR plus 2%, which is margin, plus fees, plus everything else together. So, which is very much inline with all our past borrowing. So, I don't think this CDS is having a direct impact on the borrowing cost at this point.

Reena Verma:

Thank you very much.

Operator:

Thank you, ma'am. Next inline we have a question from Mr. Sanjay Chawla from Anand Rathi securities. Please go ahead.

Sanjay Chawla:

Hi. Thanks for the call. I am sorry if I missed it earlier. If you could just clarify where exactly is the settlement amount received from Tata Communications is included in the P&L.

Punit Garg:

Rs. 91 crores. Other income in Global

Sanjay Chawla:

So global revenue almost Rs. 90 crore revenue increase due to the TCOM settlement amount out of the total increase of about Rs. 170 odd crores.

Punit Garg:

It is well, the way you have to look at what I have told you that we have offset this with the excess in expenses from income of VANCO. And this is not included in revenues but this is other income which is getting offset with VANCO currently.

Sanjay Chawla:

So this is you are basically saying this income or revenue has been offset against the cost. This included in the cost, adjusted against the cost and not included directly in the revenues. Is that correct?

Punit Garg:

I think Arvind can explain you more in offline about this.

Sanjay Chawla:

All right. Thank you very much.

Operator:

Thank you, sir. Next in line we have a follow up question from Mr. Shubham Majumder from Macquarie. Please go ahead sir.

Shubham Majumder:

Yeah. I just had a couple of follow-on questions. In terms of the revenue line how much is the revenues in this quarter from the new acquisitions that you have made over the last three or four quarters namely VANCO, eWave's and so on and so forth. Just so that we know how much is the organic growth and how much is the addition from the new acquisitions? And my second question is, given the growth slowdown in the economy and the inflationary pressures we are seeing some kind of compression in your VAS revenue as percent of total ARPU. You are the highest in the industry in terms of non-SMS, VAS revenues as a percentage of your ARPUs, are you seeing any softness compression in those numbers and going forward do you think the economy would warrant a compression in VAS revenue realisations?. And yeah I'll back with a follow on after you answer this.

S.P. Shukla:

Thank you, Shubham. When you look at percentages there are always two factors are playing, numerator and denominator. When we talk of economy there is always, we are looking at what APRU levels we are talking about. You will notice that our ARPUs have been fairly stable in spite of going into rural areas or smaller towns or deep interior of India, where natural wisdom says that perhaps users will be using less.

What does it reflect is that existing users who adopted mobility earlier. We have been increasing their usage and we have been increasing their revenue given to the operator, whereas new customers coming in are perhaps lower ARPU customers so it is the weighted average which you are seeing on the revenue.

When it comes to VAS, generally speaking pricing of VAS services has been very stable. So if particular service is priced at Rs 15, if a particular service is priced at Rs 30, those prices have remain unchanged. On the other hand voice on per minute basis has shown a declining trend for the industry as a whole. When you look at these two factors you will find that VAS as percentage of revenue which was your specific query that has remained fairly stable as a result of interplay of these variables, there is only decimal point changes from quarter-to-quarter sometimes upwards and sometimes downward. But overall trend has been very stable in last several quarters.

Shubham Majumadar:

Thank you.

S.P. Shukla:

Thank you.

Operator:

Thank you, sir. Next we have a follow-up question from Mr. Andrew Haskins from Nomura. Please go ahead.

Andrew Haskins:

Hello again there. Thank you. Two things please, firstly my understanding is that the 3G auction process is likely to start by the end of this year or perhaps in January and assuming that is the timetable and assuming of course that you participate, when would you expect to be launching 3G service. And secondly just to check something. I think you said earlier that about 30% of your debt is denominated in foreign currencies, could you just confirm that for me please and is that mostly U.S. dollars or what is it? Thank you.

Inder Bajaj:

Yeah. As far as 3G is concerned yes you're right. The process for commencement of the bidding to select the final bidders is on by the government. It is yet to be notified. As far as RCOM is concerned, yes we are examining the 3G part as a forward path in both CDMA and in GSM in terms of a path and we are examining at this point as far as how long we will take, I think the first stages in terms of participating in the bid and we are examining in terms of participating in that at this point of time.

Ramesh Venkat:

On your other question about two-thirds or about 65% of the debt is foreign currency and one-third is Indian rupees.

Andrew Haskins:

Sorry, thank you. And is that, can you say is that mainly U.S. dollars or can't you say.

Arvind Narang:

It's all in dollars.

Andrew Haskins:

All in dollars. Thank you very much.

Operator:

Thank you, sir. At this time there are no further questions.

Arvind Narang:

Thank you.

Operator:

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