



RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended December 31, 2009

Conducted at 2 pm IST on February 1, 2010

Operator:

Thank you for standing by and welcome to Reliance Communications' global earnings conference call on the Reliance Audio Conferencing platform.

This call is hosted by J M Financial.

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 *1 on your telephone. Please be advised, this conference is being recorded today.

Now, I would like to hand the conference over to Mr. Anirudh Gangahar of J M Financial, over to you sir.

Anirudh Gangahar:

Thank you. Good morning, afternoon or evening, ladies and gentlemen. We at J M Financial are pleased to host this call for the third quarter FY2010 results of Reliance Communications.

Today, we have the senior management from Reliance Communications led by Mr. Satish Seth alongwith other colleagues namely Mr. Syed Safawi, Mr. Punit Garg, Mr. George Varghese, Mr. Inder Bajaj, Mr. Sanjay Behl and Mr. Arvind Narang.

The call will begin with some key observations by Mr. Seth followed by a question-and-answer session. On behalf of the company, I must remind you that the overview and discussions today may include some forward-looking statements that must be viewed in conjunction with the risks that the company faces.

I hand over the call now to Mr. Satish Seth. Thank you.

Satish Seth:

Thank you, Anirudh.

At the outset, let me welcome all of you to this 'Earnings Call' of Reliance Communications to discuss the company's financial performance for the third quarter ended December 31st 2009.

The Indian Telecom Sector has been passing through challenging times. In this scenario, the ability to understand, strategize and meet the aspirations and expectations of customers and to maintain steady business underscores resiliency of Reliance Communications and its people.

Over the last few months, India has witnessed the aggressive entry of several new GSM operators. While on one hand, this has brought connectivity to several under-penetrated regions in India, this has also led to hyper and intense competition. With over-supply building up steadily, the prevailing tariffs, which are lowest in the world, may not be sustainable for several operators.

We continue to see irrational pricing and reduced pulse rates with effective rates of sub-1 paisa per second. These tariffs, combined with the use of multiple SIMs, continue to put downward pressure on Wireless ARPU, RPM, MoU and such other KPIs in the industry. Given the unsustainable business models, we expect to see consolidation in the industry in the next 12 -18 months.

In spite of the situation of hyper-competition in the industry, Reliance Communications was able to sustain its growth in the third quarter of the current financial year with fairly stable revenues and very marginal decline in the rate per minute, in spite of the deep tariff cuts across the board in the industry. We saw healthy growth in terms of the net subscriber additions in line with the industry. Minutes of usage showed a growth of 5.3%.

We also saw some bounce in the rural markets, post the delayed monsoon that impacted the second quarter, resulting in growing contribution from rural segments to subscriber additions.

The 'Simply Reliance' plan launched in October 2009 has been well-received by our subscribers and the market. As you may recall, Simply Reliance was initially offered with the '50 paise per minute' offering for any call anywhere in India. Subsequently, we expanded the portfolio by offering our subscribers the flexibility of usage depending on their requirement – of '1 paisa per second' or '1 rupee per call' tariffs. With the objective of attracting the young and "text savvy" GSM customers, we launched our 1 paisa per SMS pack, another first in the industry. While there has been a spate of hotchpotch reactions and me-too offerings from the competition, including the incumbent GSM operators, trying to replicate the 'Simply Reliance' plans – be it for roaming, SMS, etc., they have fallen short in terms of the transparency and simplicity and are nowhere close to the Simply Reliance plan.

RCOM's Simply Reliance initiative will continue to target:

1. The vastly ignored customer base of GSM incumbents – the postpaid customers! The objective is to churn these high usage and high ARPU customers with immense value and an unparalleled quality network experience. This initiative should position RCOM well in the wake of Mobile Number Portability.
2. The vast base of high-value, prepaid GSM customers who are traditionally mobile within the country and are saddled with monthly vouchers (popularly called rate cutters), in-roaming and out-roaming charges while travelling in the country.
3. The rural segment with the choice of tariff plans ranging from 1 paisa per sec to Re. 1 per call.
4. Lastly, the youth and "fancy" handset users, particularly GSM, who are text savvy with the aggressive SMS tariffs

The competitive pressures are expected to further intensify following the introduction of mobile number portability. In the coming quarters, the impact of competition is expected to go beyond the pre-paid segment into highly profitable post-paid market.

In such a scenario, being a fully integrated and converged telecommunications service provider, Reliance Communications is uniquely positioned as one of the leading operators in the country. We expect that with increasing traction from GSM and by aggressively expanding our product offerings, our presence in the wireless space will significantly enhance in the times to come.

Following the launch of our nationwide 3G-ready, EDGE GSM network last year, we have created significant capacity that will allow us to expand volumes in the medium term without any significant incremental investment. We expect additional minutes generated on our network to make a substantial contribution to profitability, thereby making our cost position most competitive in the industry.

Notwithstanding the increased competition, we have successfully acquired nearly 34 million subscribers between January and December 2009. That makes RCOM the fourth largest, single country wireless telecom operator globally with nearly 94 million subscribers.

Growth in the telecom sector in India has been pragmatically supported by government policies and regulatory framework. We believe that DoT will continue to allot spectrum up to the contracted value of 6.2 MHz based on the existing criteria of spectrum allocation forming part of the license agreement.

We are confident that the Government will continue to facilitate and further improve the level playing field, thereby enabling the industry to reduce its operating costs by providing clarity on the spectrum allocation roadmap. At the same time, clearly defining a conducive M&A policy would allow more efficient utilization of scarce spectrum resources over the longer term.

Mobile Number Portability is expected to be implemented nationwide by the end of this quarter. We strongly believe that MNP could be a game-changer in the Indian wireless space, more so in the high ARPU subscriber segments where churn rates remain low. MNP will soon give complete freedom of choice to the country's wireless users and create a level playing field for service providers. We look forward to delivering a unique and value-driven proposition to every wireless subscriber in the country.

In addition to our strong position in the wireless business, our integrated business model continues to deliver a significant proportion of revenues and profitability from other businesses. We have over 6 million retail non-wireless customers including long-distance calling customers in 8 countries, direct to home and broadband subscribers in India. Our corporate customer base now includes over 2,100 corporate relationships and 800 global, regional and domestic carrier relationships.

During the previous quarter, our long distance networks continued to see the fastest volume growth across the industry, up 23% q-on-q. In the Globalcom business, we have signed several large deals with global carrier and enterprise customers. This includes:

- an NLD IRU lease contract of Rs.210 crores with Aircel,
- new business of Rs. 170 crore in the wholesale data segment and
- 22 new enterprise accounts.

These achievements were made in a challenging business environment wherein:

- many customers migrated NLD traffic to their own networks,
- 13 service providers are offering their services in the hyper-competitive ILD voice market, resulting in significant pressure on price realizations and
- revenues were impacted by a weak dollar.

During 3Q, we saw pressure on some of the new business contracts and sales cycles lengthened. As a result, the one-time, initial fee revenues from new business in 3Q were lower as compared to 2Q.

Now let me share a brief update on the Enterprise business. The price war started by mobile service providers in 2Q has had its impact on the voice tariffs across wire line services as well. There was pressure from customers to bring voice calling charges in line with mobile tariffs, resulting in muted financial performance during the quarter.

Amidst pricing pressure, we remain committed to delivering value to our customers in terms of network reach and resiliency. Our unmatched product range and solution offerings focus on providing the best in class services to enterprises leading to strong customer acquisition. During the quarter, we added several marquee customers both in private and PSU sectors. We also commissioned our new Internet Data Center at Hyderabad, creating further competitive advantage of capacity and multi-location facilities.

In this space, we have recently received the honor of the Frost & Sullivan Market Share Leadership award in the "Data Center and Managed Services" category for FY 2009.

Also, I am pleased to inform you that during the quarter, the Enterprise Business won the prestigious Global World Communication Award for 2009 in the "Best Device Category" where we showcased a new network device developed with CISCO. We won this award against competition from companies such as Juniper and Etisalat.

On the financial performance front, during the quarter:

- Revenues were lower by 7% on q-on-q basis at Rs. 5,310 crore.
- EBITDA was down 10% to Rs. 1,813 crore.
- Profit After Tax grew by 50% to Rs. 1,108 crore.
- Wireless minutes of use expanded to 89 billion during the quarter and realizations were at 45 paise per minute, the most stable as compared to any other operator in the country.

For 3Q FY10, wireless revenues as per financial statements was Rs. 4,023 crore and as per reporting to TRAI was approximately Rs. 3,217 crore vs. Rs. 3,163 crore in 2Q, growth of

1.7%. Over and above revenues reported to TRAI, RCOM group earns revenues from various other sources which are not subject to revenue share and are of recurring nature. In addition to the revenues reported to TRAI for this quarter, RCOM has earned revenue of approximately Rs. 400 crore from CDMA 1x data services, High Speed Data services, WiMax wireless data services to enterprises, and internet services under ISP license, and the balance represents VAS and miscellaneous income, etc., from subsidiaries relating to wireless segment.

This year, we have taken forward initiatives across multiple service lines by utilizing available resources. As a result, capital intensity of the business has reduced significantly and we expect it to continue on a declining trend. As many of you know, the company in the past has invested over Rs. 40,000 crore in the last four years towards expansion of our network and operations across businesses in India and internationally.

In the current fiscal year, we expect to invest upto Rs. 4,500 crore towards capital expenditure. These investments are being fully financed by cash generated by our business operations that has allowed Reliance Communications to become the youngest telecom company globally to deliver positive free cash flows.

Barring investments in 3G and WiMax, the company plans to invest Rs. 3,000 crore during FY 2011 on capital expenditure.

To close, I would like to say that the third quarter has been satisfactory given the background of hyper-competition in the industry. Although the Indian Telecom Sector is currently passing through its most challenging period, we believe the inherent strengths of our business will allow us to emerge even stronger. We are clearly in a position of advantage operating an integrated telecom business that provides the whole gamut of services across the telecom value chain to meet the requirements of various customer segments. We are a resilient organization focused on both maximizing revenues and optimizing costs to achieve long-term, sustainable free cash flows.

With that I conclude my initial comments. I now hand over to Arvind to take forward the proceedings on this call. Thank you.

Arvind Narang:

Thank you, Mr. Seth.

We will now open the call for Q&A. We request all of you to focus on key strategic and business issues. We also request each participant not to ask more than two questions and provide an opportunity to all participants to interact with the management.

Please feel free to touch base if you need any further information or clarification on the third quarter financial results.

Moderator, can we take the first question please?

Operator:

Certainly sir.

At this time, participants who wish to ask any questions, can press *1 on your telephone keypad and wait for your name to be announced.

Our first question comes from Mr. Shubham Majumdar from Macquarie, you may go ahead please.

Shubham Majumdar:

Hello. My first question is what is the kind of capex we have seen in this quarter at the company level and if you can give us some sense of the wireless capex as well in 3Q. And in line with that, can you just give us a sense of where capex will be for full year FY10 and possibly FY11 as well.

And my second question is on the non-wireless businesses, why have we seen such sharp quarter-on-quarter deceleration in Global business as well as broadband and fixed line revenues. It is clear, ARPUs in broadband and fixed line, as much as we can see, have not really fallen off. So, where is the pressure and why has Global business seen such a huge decline in quarter-on-quarter revenues and EBITDA.

And finally, just on wireless, where does management see the decline in Q-o-Q wireless revenue growth actually come to a halt and with the competitive intensity increasing, where do we see the bottom essentially? Thanks.

Arvind Narang:

Shubham, this is Arvind. If you look at the quarterly report page #17, we have given the capex for the quarter and by business as well. We have spent till Q3 around Rs.3,200 crores and in this particular quarter we have spent around Rs.1,300 crores. FY11 capex guidance, as Mr. Seth has already given in his opening remarks, is Rs.3,000 crores.

Shubham Majumdar:

Arvind, could you be able to give us any sort of sense, how much is wireless of these numbers?

Arvind Narang:

Yes, wireless is around 83% of Rs.1,300 crores which is around Rs.1,100 crores in the third quarter.

Shubham Majumdar:

And going forward?

Arvind Narang:

We have given at a company level the guidance around Rs.3,000 crores and the broad historical data points have been there, the details of which would be available as we move forward in the next financial year.

Shubham Majumdar:

Thanks.

Punit Garg:

Hi, Shubham. This is Punit Garg, good afternoon to you.

If you look at it on a year-on-year basis, the net revenues of Global business have really grown by 19%, and I think what you have seen is an aberration or a spike in revenue and profitability in the second quarter which was due to one-off revenues which we have realized in second quarter. But if you look at the recurring revenues, consistently, in Q1, Q2, and Q3, that is showing an increasing trend. When you are looking at the retail business, even in the hyper-competitive voice business, whether it is national long distance or international long distance, where with several operators coming in the margins are under pressure. I think from the data business, especially selling it to carriers and enterprises, we are adding continuously new logos that are contributing to maintain a healthy bottom line and we believe that trend would continue. However, the cycle of realizing new customers has certainly lengthened, if I have to compare, vis-à-vis last year.

George Varghese:

Hi, Shubham, this is George. Shubham, if you look at the Enterprise business, we have been consistently showing growth in spite of the economic downturn, may be able to withstand strength and stability of growth. Last quarter we saw unprecedented pressure on the voice pricing, I mean like in the mobile business there was tremendous pressure from corporates to renegotiate their long-term contracts. So, we saw one-time impact which I do not think we will see anytime, the worst is what we have seen. So, we had to renegotiate lot of a contracts which is why we have seen a slight dip in the last quarter, but like Punit said even if you look at the Enterprise business, Q2 we have seen a large hike, we saw quarter on quarter 13% increase, but if you look at Q3 compared to Q1, we are still growing, if you see Q3 compared to last year Q3, we are still on a growth in spite of the economic downturn affecting most enterprises. So, I think this is a one quarter of blip that we have seen and the main reason is the voice revenue that Mr. Seth put in his opening remarks.

Syed Safawi:

Shubham, this is Syed here. I will take your question on the Wireless business revenue. If you see actually we have grown revenue quarter-on-quarter despite the hyper competitive

intensity in the market versus industry trends of actually negative in some of the cases, now this is coming from a very stable solid base of 94 million customers, very satisfied customers, delivering almost a billion minutes a day now for us, that is the kind of scale that we have reached. So, we hope to continue building on that scale. If you see we have an enviable portfolio actually of CDMA and GSM which we will leverage even more now going forward. We had one full year of GSM behind us now. Therefore, the horizontal growth will continue coming from GSM while the value drivers will continue being CDMA and data. So, we see a positive momentum on our top line as well going forward. Thank you.

Shubham Majumdar:

Syed, thanks. The one billion minutes a day, is that only GSM, is it?

Syed Safawi:

Now, that is consolidated, that is total minutes that we are generating.

Shubham Majumdar:

Sure. If you just allow me to just slip in one quick question, in passive infrastructure, what would be the tenancy and your EBITDA margins in that business now?

Inder Bajaj:

Shubham, this is Inder here. Now today, we have about 50,000 towers and our tenancy rates are in the range of about 1.6x to 1.7x currently on these towers. This is a segment we have not yet reported separately, but the EBITDA margins for this kind of a business is in the range of 50% and we are in line with industry trends here.

Shubham Majumdar:

Thank you so much.

Operator:

Thank you sir. Next in line we have a question from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Reena Verma:

Yes, hi. Thank you very much for the call. Just a couple of questions. One is in the Wireless business. It appears as if your traffic growth has lagged both incumbents like Bharti and challengers like say Tata Tele. We saw Tata Tele Maharashtra reporting extremely strong numbers. Can you please explain what needs to happen for your traffic momentum to pickup and why the growth was slow relatively speaking for this quarter? That is my first question.

And the second is your revenue per minute fell less than that of some of your peers, in spite of that, your EBITDA margins have fallen almost in line. If you can please throw some color on that as well?

And just the final question is can you please help us understand now your revised listing time table for RITL? Thank you.

Syed Safawi:

Reena, this is Syed here. I will take the first two questions and hand over to Inder for the last one. If you look at it, we launched Simply Reliance about three months back and our current base is the first base which converts to Simply Reliance. So we are seeing a lot of traction and elasticity in terms of MOUs on that base, but what you have also got to see is that new customers coming in do not come in at the same level of MOUs when they enter. They upgrade to Simply Reliance and then start delivering the elasticity. So, the traction comes in over a few months and a quarter and we are beginning to see that traction come through month on month. So, that is the elasticity part and we are seeing it headed in the right direction.

Reena Verma:

Sir, why would the elasticity of your new customers be any weaker than that of your peers or are you saying it is weaker because of any brand reasons?

Syed Safawi:

No, there are no brand reasons. It depends on the segments you are in, it depends on the markets, and the geographies you are playing in. As you well know we are just one year old into the GSM roll out and we just about established the all India network and that is a quarter on quarter acceleration that we have gone into. So, we are seeing a new set of customers come in as we roll out the network.

Coming to your second point, on the margins, yes, we had an RPM decline of just two paise versus overall industry trends of about four paise, so we have managed the RPMs much better. That also gives us more opportunity to leverage elasticity in the future if in case we need to do so and in case we wish to do so. Thus, on the EBITDA we are still as you can imagine in an investment phase both in terms of not only capex but also setting up the infrastructure on the ground in terms of opex, investments, manpower, and so on behind GSM. That is the short term impact on the EBITDA, but now that the fixed costs are already behind us and the peak capex is behind us, we see much better leverage of our cost per minute going forward. And with the base that we have on minutes, I think we will have much better traction on the EBITDA as well. Over to you Inder for the third one.

Inder Bajaj:

Reena, this is Inder here. As far as the Infratel IPO is concerned, we received the SEBI clearance for the IPO to divest 10% of RITL's equity capital. As you are aware, the industry currently is going through a lot of important events like 3G, which is being planned, as well as the M&A consolidation which is happening in the industry as such. What we are doing at this point of time is basically examining these important events and we would be planning the timing of the IPO also considering the market conditions.

Reena Verma:

Okay, thank you.

Operator:

Thank you, madam. Next in line we have a question from Mr. Rahul Singh from Citigroup. You may go ahead please.

Rahul Singh:

Yes, hi, good afternoon everyone. The questions which I have are firstly, if I look at your mobile net revenues, even though your gross revenues are flat, the mobile net revenues are down 4.5%. So just wanted to check what are the trends on the interconnect rates you are seeing and in terms of your EBITDA reflection of your outgoing and incoming mix or any color you can add on that.

And the other question I had was on your decline in SG&A cost, Q-o-Q if I look at your consolidated P&L, the SG&A costs are down by more than Rs.300 crore. So, what exactly led to that and most of it I see that the decline coming in the Global business, if I take the difference between your Global EBITDA and Global net revenues, most of this decline is visible in the Global business. So, any additional color on that would be helpful.

Arvind Narang:

Rahul, this is Arvind. On the mobile business net revenue, it is down by 4.4% quarter-on-quarter and Rs. 13 crore versus the last quarter. Largely, the reduction has happened on part of the increased traffic on off-net calls leading to higher IUC charges being paid out to the other carriers. That is the prime reason for the reduction.

On your second question of significant reduction on the SG&A cost, our Q1 SG&A as you know was Rs.1,114 crore and in Q2 it was down to Rs.940 crore which was reduction of 16%, and Rs.174 crore of reduction in absolute numbers. In Q3 it is down to Rs.625 crore, reduction of Rs.315 crore and approximately 33% reduction in terms of percentage. The key reasons are basically the measures which we have undertaken last quarter are showing results now, including the reduction in the contract manpower and related cost, rationalization of office spaces across circles and clusters to bring efficiencies, and also the significant reduction in the Globalcom costs including the completion of Vanco restructuring. So, these are the key drivers of significant reduction in the SG&A cost, and now it is more or less in line or slightly lower than the industry peers.

Satish Seth:

You should all recognize the fact that since we are passing through a challenging phase and the DNA of our group is to always continue to excel in all aspects of functional activities of the organization. We have continued to work on the cost aspects very aggressively while maintaining quality. This program has been undertaken for last over eight to nine months which will continue in perpetuity, and you will continue to find some positives on account of this program.

Rahul Singh:

Okay, thanks a lot sir. Just one follow-up question on your balance sheet. The working capital is coming down quite impressively quarter after quarter, in fact this quarter also working capital is down from Rs.142 billion to Rs.125 billion, that Rs.1,700 crores reduction in just one quarter, mainly from debtors and loans and advances. Is it the part of the same kind of tightening your belts kind of exercise which is being done?

Satish Seth:

Absolutely, it is in that same direction. We have tightened our belts very fast and very aggressively let me tell you.

Rahul Singh:

Okay, thank you, sir. Thanks a lot.

Operator:

Thank you sir. Next in line we have a question from Mr. G. V. Giri from IIFL Capital. You may go ahead please.

G. V. Giri:

Good afternoon. Sir, your minutes growth is only 5%, but your access charges have jumped 17% Q-on-Q. In your competitors, the trend was exactly the opposite. How should we interpret this?

Secondly, your international minutes have jumped 33% Q-on-Q, so I thought the rate cuts did not really pertain to that particular segment. So, why this sudden spike in traffic?

And, your capex in Broadband and Global has fallen quite a bit. What is the outlook for these businesses and particularly the capex?

Mahesh Prasad:

Giri, this is Mahesh Prasad. On the increase in the traffic that we have seen, with the Simply Reliance plan what we did was essentially break the distance barrier that we had, local call rates as well as the long distance call rates were the same. Secondly, on-net versus off-net rates were also flattened to the same level which is the same 50 paise. We also removed all the in-roaming and out-roaming charges. Given that it really gave us a spurt in what I call the off-net traffic compared to the on-net traffic and that was reflected in the IUC that Arvind commented earlier. So, that is the reason why you would see a little bit of a different parameter from the competitors when you compare it.

Punit Garg:

On Global capex, we have in the last one year been working on sweating the assets better, and looking at the technologic advantage from the same fiber, let us say on the sub-sea or on the backhaul network, we are making better utilization. But I think what we should look at is that on a full year basis. So we do expect that we would be making some investment in the current quarter and our guidance provided for the year would remain in line.

George Varghese:

Coming to Enterprise Broadband, our total capex per sub can't really increase beyond a point, We made Rs.17 crore of additional capex over the previous quarter, and which is pretty good, very normal in our line of business, because we might have a big contract where we have to invest for building our network for a particular client. So, that kind of fluctuation will always happen in the Enterprise business. As always, we are in this business of connecting our big customers, so sometimes we have to invest into building networks. So, investments will continue, there might be slight fluctuations. On the going forward outlook, like Arvind said, given the total business outlook, segment wise, Arvind will just close it later.

Satish Seth:

Let me say in the Broadband one more thing, that wherever we find the buildings of interest, those buildings are connected and accordingly the capex is optimized. Secondly, the existing capex already incurred has connected over a million buildings where we find deep opportunities to continue to exploit the network by selling in the same buildings more and more and get a larger share of market. And therefore you will find more optimized capex, but that does not lead to a conclusion that the Broadband will not have capex, it will continue to have capex to meet its requirements.

G. V. Giri:

On my question of international minutes jumping by 33%?

Punit Garg:

That is correct. While the margins have fallen and we have looked at what bottom line contribution we did in order to maintain that, we have aggressively increased our market

share in the carrier voice minutes and we are today the largest carrier in-bound minutes provider in the country.

G. V. Giri:

Thanks a lot.

Operator:

Thank you sir. Next in line we have a question from Mr. Tien Doe from GIC. You may go ahead please.

Tien Doe:

Yes, hi, good afternoon. Thanks for the call. Just a couple of questions. Just looking at your mobile business, what would you think has to change as we begin to register already a very big GSM operator, 93 million subs, continue to see margin pressure with costs going up on the network side each quarter. Any time soon we are going to see a reversal of those trends? I would expect at some point that, as the subscribers actually lead to some economies of scale, it does not seem to be at the moment. So, when would you expect that to happen?

Syed Safawi:

Thanks for the question, this is Syed here. As you see, we have just about set up the nationwide network for GSM. It is about a year old and today we are sitting at about 75,000 to 80,000 BTSs combined between CDMA and GSM. So, we have just got scale finally and we have laid the foundation stone if you will to take off from here. With the base that we have and with the network reach that we finally established in the GSM space as well and the best of quality network that we have on CDMA, I think now the time is right for us to start leveraging that. So, going forward, you could look forward to seeing healthier trends in terms of not only customer acquisition but as well as minutes traction as well. Combined with this is the Simply Reliance plan, which is extremely customer focused and customer needs driven in its simplicity, I think the combination would be what will drive growth for us. So, we are very confident of the future here, because we have a portfolio that we can leverage very well as you can imagine.

Mahesh Prasad:

Just to add to what Syed said, we also have the HSD network that we rolled out. Typically, as you have seen in other markets, it is a high margin market and broadband penetration as well as PC penetration in India continues to grow while we had seen somewhat of a stagnant market in the PC side of the business for the last 12 months, that has shown encouraging signs which should result in wireless broadband penetration further which will certainly help us in the EBITDA margin improvements.

Tien Doe:

And the network operation costs, do you think that actually peaked as a percentage of revenues this quarter or do you think that will continue to rise a little bit more?

Mahesh Prasad:

The network operating costs as you have seen, we will continue to add sites to the GSM network as well as CDMA network. So, there will be marginal increase perhaps on the network operating cost in line with the capex investment that we would make for the quarters to come. However, on a scale basis you will definitely gain given that we are continuing to add GSM customers as well as CDMA, both voice and data customers.

Tien Doe:

Just to be clear, that is a rise in absolute terms, but say as a percentage of revenue you would expect that to fall?

Mahesh Prasad:

Yes.

Tien Doe:

Thank you, great. Thank you.

Operator:

Thank you, sir. Next in line we have a question from Mr. Sameer from BNP. You may go ahead please.

Sameer Naringrekar:

Yes, good afternoon. Just a couple of questions. The first one is primarily in the light of fairly low capex guidance going at around Rs.3,000 crores for FY2010-11, what we have seen from the TRAI numbers is that the urban markets are pretty much reaching 100% tele-density. So, do you think that Rs.3,000 crores capex going ahead and your 55,000 cell sites, are adequate enough for you to continue to add subscribers aggressively or do you believe that your strategy will be to only focus on the churn in the urban market?

And the second question is related to MNP, you have been highlighting that you will be gaining market share from MNP. Is there a possibility that there would be a risk to your captive CDMA subscriber base once MNP is introduced?

Satish Seth:

First on the capex, you must take this in the context of our having won nearly 7,000 sites in the tender released by the USO Fund Administrator. Those 7,000 sites are being built on

the infrastructure led by BSNL or a third party wherein our capex is very low, we have to just provide the electronics and that is all. And those 7,000 sites are in the remotest places of the country and that is what takes us to the remote places in the rural areas. So, it is not that we are not going to expand in the rural areas. We are there, we will be there, and as a matter of fact we would be more deeply penetrated in the rural areas than anybody else. I think this answers your query sufficiently.

Sameer Naringrekar:

And the question regarding MNP and the impact on the captive CDMA base please.

Syed Safawi:

Actually, we see MNP as a clear opportunity. Being a dual technology operator, Sameer, as you can imagine we give customer enough and adequate choice. The CDMA network is by far the most superior network as you would know in the market, and network is the key driver and therefore we see churn happening to ourselves rather than the other way round, as you mentioned. And in rural, as we are expanding the GSM network, we see that is an opportunity as well for us. We clearly see that as leverage for ourselves.

Satish Seth:

One more thing you should appreciate is that perhaps we have not been able to highlight this very well amongst all of you, that is with 1X wireless network we have made India wire free. With 1X capability anybody and everybody across India can currently meet his requirement of internet and email whether we have broadband or not, and that is the greatest advantage what we bring on table to the customers.

Sameer Naringrekar:

Okay, thank you. Just one follow since you mentioned about 1X, is there any disclosure that you can give in terms of your Reliance Netconnect subscriber base?

Arvind Narang:

We do not provide product-wise disclosure on subscribers.

Sameer Naringrekar:

All right, thank you.

Operator:

Thank you sir. Our next question comes from Mr. Hitesh Zaveri from Enam Asset Management. You may go ahead please.

Hitesh Zaveri:

Yes, hi. Thanks for taking my question. It pertains to number portability, what net result do you expect when it gets introduced?

Syed Safawi:

There is no market research which gives exact numbers on number portability, But our internal estimates and our dialogues with the customers show that we will gain positively in terms of revenue market share which is the ultimate marked-to-market indicator.

Hitesh Zaveri:

At the same time even other operators have similar claims and thinking about the same, I was just wondering that when the customers have been probably with you, many of them with a lower period of time, whether that will have any effect on this particular number or not?

Syed Safawi:

I think it will depend on who has the best network, the best service, and the best availability, along with brand traction. It will be a holistic call that the customer will take and we feel we are very well positioned to benefit from number portability actually.

Satish Seth:

To add to what Syed has just said, I think if you look at the current tariff plan of ours, the Simply Reliance, which has got three facets, that is 50 paise per minute, 1 paise per second, and Re.1 per call, that covers the gamut of all the customers and their needs and their requirements which is not available with any other operator. So, whenever MNP is implemented, the customer will also look at this aspect in addition to what Syed has said under quality, etc. So when you really look at what do I bring, I bring overall perspective to the customer and choice to select, and that is where we believe that we are well positioned in this particular program.

Hitesh Zaveri:

Sure. Thank you very much.

Operator:

Thank you sir. Next in line we have a question from Mr. Rajiv Sharma from HSBC. You may go ahead please.

Rajiv Sharma:

Yes, thank you for the opportunity. Couple of questions I have, one is what would be your population coverage on the GSM with your 50,000 base stations.

My second question is what is the kind of towers which have been rented to Etisalat in this quarter and what would the number be in terms of base stations which will be rented out by the end of this quarter and what is the kind of revenues you are generating if so any from the rental revenues?

And third is some clarification on your handset revenues, where the revenue from sale of handsets been included? Is it part of the wireless revenue, is it being included in others, is there something on the proprietary handsets which you mentioned last time, is it still a part of the wireless revenue this time. Some, clarifications will help. Thank you.

Syed Safawi:

Rajiv, this is Syed here. I will take your first question on our population penetration. It is in the range of 80 to 85% and improving by the month as we get traction and roll out the GSM network.

Inder Bajaj:

Rajiv, on your question on tenancies, we have with respect to all our contracts including Etisalat that you just mentioned, we have just about commenced our deliveries to our tenants and that will grow as we move from quarter to quarter.

Arvind Narang:

Our treatment on the handsets is exactly the same what we have mentioned last time on the earnings call. So there is no change in that, it is exactly the same.

Rajiv Sharma:

Thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Vikas Mantri from ICICI Securities. You may go ahead please.

Vikas Mantri:

Sir, just an update on the Etisalat deal that we had, we had talked about around 50% margins in our tower business, just wanted a view that post roll out of Etisalat towers and execution, will our margins be lower given that we are talking about lower rentals for Etisalat?

Inder Bajaj:

Vikas, Inder here. As far as the margins in this business are concerned, there is a large pass through element which is the power and fuel, will build up as the capacity builds up as such. So, what really happens is that there are two things which play into the margins of the infrastructure industry, one is that naturally as the tenancy increases there is an improvement in margin. At the same time as the capacity of the sites increases for the tenant, it increases the power and fuel expense which is both a revenue item as well as a pass through item. As I told you, industry keeps a margin of about close to 50% and that the net impact of both these remain in that level for the infrastructure industry and that is true for us as well.

Vikas Mantri:

Our Etisalat deal would be on similar terms as it is with Reliance Communications as of now?

Inder Bajaj:

Etisalat and Reliance Communications, both the commercial arrangements are as per market practices, RCOM as an anchor tenant and Etisalat in terms of the market prices as such. So, the commercials are in line with the market practices fully.

Vikas Mantri:

Okay. And what kind of a tower roll out have you seen for Etisalat until now?

Inder Bajaj:

Well, we do not give these specific numbers, but as I mentioned previously, we have commenced deliveries to Etisalat.

Vikas Mantri:

Okay. Thanks sir.

Operator:

Thank you sir. Next in line we have a question from Mr. Vinay Jaising from Morgan Stanley. You may go ahead please.

Vinay Jaising:

Thank you. I have three questions here. Firstly, how much would be the one time migration fee which you would have collected on account of your innovative schemes in this quarter, how much would you have assumed that.

Second, the dollar has been kind for the company's results this quarter, what would be the other income you would have got on the consolidated numbers, just purely for the dollar, my calculations show that much as about Rs.8 billion.

Thirdly, your standalone results show a loss though the passive infrastructure costs are the same this quarter as compared to the last quarter. What is the big difference between the standalone and the consolidated results? Thank you.

Mahesh Prasad:

Vinay, on the first element Simply Reliance plan as we mentioned earlier has been very well accepted. However, we do not share specifics in terms of the migration and one time revenues, etc., for competitive reasons.

Vinay Jaising:

Sir, would it be possible to tell us over how many quarters are you going to be accounting for the migration fee which you would have got?

Mahesh Prasad:

If I tell you that, you will definitely have the answer for the first question. We do not give specifics in terms for the migration, how long it takes for the existing base to migrate, also as you can recognize the three plans are still the flagship plans and new acquisitions are also coming on the same three plans.

Vinay Jaising:

Sure.

Arvind Narang:

Vinay, on the dollar impact, as you know the foreign currency borrowings which we have mentioned in the quarterly report, there is a 3% appreciation of Rupee i.e. Rs.1.43 to be precise, which increases the marked-to-market gain by around Rs. 650 odd crores.

Vinay Jaising:

Right sir. And the third question on the standalone losses, what is the difference there between standalone and consolidated results?

Arvind Narang:

Standalone is Reliance Communications' new GSM circles and part of our CDMA business, and of course the consolidated includes all other businesses of Reliance Communications as well.

Vinay Jaising:

Why then would there be losses in the standalone company's results as compared to a profit of I think about Rs. 3.5 billion in the previous quarter?

Arvind Narang:

We will revert to you.

Vinay Jaising:

Yes, sure. Thank you so much.

Arvind Narang:

Thank you.

Operator:

Thank you, sir. Next in line we have a question from Mr. Shobit Khare from Motilal Oswal. You may go ahead please.

Shobit Khare:

Hi, sir, good afternoon and thanks for the opportunity. Most of my questions have been answered, but sir a couple of small questions. One is on inter-segment eliminations have increased by around 6% Q-o-Q, whereas overall there is 9% decline in non-wireless revenues. So, I mean, what is the reason for this.

And second, depreciation is up around 17% Q-o-Q. So, if you can just give some color on this.

Arvind Narang:

The eliminations have gone up from 22.1% to around 24%, and there are two reasons. One is that there is a significant increase in the NLD traffic which has gone up driven by the wireless in the range of around 22% Q-o-Q, and also there is more on-net traffic on the long distance which has increased eliminations as part of the overall consolidation. That was one, what was your second question?

Shobit Khare:

Depreciation increasing around 17% versus last quarter?

Arvind Narang:

Depreciation in the first quarter was around Rs.1,114 crores and in Q2 it was Rs.714 crores, and we had provided information on the reduction in the depreciation based on the

revised policy of the tenure which we have taken. Q3 depreciation is largely the average and more or less it is going to remain in that range going forward.

Shobit Khare:

Sir, in last quarter was it a two-quarter impact due to the accounting change?

Arvind Narang:

Yes, last quarter was a two-quarter impact and then this quarter it was more specific to this quarter.

Shobit Khare:

Sir, one last question on Etisalat deal, when do we expect to start booking revenues on this?

Arvind Narang:

We will keep you updated, may be it will start let us say from next quarter and deliveries have just recently started as Inder mentioned in his comments.

Shobit Khare:

Okay, sir. Thanks a lot.

Operator:

Thank you sir. Next in line we have a follow on question from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Reena Verma:

Yes, thank you again for your time. Just wanted to get your thoughts on how you think the pricing environment for wireless will shape up going forward. I mean could Simply Reliance drop from 50 paise to all together new level? If not, why not?

Syed Safawi:

Reena, this is Syed here. What we need to follow our guiding principles on pricing and tariffing and what we will do is take competitive for the top players in the market, I think that is the underlying guiding principle that we will follow, we will watch the market, as a responsible telecom player we do not think we need to react to every new tariff plan that comes out in the market but we will stay competitive because we are also after the incremental revenue market share. So, if that answers your question, but in the next two to three quarters we will stay competitive, overall, I think needless to say in the hyper-

competitive state that we are in, but we will stay competitive and be a fast follower in that sense.

Reena Verma:

Thanks for that Syed. I was just wondering whether like many of your peers you are also expecting consolidation. It does not look like a 150 basis point drop in margins where some of your peers have even posted margin improvement can actually set the context for consolidation in the near future. Would you agree?

Syed Safawi:

I think consolidation of the industry is that is what you mean is in our estimates 12 to 18 months away. Some of the new operators will I am sure realize that this is not sustainable, either some improvement or stabilization may happen on the tariff platform or some other operators may not choose to continue with this irrational tariffing. So, yes, I think consolidation is probably a little way away right now, 12 to 18 months away.

Reena Verma:

All right, okay. And just a small follow-up question on SG&A. You mentioned that you had cut down on some contract manpower which led to savings. Is that the only reason for the big savings on SG&A?

Arvind Narang:

No, I gave four reasons for that. It includes all those four reasons including reduction in the Globalcom cost and also completion of Vanco restructuring.

Reena Verma:

Okay, thank you. Sorry about that.

Operator:

Thank you madam. We have our next follow on question from Mr. Rahul Singh from Citigroup. You may go ahead please.

Rahul Singh:

Yes, hi. I had two questions. Firstly, is it possible to get some indication of what is the capacity utilization in your GSM network, that is number one.

Number two, at the beginning of the call, I think Mr. Satish Seth was mentioning some revenues from the wireless data cards, etc. Is it possible to know what was the total quantum which was Rs.800 crores last quarter, what was the total quantum of revenues which were not part of the UAS license?

Satish Seth:

The difference between TRAI numbers and the financial statement numbers have been given in my speech; last quarter as well as this quarter also, it is available in my speech.

Rahul Singh:

Okay. And any indication of capacity utilization?

Satish Seth:

That is not given by us as it is competition sensitive and we would not like to share.

Rahul Singh:

Okay, thanks.

Satish Seth:

All right, thank you.

Operator:

Thank you sir. Due to the time constraint, this was the final question. That does conclude our conference for today. Thank you for participating. You may all disconnect now.