RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended March 31, 2010

Conducted at 2.30 pm IST on May 17, 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 Macquarie Capital.

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. Shubham Majumder of Macquarie, over to you sir.

Shubham Majumder:

Thank you. Good morning, afternoon or evening, ladies and gentlemen. We at Macquarie Capital Securities are pleased to host this call for the fourth quarter FY2010 results of Reliance Communications.

Today, we have the senior management from Reliance Communications led by Mr. Satish Seth along with 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. 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, Shubham.

I welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the fourth quarter ended March 31st 2010.

The year 2010 has been perhaps one of the most exciting and challenging years for the Indian telecom sector. Under the backdrop of new operators launching their services and amazingly low tariffs wooing customers, the year witnessed one of the fastest subscriber growths. During the January-March quarter, the country added 59 million wireless subscribers, by far the highest in the world.

While subscriber net additions remained robust, the intense competition resulted into a build-up of over-supply at tariffs that are almost lower than their cost. With no material differentiators, nor any significant strength in their competitive proposition, these service providers have had to resort to irrational pricing, which is clearly unsustainable in the long run.

Therefore, under such a volatile business environment and highly demanding customer expectations, it is the grit and resilience of Reliance Communications and its people that we have succeeded in maintaining steady business and revenues

As a fully-integrated and converged telecommunications service provider RCOM is uniquely positioned to deliver world-class services across the entire value chain of the communications business.

Having made substantial investments in expanding and upgrading our nationwide infrastructure, we believe that RCOM's cost position is one of the most competitive in the industry. By virtue of operating a new network with extensive nationwide coverage and significant low cost capacity, we are well positioned to profitably expand volumes in the medium term without any significant incremental investment.

Not withstanding the hyper-competition in the industry, Reliance Communication sustained its financial performance with quarterly revenues at Rs. 5,093 crores and EBIDTA of Rs. 1,602 crores.

We have been able to secure healthy growth in minutes of usage which have grown 5% in Q4 sequentially and have also grown strongly by 26% in FY10 over FY09. We could achieve this robust increase in the minutes of usage due to strong net additions, which were further strengthened by the launch of our GSM services in January 2009,

We have rapidly expanded our subscriber base since the launch of our nationwide GSM network and during the fourth quarter, we have acquired 8.6 million subscribers and 41 million subscribers post launch of GSM services.

I am happy to share that RCOM is the only telco in the country, which has increased its free cash flow significantly within one year of launch of nationwide GSM service. All other operators have taken several years to achieve the same feat. This has happened inspite of absorbing 100% of operational costs on account of phenomenal increase in number of sites.

March 15th, 2010 is a very special day for Reliance Communications. We crossed the landmark 100 million wireless customers, making RCOM the 2nd largest wireless operator in the country to achieve this milestone. The momentous achievement has been attained within 7 years of Reliance Communications first launching its pan-India mobile services in 2003. Incidentally, it is also the fastest ramp up of mobile customers in the world. With this landmark achievement, Reliance Communications became the 4th largest operator in the world to serve over 100 Million customers in a single country.

As we move into the next round of our success journey, we shall aggressively expand our GSM network and CDMA mobile broadband network. We shall be having a renewed focus on customer-centric innovations and enhancing the overall Customer Experience. We rolled out CDMA mobile broadband network offering Internet speed up to 3.1Mbps in 62 cities, and will add another 63 cities within the next 100 days, taking the total number of cities covered to 125 offering Reliance Netconnect Broadband+ service. Our market leadership in the CDMA space combined with our recent entry into pan-India GSM service gives us an opportunity to aggressively pursue revenue growth.

As we move into the new fiscal year, we continue to see some select tariff changes from the competition in the industry. The industry continues to remain challenging with hyper-competition, saddled with high customer acquisition costs with exuberant trade schemes in the mobile industry, and is expected to continue for few more quarters.

A major shift seems to be happening on the use of multiple SIM phones as its popularity continues to rise rapidly. As the cult of multiple SIMs grows, some of the prevalent per user KPIs like ARPU, MoU/Sub etc. are getting relatively less relevant in the industry.

I am delighted to share that ‘Simply Reliance’ plan launched in October, 2009 has performed exceedingly well. As you may recall, the Simply Reliance Plan was offered with 3 variants in October with ‘50 paise per minute’, ‘1 paisa per second’ or ‘1 rupee per call’ tariffs. While the industry continued to tweak the tariff plans, the Simply Reliance tariff plans remain unchanged and succeeded in attracting new customers on account of its simplicity and transparency.

Following on the success of its Simply Reliance Initiatives, Reliance Communications also announced the extension of Simply Reliance through another ground-breaking Simple Unlimited CDMA Pack, as part of its 100 Mn customers’ milestone celebrations. With this initiative, RCOM breaks away from the conventional tariff metering practice of the Indian telecom industry. The new CDMA pack aims to redefine the Indian mobile telecom space and aims to address the needs of medium to heavy users, who do not wish to be bogged down by concerns related to balance, recharges etc.

Growth in the telecom sector in India has been pragmatically supported by government policies and regulatory framework. Last week, TRAI announced its much awaited recommendations on the 2G spectrum allocation criteria, spectrum charges, M&A rules and spectrum sharing. Most of the recommendations are forward-looking, pro-consumer, pro-competition and would surely bridge the gap between the incumbents and new players by creating a level playing field.

While TRAI also is looking to the Government revenues, there are lots of areas where industry's profitability will have a positive impact. Reduction in license fee from currently 10% and 8% to uniformly 6% will give significant relief in Metros and A towns. In addition, an additional rebate of 2% on USO charges for operators who have rolled out network in rural areas. As the rebate will become applicable in 2 years time, the benefits can be availed by all serious operators who invest in network infrastructure in India. TRAI recommends setting up of a specific fund for spectrum re-farming. This will help Government agencies release additional spectrum to telecom sector for the benefit of all operators.

We believe that TRAI recommendation on M&A regulations are progressive and at the same time protects the Governments revenues. TRAI is proposing to remove the 3-year lock-in period and for merged entity the license period will be higher of the two merging entities.

TRAI has confirmed that committed spectrum for GSM is 6.2 MHz while for CDMA, it is 5 MHz. Thus operators can get up to 6.2 MHz in GSM without any additional cost. This will significantly reduce network cost for new GSM networks like RCOM and further help RCOM in improving its business and cash flows. The additional spectrum will significantly enhance the quality of network and consequently the customer experience. TRAI has made it clear that the priority for release of spectrum shall be to those who have received initial start-up spectrum hall of 4.4 MHz, In this regard, RCOM, leads the queue.

As per the TRAI directive, Licensees with spectrum above limit i.e. 8 MHZ across India would be required to return excess spectrum. While RCOM has excess spectrum merely in one circle, incumbent GSM operators have excess spectrum in many circles. This is likely to have a negative impact on the network opex and capex for incumbent GSM operators. Operators who have spectrum beyond 6.2 MHz have to pay huge sums as one time excess spectrum charges.

Yet another, market re-defining phenomenon, Mobile Number Portability is soon expected to be implemented on nationwide basis. 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 MNP to help us deliver greater value to every wireless subscriber in the country.

I will now briefly cover the non-wireless businesses.

We are continuing with our growth momentum in Globalcom Business. The Global business revenue has increased 23% year-on-year basis.

In the National Long Distance carriage business, the traffic has grown by 59% on a year on year and 18% on a quarter on quarter basis led by the growth in GSM business. We signed contracts worth over Rs 150 Crores in our infrastructure and bandwidth business.

In our International Voice business where the rates are continuously falling our total ILD voice traffic has grown 30% year-on-year basis. I am happy to share that, we continue to attract the largest inbound traffic market share. In our consumer business we have grown our customer registration by 31% quarter on quarter.

Further, we have been able to generate new business of Rs 145 Crores in the carrier segment in our Global Enterprise segment, which comprises Capacity Sales to carriers and Managed Services to enterprises, We continue to be the first choice of our existing customers in the Middle East and Asia who rely on our global network for bulk of their international Capacity requirements.

We have added more than 23 leading brands of the likes of Orica, one of the largest publicly listed companies in Australia; Euromaster the leading integrated tyre service and car maintenance network in Europe. We won all of these multi-year contracts against stiff competition from global peers like Verizon, Cable and Wireless and AT&T. These new contracts bring total contract value of over Rs 375 crores.

Now let me provide a brief update on the domestic Enterprise business. In a year of very tough business environment with most of the business coming through churn and unprecedented pricing pressure, our enterprise business adopted a multi-pronged customer management strategy by strengthening its existing sales team with vertical specialists who are able to better understand the specific business and thereby create better value for those enterprises. We engaged ourselves extensively with our top customers and designed unique and customized solutions to help them enhance their process efficiencies and thereby help them reduce their expenses.

In IDC business, we are moving towards more value added services like shared hosting and managed services. This is helping us in increasing our yield and giving customers a one stop shop for their hosting and IT needs.

As a part of our strategy to retain and acquire top customers, we have been partnering with them in various segments to create better solutions for customers. The hosted infrastructure service "Reliance Cloud Computing Services" that we launched in partnership with Microsoft is a great example of combining our strengths in infrastructure with Microsoft's strengths in IT to give an unmatched value to customers.

Going forward, we expect to occupy more of the wallet space and higher stickiness from these customers.

On the financial performance front, during the quarter:
→ Revenues stood at Rs. 5,093 crore.
→ EBITDA at Rs. 1,602 crore with EBIDTA margin of 31.5%.
→ Profit After Tax grew by 10.1% to Rs, 1,220 crore.
→ Capex spend is Rs. 879 crore.

Similar to earlier quarters, our Q4 capex has been funded through internal accruals during this financial year. In FY10, RCOM has been free cash-flow positive. With the hyper intensity of capex is behind us from the previous quarter onwards, we would continue to stretch and sweat our assets to produce higher productivity. However, we would spend optimally to improve the productivity of existing assets, and also increase penetration. Our capex guidance for FY11 stands at Rs. 3,000 cr. barring one time investment in 3G & BWA, and we shall continue to meet our capex requirement through internal accruals.

To conclude my initial comments, I would like to say that in the fourth quarter, we have embarked on a journey to consolidate our revenue market share position in wireless business. In the Global business, we will be moving up in the value chain and will offer more value added & managed services. Having established leadership position in the Enterprise segment, our current focus is to capture significant share in large corporate & SMB segment and move up in the value chain in IDC business to further improve profitability. We would like to further strengthen our position as an integrated telecom service provider, offering whole gamut of services across the telecom value chain addressing requirements of all customer segments.

I now hand over to Arvind to take forward the proceedings on this call. Thank you.

Mr. 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 fourth quarter financial results.

Moderator, can we take the first question please?

Operator:

Our first question comes from Mr. Sachin Salgaonkar from Goldman Sachs. You may go ahead sir.

Mr. Sachin Salgaonkar:

Hi, thank you. My first question, is it possible for you to give a breakup of your capex of Rs. 3,000 crores on a division wide basis? If I look at your wireless capex in fourth quarter, it was substantially down. I was wondering if there was any impact due to approvals needed for procurement of equipment. My second question is on MOU per sub which has declined by 4% on a quarter on quarter basis whereas your competitors have actually shown an increase in MOU per sub on a quarter on quarter basis. I was wondering if there are any trends out here like the incumbent GSMs are gaining back their market share or is it essentially a mix between CDMA and GSM that led to a sort of a decline in MOU per sub? Thanks.

Mr. Arvind Narang:

We do not provide any specific project wise or business wise capex breakup, but you can see the trend on a quarterly basis from our published quarterly reports and it will give you the sense on how they have been distributed among the businesses on a cumulative basis. Going forward it would be broadly in the similar range. On the GSM capex being down in this quarter, as we have earlier also communicated, we have already achieved the coverage largely on a nationwide basis, and the stage of the coverage where the maximum capex is required to be done is largely behind us now.

Mr. Satish Seth:

Yes, you asked for a question on security clearance. As we all know, there has been an issue since 3rd of December 2009. As far to my knowledge, no one got any permission until the beginning of April or the middle of April 2010. We also had not received many of our permissions, which we are expecting to receive. We have now started receiving and are expecting to receive continuously now onwards.

Mr. Syed Safawi:

Sachin, on your last question on MOUs per sub and MOU growth, yes there is a healthy growth of 5% quarter on quarter on an overall minute’s basis. We have added about 4.3 billion minutes. As you know we now generate over a billion minutes of usage per day on the RCOM network, which is really talking of scale. I think you have to read this in conjunction with the RPM trend which is healthy for RCOM. There is a decline of only one paise over the whole quarter from 45 paise RPM in last quarter to 44 paise RPM in this quarter. You mentioned about the other industry players, I think you have to watch their RPM trends as well, which have shown significant decline. So, you should see the interplay of a decline in RPM and its trend versus the MOU growth. I think that interplay will answer your question.

Mr. Sachin Salgaonkar:

Thanks. Just one follow-up question, Arvind, you mentioned majority of the capex is behind us. Now, if I look at your standalone results, I see that RCOM EBIT for this quarter is negative and that is mainly because of the increase in the passive infrastructure charges. So, is there a trend we are seeing where capex is getting converted into opex and can we see your EBIT, a sort of negative going forward also?

Mr. Arvind Narang:

If you are comparing the audited results of FY2009 and FY2010, you will find the major differences arising because of the passive infrastructure charge which was to the tune of Rs. 3,820 crores in FY10 against Rs. 1,868 crores in FY09, which had a cascading effect on the EBITDA and EBIT margins. And as we mentioned in the call also, that this is due to absorbing 100% of operational cost on account of phenomenal increase in number of sites, which has happened after the launch of GSM, services.

Mr. Sachin Salgaonkar:

So, going forward also we could see this passive infrastructure charges increasing?

Mr. Satish Seth:

Sachin, when you ramp up infrastructure network, necessarily the opex continues to rise. The coverage nearly having been completed, this opex is not likely to increase except to the extent of the inflation, etc., related issues. The opex will increase as and when we continue to increase our number of sites based on our business requirement. And the opex increase will be much lower than the associated revenues it is going to generate. So, the passive infrastructure cost is not going to go very high. I hope I have answered your question.

Mr. Sachin Salgaonkar:

Yes, thanks a lot.

Operator:

Thank you, sir. Our next question comes from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Thank you very much sir. Just three questions on the financials. First question is on the balance sheet side, we see the debtors are decreasing continuously and so are the loans and advances. So, you would like to throw any light on that. The reason I am asking is despite the quarterly revenues being reasonably in the same band for the last four quarters, debtors have come down quite dramatically.

Mr. Satish Seth:

Srinivas, very clearly, when you start stabilizing your business, there is a deep focus on working capital management, that is what we have done and you will continue to see huge amount of productivity and efficiency coming in our every line item of each business.

Mr. Srinivas Rao:

My second question is regarding the interest expense in the cash flow statement. It seems the cash interest expense for the full year as reported is about Rs. 1,900 crores, whereas in the P&L again for the fourth quarter it is a positive interest income. So, you could throw any light on that sir?

Mr. Arvind Narang:

As we know, the cash flow statement is on an actual cash basis and the P&L it is on accrual basis. In the P&L, the net finance charges are approximately Rs. 803 crores which also includes the mark to market forex gains which is notional in nature.

Mr. Srinivas Rao:

Okay sir. So the cash flow will reflect the true cash expense, right.

Mr. Arvind Narang:

Yes.

Mr. Srinivas Rao:

Also Arvind, as you have mentioned the capex for the next year guidance is about Rs. 3,000 crores, can we assume that your coverage capex on the GSM side is reasonably over. Is that a fair assessment?

Mr. Satish Seth:

Coverage is reasonably over but the desire to penetrate into the smallest part of this country never comes to an end, which we will continue to do. We all have seen the potential in rural India and penetration in rural area gives much larger benefit than the initial amount of investment and the initial burden of the opex on the balance sheet.

Mr. Srinivas Rao:

Sir, finally, one more question. Any color on the VAS revenues, we have not seen any numbers for some time now on that.

Mr. Arvind Narang:

VAS revenue is included in our non-voice business, which has been broadly in the range of 20% of our total revenues in the last few quarters.

Mr. Srinivas Rao:

Thanks, sir. That is all, thank you very much, sir.

Operator:

Thank you, sir. Next in line we have a question from Mr. Sanjay Chawla from Anand Rathi. You may go ahead please.

Mr. Sanjay Chawla:

Hi, good afternoon, thank you for the call. I have couple of questions. First one is that your inter-segment elimination figure seems to have surged quite dramatically in this quarter as compared to the previous quarter increasing from Rs. 1,700 crores to almost Rs. 2,000 crores. If you could provide some color on that. And secondly, your minutes of use in the Global segment, the NLD minutes of use has gone up quite sharply. If you could provide some reason for that?

Mr. Punit Garg:

Well, I think it is happy news that you are seeing the increase in NLD minutes which is led by our GSM and CDMA growth by virtue of the number of subscribers going up. As you multiply these new subscribers with the minutes of usage, a percentage of that goes into the NLD, and of course we have been carrying the traffic of the other operators in India as well. So, I think, all put together it has grown significantly. You will continue to see that.

Mr. Sanjay Chawla:

Punit, what would be the proportion of non-captive NLD traffic carried by your network?

Mr. Punit Garg:

I would like to say that 90% of our traffic is captive traffic and only 10% of traffic is non-captive.

Mr. Sanjay Chawla:

Okay.

Mr. Arvind Narang:

Sanjay, regarding your question on eliminations, eliminations have increased by Rs. 274 crores or from 24% to 28%. This is largely due to inter circle, on-net traffic, which has increased by over 30% that has actually caused increase in the elimination this quarter.

Mr. Sanjay Chawla:

But that inter-circle traffic would be basically the intra segment. I am looking at the inter segment eliminations here. I mean, between which segments has this revenue exchange increased, between which two segments?

Mr. Arvind Narang:

The inter-segment and inter-circle traffic, which are on-net traffic, have caused the elimination to go up.

Mr. Sanjay Chawla:

So, your on-net inter-circle traffic is what you are saying, right?

Mr. Arvind Narang:

Yes.

Mr. Sanjay Chawla:

Okay, sir. Thank you.

Operator:

Thank you sir. Next in line, we have a question from Mr. Amit Ahire from Ambit Capital. You may go ahead please.

Mr. Amit Ahire:

Hi, thanks for the opportunity. As you rightly mentioned sir, we have almost 20% revenue coming in from the VAS segment. Probably I believe it goes under the ISP license and with the TRAI regulations saying that we need to pay the licensing fees on that how do you see that impact our financials? And second thing, the network operating cost has come down in absolute numbers on a quarter on quarter basis. So, what trend one should assume going forward? Thanks.

Mr. Satish Seth:

On the VAS, I think one has to look at the overall licensing structure. Currently, you have differential pricing structure between Metro, A, B, and C category. Then you have a differential licensing structure between USL, NLD, and other licenses. The TRAI recommendations are attempting to rationalize all the structure into a uniform rate. One side you will see the rates coming down from 10% to 6%, another side you will see rates going up. The net effect according to our internal computation based on TRAI recommendation is going to be positive only and not negative at all.

Mr. Arvind Narang:

Amit, the network cost has decreased by around Rs. 145 crores or 8.7% quarter on quarter, and as a percentage of revenue it has come down from 31.5% to 29.9%. This is largely due to bringing in more efficiency on the network side because of two reasons. One, there is a decrease in the fuel cost as more BTS have been brought under State Electricity Board power versus the DG cost which we have been incurring, and the second reason is that there has been a decrease in the network maintenance cost which has also helped in reducing the cost by approximately Rs. 145 crores.

Mr. Satish Seth:

I will give another perspective for everyone. As I have mentioned that as we stabilize our network, we continue to focus on productivity and efficiency. One of the areas, which we focus continuously and we will continue to focus, is power and fuel. We are converting the fuel-based sites to power-based sites, in which we have succeeded very significantly. And second one is we continue to align ourselves in line with the road expansion in this country because we have a large fiber network and as the road infrastructure expands, the expenses on the fiber network will continue to increase. So, we are aligning our actions along with the decisions of NHAI to expand the roads and thereby on a proactive basis, we are able to manage these expenses as well as our network. So, this is an ongoing business activity.

Mr. Amit Ahire:

Okay, thanks.

Operator:

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

Mr. Rahul Singh:

I have a question on the tower business in terms of what is the latest take away in terms of when do we start to see the external tenancy and if at all there is an external tenancy right now is that something which can be disclosed right now?

Mr. Satish Seth:

Rahul, the current recommendations given by TRAI requires every single operator to rollout on a nation-wide basis. Whether you want to take the additional spectrum or not, there is a minimum rollout obligation, and in which, one-third of the rollout has to happen on their own and the balance can happen through intra-circle roaming arrangements also. As a matter of fact, this as well as going forward the 3G and the BWA auction gives tremendous opportunity for our tower business to expand. Now, I will leave it to Inder to answer your specific question.

Mr. Inder Bajaj:

Rahul, Inder here. We today have 50,000 towers and we have a tenancy, which is one of the highest in the industry, which is standing at about 1.75. This is a combination of both the captive tenancy as well as the external tenancy. We have signed contracts with all the operators, be it the new operators or the existing operators who are expanding their regional foot print, which includes Uninor, EDB, Aircel, Airtel, Idea, Vodafone, as well as MTS and so on and so forth. So, in the last six months, we have started delivering tenancies to all these operators and also to our strategic partner, which is EDB. And as far as the current year is concerned, it has not had a material thing in terms of the revenues as such, but as Mr. Seth puts it, with these as well as the favorable regulation initiatives which have been taken, we see this to have something which is substantial coming from the next year on wards.

Mr. Rahul Singh:

Okay, thanks.

Operator:

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

Mr. Sameer:

Good afternoon. Just a couple of questions. If you could give us some sense of I think there is at least Rs. 11,000 crores parked under CWIP. What project is this CWIP assigned to because it has been lying there for about a year now? So I just wanted to get a sense of what kind of projects the CWIP is dedicated for? And the second question is pretty much related to what Amit asked earlier during the call. If I really look at the wireless revenue that is reported to TRAI and the exchanges, there is about a 20% difference, and then there is an 8% difference between the AGR as a percentage of the wireless revenue between RCOM and its peers. So, just wanted to understand that since TRAI is already trying to bring ISPs, mobile VAS operators, as well as infrastructure providers under the licensing regime, would I see up to 120 bps kind of an impact on margin which should probably offset probably the gains you are going to get by reduction in licensing fee on the core wireless business.

Mr. Satish Seth:

You can correct me if I have not understood your question properly. Firstly, if we bring the ISP under the regime of the licensing, whether there will be an increase in the cost or not. As I said in my earlier remark for the VAS, VAS and ISP will be included and the overall other license fee will be reduced from 10% to 6%. Our computation shows that we would be marginally positive than negative. So, that addresses your question of 120 bps up or not. And the second query on the difference between TRAI and the reported revenues, as already communicated, it is primarily on account of the data services and known licensing based services revenues.

Mr. Sameer:

So, are you saying that this 20% will not come under the TRAI license?

Mr. Satish Seth:

The ISP income will come under the license, VAS revenue has not been yet included because the TRAI has said that they will come out with a new consultation paper and at that point of time it will be decided whether it is being covered or not covered. TRAI is also trying to cover the VAS operators like On-Mobile, 197 and Hungama, etc. That is why they are trying to bring a new consultation paper to include off-deck and on-deck value-added services revenues. ISP has been suggested and will be included. The ISP impact is lower than the impact what we are going to get positively on account of reduction of the other license fees from 10% to 6%.

Mr. Sameer:

Okay, that explains it. Thank you. Just the second question regarding the CWIP.

Mr. Satish Seth:

In all our businesses, we have number of projects which are under way and they will be capitalized as and when they get completed. We believe that all of them should by and large complete in the period 2010-11.

Mr. Sameer:

All right, thank you.

Operator:

Thank you sir. Next in line, we have a question from Mr. Gaurav Tyagi from Alchemy. You may go ahead please.

Mr. Gaurav Tyagi:

Good afternoon to all. Thanks a lot for the opportunity. Sir, I have two questions. First one on the global and the broadband segment. Margin for these two segments have come down in the last few quarters, and considering these are the segment supporting the decline in the wireless part, so how do we intend to stop that and what was the reason for this decline, that is question number one. Question number two is based on the TRAI recommendations, seven circles under the Reliance telecom license will be coming for renewal in 2015 and these circles have allocations in 900 megahertz band. So, any understanding on the incremental capex that will be required for migrating the network from 900 to 1800 megahertz? Thank you.

Mr. Satish Seth:

I will answer your second question and the first question will be thereafter answered by Punit. On the seven circles, they will be coming up for renewal after five years. Since we hold only the 6.2-megahertz and that is what will be given to us. By that time we believe that we would have penetrated into these areas so much that there would be no more additional passive infrastructure requirement or electronic requirement. I do not believe that there would be any additional capex required because of the change over from the 900 band to 1800 band. If at all there would be, if at all, it will be absolutely minimal. And second, the technology and equipment providers are taking several spectral efficiency measures; these technology innovations will continue to drive the capex intensity lower.

Mr. Punit Garg:

In this particular quarter, there were one-time charges in opex on various accounts. One, there were various fiber cuts and to meet the requirement of customers we had to take some short-term bandwidth on lease internationally in different segments. Second, we had promotional activities for our new products - Reliance Icall and Mindbridge in international market, where we had to increase the advertising and brand building exercises in 150 countries where we are marketing it. Third, on account of the NLD, we also had a remediation project going on where due to the various fiber cuts and as you can see the traffic is going, we needed to have the higher resiliency in our national network. So, we have spent a significant one-time amount in that in terms of enhancing the quality of network. So, you can say that we have spent additional Rs. 100 to 110 crores in this quarter on account of operational expenses which has led to a decrease in EBITDA. But it should be considered as a onetime activity and not ongoing. And I think on ongoing basis, we would continue to maintain as we have given and improve upon as we increase our data revenue and as you have heard what Mr. Seth said that we added Rs. 375 crores worth of new contracts in this quarter and we continue to sign new contracts, and I think these new contracts would give us the recurring revenue in data field which uses our existing network and give us higher EBITDA.

Mr. Gaurav Tyagi:

Sure sir, very helpful. Sir, just a follow-up question. Will it be safe to assume that all the one-time impacts have been captured in this quarter, and from the next quarter we will be continuing on the normal trajectory?

Mr. Punit Garg:

Yes, please.

Mr. Gaurav Tyagi:

Yes. And sir just something on the broadband segment part, I mean we have seen two consecutive quarters of top line decline. So anything will be helpful on that part?

Mr. George Varghese:

Now, on the broadband side, in the last two to three quarters there has been a pressure on yield because of the overall economic scenario and competitive pressures. Typically in the broadband business, most contracts with customers are for a year. So, although there is a pressure on price, the prices do not drop until the entire contract period gets over. So, most of these contracts which were under pressure until the last quarter, some prices got revised last quarter and which is why you see a slight decline in the last quarter. But overall, I do not see this continuing. As Mr. Seth has also said, we have been focusing now more on government sector and the SMB sector where the yields are going up much higher. So, given the fact that over the last two quarters what we had to see in terms of the yield pressure has already happened. We expect the overall profitability to go up in the coming quarters.

Mr. Gaurav Tyagi:

Sure, thank you very much.

Operator:

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

Mr. Rajiv Sharma:

Thank you for the opportunity. I have just one question pertaining to the license renewal in 7 markets in 900 MHz. Mr. Seth, it is globally known that 900 MHz offers better coverage. So, do you think, you will make it a point to the regulator that at the time of renewal, higher spectrum is being given in 1800 MHz to compensate for the coverage on the propagation characteristics being offered by 900 MHz? The fact that you are currently on 6.2, but as you rightly mentioned, you will be penetrating more by that point of time so you will have more subscribers. So, I was wondering if I was incorrect in thinking that there will be more requirement for you to have additional spectrum at the time of renewal. And do you think this is an area where you would like to re-discuss with TRAI at some point of time?

Mr. Satish Seth:

Rajiv, it is very simple. The policies will be decided by DOT and TRAI, and we will abide by those policies. TRAI has made it very clear that as and when license renewal comes, 900 MHz spectrum will not be allotted and you will be only allotted 1800 MHz unless at that given point of time 1800 MHz spectrum is not available then you will continue to have 900 MHz that too also for a very brief period. So, as and when 1800 MHz is made available, we will have to get into the 1800 MHz. Hence, I do not think there is any possibility for anybody to really go and ask for a change. Yes, you can always go and put a wish list of yours, which is a different thing. Now taking from here, the second question of yours is whether the capex will increase? Once you penetrate more, and when the radius between the two sides starts reducing, the efficiency of 900 MHZ also starts disappearing. Therefore, you are nearly equal to what is 900 MHz and 1800 MHz efficiency. So, we believe that by the time we have a renewal in the seven circles, at that time our number of sites will be so many that the perceived efficiency between 900 MHz and 1800 MHz will nearly disappear and we will not be having any additional capex at that given point of time. I hope I have answered the question clearly.

Mr. Rajiv Sharma:

Yes, just a separate question that you mentioned about your Simply Reliance plan doing well, but if we see the minutes of growth and not MOU per sub, they have grown 5%. If I see the sector growth this time, it is close to 10%. Is it that some other plans have not done well and that is why it is lower than the industry average or there are any other reasons for it?

Mr. Mahesh Prasad:

Rajiv, this is Mahesh. On the Simply Reliance plan, as we had mentioned last quarter also, traditionally there has been a lot of what I call 'bundled minutes' that we have and some of those 'bundled minutes' have been eliminated with the Simply Reliance plan. There are 3 variances in the Simply Reliance as Mr. Seth mentioned and we are not offering any other plan. A bulk of our customers has migrated to Simply Reliance plan. The new acquisitions being made on both GSM and CDMA front are on just the three variants of the Simply Reliance that we talked about. As far as the MOU is concerned, that certainly explains in terms of some of the on net minutes that have been removed which are now at the tariff of 50 paise or 1 paise or 1 rupee, and as what we call 'bundled minutes' with huge allowance that is given with what I call 'pack' being eliminated with Simply Reliance and certainly have not seen the kind of what I call the rated MOUs.

Mr. Rajiv Sharma:

And sir, what would be the network utilization on your CDMA networks and GSM networks, roughly if you can give as a ballpark numbers?

Mr. Arvind Narang:

We do not share the network utilization percentages, it is competition sensitive information.

Mr. Rajiv Sharma:

But one of your competitors did share that their CDMA was close to 50%. So, whether you can suggest?

Mr. Arvind Narang:

That is their view, but we do not share the network utilization percentage.

Mr. Rajiv Sharma:

Okay, thank you very much. Thanks for the answers.

Operator:

Thank you sir.

Mr. Shubham Majumder:

Hi, operator, this is Shubham. Could I ask a couple of questions to management, please?

Operator:

Sure.

Mr. Shubham Majumder:

Thanks. Hi, this is Shubham from Macquarie. I have a couple of questions. One is if you would look at your current levels of net debt and more importantly leverage in terms of net debt to EBITDA, what are your thoughts on that? And more importantly I understand that 3G is something that it is still ongoing and you cannot speak about it, but broadly speaking post 3G & BWA auctions, and based on the capex guidance you have given for next year, what is the comfortable level of net debt to equity and net debt to EBITDA that you will be sort of looking to target? And if so, is there an equity capital raising that will be required?

Mr. Satish Seth:

We at Reliance will ensure that we are in a comfortable zone in maintaining the net debt and the relevant ratios.

Mr. Shubham Majumder:

Yes, I appreciate that sir. If you could just sort of lay out a potential range as to what looks comfortable to you given that you know we have not seen this kind of leverage for the sector as a whole in the past?

Mr. Satish Seth:

You definitely have seen in the late 90s and early 2000 when all the operators were rolling out their networks. So, these kinds of leverages have remained there.

Mr. Arvind Narang:

Shubham, the industry benchmarks internationally are pretty much published numbers for major operators who have done 3G participations worldwide. It has been in the range of 3 to 3.5 according to the international benchmarks published by all of you guys. In India, based on the outcome of 3G auction, one has to take a view post that.

Mr. Satish Seth:

Let me tell you one thing, we will be prudent.

Mr. Shubham Majumder:

Okay, sure. And the second question is regarding M&A. What is the stance that you have as a company with regard to M&A especially in consolidation in light of TRAI's recommendation, and if it does happen over the next sort of one year or so, would we find Reliance looking to acquire assets selectively and what is your take on that?

Mr. Satish Seth:

Well, this is also a speculative question and let me answer speculatively. We will continue to evaluate any proposal, which makes in overall sense for all of our stakeholders.

Mr. Shubham Majumder:

Okay. And finally if I can slip in one small question, I think I may not have got the answer in the previous round, but why was depreciation up on a quarter on quarter basis by Rs. 231 crores when capex was actually very-very benign in this quarter?

Mr. Arvind Narang:

Yes, there was increase in the depreciation due to one time impairment of assets in Flag, and that is just a one-time treatment, on an ongoing basis in future it will be back to the same levels.

Mr. Shubham Majumder:

This is in the Flag submarine site.

Mr. Arvind Narang:

Yes.

Mr. Shubham Majumder:

Okay, thanks, very much.

Operator:

Thank you sir. We have a follow on question from Mr. Srinivas Rao from Deutsche Bank. You may go ahead Sir.

Mr. Srinivas Rao:

Sir, just, I wanted to clarify on this spectrum issue. The GSM spectrum, which you have received, is under the existing USAL license. Is that also terminates with the license itself or that spectrum will be available for you for use for 20 years?

Mr. Satish Seth:

The clarity is not there as yet. We believe that a spectrum will be available for 20 years, but I supposed after this spectrum recommendations DOT should give us clarity.

Mr. Srinivas Rao:

Okay, sir. As of now, you believe that it should be available for you for 20 years?

Mr. Satish Seth:

Definitely, because we have paid for 20 years. That is what the DOT has followed in the past.

Mr. Srinivas Rao:

Fair, enough. Just wanted to clarify on that, sir. Thank you.

Mr. Satish Seth:

Thank you.

Operator:

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