RELIANCE COMMUNICATIONS LIMITED

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

Conducted at 5.30 pm IST on February 14, 2011

Operator:

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

This is Monisha, the moderator for this conference.

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.

Today, we have the senior management from Reliance Communications led by Mr. Satish Seth along with other colleagues namely Mr. Syed Safawi, Mr. Mahesh Prasad, Mr. Punit Garg, Mr. S.P.Shukla, 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, Monisha.

It is a great pleasure to once again welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the third quarter ended December 31st 2010.

Let me first start with a brief update on the sector. The telecom sector witnessed some defining moments in the quarter with the launch of 3G services and introduction of MNP.

A new era in the telecom sector has begun with the launch of much anticipated 3G services during the quarter. The 3G ecosystem is developing at a very fast rate as can be seen from the phenomenal growth of affordable smart phones and the breath taking speed at which the data applications are being developed.

RCOM was among the frontrunners in launching the 3G services, rolling out in a record time of around 100 days of receiving 3G Spectrum in the lucrative metros i.e. Mumbai, Delhi and Kolkata. And as of this call, we have already rolled out 3G services in over 25 cities in the circles where we have 3G licenses.

After many deliberations, MNP was finally introduced, with Haryana being the first circle where subscribers could avail the benefits of MNP. MNP was subsequently introduced on a pan India basis on 20th January 2011. We believe that RCOM will be a net gainer from MNP and would succeed in gaining a significant slice of the high-end postpaid GSM customer base. This is that customer base that has eluded us on account of the general customer affinity to their long time mobile numbers and the GSM handset choice. With the combined offering of MNP and 3G services in major cities, RCOM is uniquely placed to tap high-end GSM users within the retail and the corporate segment.

We believe that the combination of 3G and MNP will have significant impact on the sector in the next few quarters as the market will be broadly segregated into 3G service providers and non 3G service providers. Also within the 3G service providers, the key differentiator will be the products and services along with customer experience.

RCOM's 3G network has been designed to offer blanket coverage in every town being connected on 3G. This has been possible because all the 3G sites of RCOM are connected through IP backhaul to provide maximum download speeds and minimum latency. Our 3G network is capable of offering peak speeds upto 28 Mbps and significantly enriches our Internet Access Services offering, enabling us to further strengthen our leadership in the wireless data space.

We will be launching 3G services in all the 13 circles by end of this fiscal year and will be targeting launching in balance 9 telecom circles during the course of next year, through appropriate associations and collaborations with other like minded, quality 3G players.

Let me now take this opportunity to share with you some of the initiatives taken by RCOM during the quarter, which are likely to have a significant positive long term impact on RCOM's operational and financial performance:

a) To consistently enhance the customer experience, RCOM has partnered with the World's best organizations, including Nokia for devices, Facebook, Nokia and Ericsson for applications, Universal Music for content and Motricity for the Web portal.

b) Working with our technology partners, RCOM has launched the Video Call, Video Chat and Mobile Video Conferencing services. For the first time in the industry, we are offering simultaneous Video Conferencing among 60 participants along the same lines as the traditional wire-line videoconferencing

c) RCOM has partnered with Microsoft to launch Reliance Hosted Exchange 2010 which is one of the first hosted solutions in cloud computing space. It is a complete end-to-end e-mailing solution which promotes business messaging and collaboration. The Reliance Hosted Exchange 2010 eliminates users' needs to invest in hardware, software licenses, security and related management costs by providing a 'pay-per mailbox' Service model. This suite will help businesses manage their communication needs mainly email in a highly cost-effective manner by outsourcing the end-to-end management to Reliance IDC in a Reduced Cost to Ownership (RCTO) model.

The solution will run on RCOM's extensive optic fiber network infrastructure spanning 2,00,000 Rkms and offer Data Management solutions at its nine IDCs based at Mumbai, Bangalore, Chennai and Hyderabad. Enterprises across India will be able to benefit from the connection that runs across the length and breadth of the country over RCOM's gigabit capacity with high speed connectivity.

d) RCOM signed a MoU with China Development Bank Corporation for syndicated loan financing of US$ 1.93 Billion. This covers:

- the first and largest Syndicated Loan of US$ 1.33 billion for refinancing 3G Spectrum Fees; and

- financing of up to US$ 600 million towards 85% of equipment and services to be procured from Huawei and ZTE.

RCOM will benefit from extension of maturity, and substantial savings in interest costs.

Brand Reliance has undergone a refreshing change with a new look and feel. The change is an attempt to reinforce the strength of the mother brand, unleash its powers and communicate the benefits of the brand across different Group companies. We are repositioning the Reliance Mobile brand to highlight brand's propositions such as the rich portfolio of services, its network quality, customer service and its leadership in the wireless data and VAS space.

Now, I would like to share some of the key highlights of the financial performance during the quarter:

- Revenue at Rs. 5,004 crore, down 2.2% against Rs. 5,118 crore in the sequential quarter

- EBIDTA at Rs. 1,668 crore against Rs. 1,660 crore – increase by 0.5% sequentially

- EBIDTA margin has significantly improved from 32.4% to 33.3% sequentially and is the highest in the industry

- Net profit of Rs. 480 crore, up 7.7% against Rs. 446 crore in the sequential quarter

We have been able to achieve these EBITDA margins as a result of our constant endeavor to improve the efficiency of operations.

I would now like to share with you the operational performance of our wireless business.

In this quarter, we achieved revenue of Rs. 4,064 crores, a decrease by 2.3% QoQ basis and EBITDA of Rs. 1,179 crores. Our EBITDA margin stood at 29%. Our RPM stood at healthy 44 paisa, we have successfully arrested decline in RPM for the last 4 consecutive quarters.

Revenues are down this quarter as a result of our rebalancing of our product portfolio. We are doing away with low margin business even if it provides high volume as it puts pressure on our resources including scarce resources like spectrum. We are deliberately moving away from the wholesale segment of PCO and FWP business. The wholesale segment of PCO business is typically a low margin segment where wholesale minutes are provided to the distributors at a bulk discount. We are putting our resources on more profitable Data and VAS businesses thereby future proofing the business against voice led growth alone.

Consequently, the CDMA high speed data has been rolled out to nearly 500 towns and 3G services is currently being launched in over 150 towns. As a result, our non-voice revenue continues to be a strong contributor on quarter-on-quarter basis in line with our overall strategy.

We have remained focused on building quality of operations by increasing paid minutes of usage. The RPM for RCOM remained unchanged at a healthy 44 p/min vis-à-vis the industry, which continued to show marginal decline in the RPM. Four quarters back, RCOM's RPM was lower than other industry players by 8-10 p/min. Now we are amongst the best in the industry through a well defined strategy, to maximize yield per minute and lay the foundation for a sustained profitable growth.

Going forward, the rural drive combined with continued urban focus through 3G, data & postpaid would be the key enablers towards profitable growth. We are committed to provide the highest standards of customer experience across all our platforms – be it CDMA, GSM, 3G or wireless data. It is this customer focus which will increasingly become a differentiator in the ever-evolving Indian wireless market.

Let us now discuss the operational performance of our non wireless business.

We are pleased to announce the creation of new business unit, Global Enterprise Business. This consists of erstwhile Globalcom business and Enterprise Broadband Business. Both the businesses offered similar type of products and services and served similar clients in different geographies. Thus, in order to synergize and leverage their strengths and to benefit from the market opportunities, the business units of Global and Enterprise Broadband have been combined into an integrated unit.

The integrated Global Enterprise Business Unit will:

- Present single-face to customers with world-class SLAs and exhaustive cutting-edge voice and data products to meet emerging business needs;

- Drive service delivery and assurance on a seamless integrated network with state-of-the-art systems and processes;

- Deliver Operational Excellence through integrated back office, systems and processes.

- Leverage scalable low-cost delivery and operations center in DAKC;

The Global Enterprise Business will pursue high growth services and verticals such as Managed Services, Data Centers and Ethernet connectivity segment in a focused manner. The new business unit is led by Punit Garg and is further divided into two vertical SBUs namely Carrier & ISP business and Enterprise business, each led by respective SBU heads.

In the previous quarter, we continued acquiring new contracts and obtained repeat business from our existing customers in India and around the globe.

In Globalcom business, we have achieved revenue of Rs. 1,923 crores, an increase by 4.6% QoQ basis and EBITDA of Rs. 397 crores, an increase by 16.9% QoQ basis.

In Enterprise business, we have achieved revenue of Rs. 618 crores and EBITDA of Rs. 227 crores

In our Carrier business, we signed new Capacity Sales contract of Rs 142 crores in Q3. We have signed contracts with ITC in Saudi Arabia and with Maxis in Asia.

The International Voice business continued handsome growth. It has grown 45% in Q3 on YoY basis. Reliance has moved up to become one of the top 10 Voice Traffic Carriers in the world. We are number one International voice carrier in India and have grown 11% on QoQ basis (from Q2 to Q3) against a market growth of 5%. We have added several new customers and expanded our relationships with existing carrier partners. Despite price pressures in voice business, we profitably leveraged our existing network capacities and are expanding for the next cycle of growth.

In the National Long Distance carriage business, traffic has grown by 21% on a year on year basis.

As part of the constant process of cable system upgrade in this quarter, we have completed the upgrade of our FA1 cable system with capacity addition of 400 Gigbits between Europe to USA (East Coast) across Trans Atlantic Link.

We are the only service provider with multi terabyte capacity on west of India and we expect to benefit substantially from the 3G and BWA rollout by various operators.

The Enterprise service business continues to win big deals in the US, Europe and India. We have entered into Rs 50 crores deal with German industrial conglomerate ThyssenKrupp. We have also signed multi crore deals with SGS (World's leading inspection, verification, testing and Certification Company), Groupe Bel (French manufacturer of cheeses), Manappuram Finance, National Payments Corporation of India etc.

In India, we acquired new business of Rs 200 crores in Q3. We also added 50+ new large and medium customers in this period.

I am glad to share that we have got empanelled as an ISP for the prestigious UID project. This means that we would be providing connectivity services for UID Enrolment Agencies, across India.

Going forward, in India we would continue our focus on Government Business and SMB segment. We are also bullish on the growth of the managed services and the Data Center business.

Globally, we have forged very strong relationships with our existing customers and we would continue to increase our wallet share in these accounts by cross selling and up selling services. We are confident that with the combined strengths of our India Enterprise business and Global capabilities, we will be the natural partner of choice for the enterprise customers. This would help us acquiring new logos to expand our customer base.

On the overall RCOM's capex front, our earlier guidance (ex 3G) for FY11 remains same i.e. Rs. 3,000 crores. During 3Q FY11 also, RCOM remained free cash flow positive on an annualized basis (ex 3G) and we believe that we shall be able to continuously generate free cash flows in coming quarters; meeting all capex requirements through internal accruals.

We reiterate that we will continue to apply capital discipline to our investment decisions to ensure that any investment and corporate activity will enhance shareholder returns.

In the context of the ongoing developments in relation to 2G spectrum, the company last evening has stated its position in detail and the statement made by the company is available on the web site of the company. To conclude my initial comments, I would like to say that the events in the third quarter mainly the launch of 3G services has created a new beginning and would be the key driver of growth through demand of data services. Customer centricity, launch of new data applications and seamless network will be the key to success. The newly integrated businesses of Globalcom and Enterprise will further help us in offering better services to the enterprise and carrier customers.

I now hand over to Moderator to open the floor for Q&A. Thank you.

Moderator:

Thank you, Sir.

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.

Participants are requested to please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel the request, please press they hash or the pound key.

First in line, we have a question from Mr. Sachin Salgaonkar from Goldman Sachs. You may go ahead, sir.

Mr. Sachin Salgaonkar:

Hi, thank you for the call. Firstly I want to understand a bit more on the decline in revenue in wireless and broadband segments. Why has your EBITDA margin not improved in Q3 despite moving away from the low margin business and also if you can throw a little bit of more color on the reason for q-o-q decline in Broadband revenue and EBITDA? My second question is on MNP, has MNP helped you to make inroads into the corporate subs-base of the old GSM operators? Thanks.

Mr. Syed Safawi:

Sachin, this is Syed here. I will take up the wireless question first and then the MNP one. Last couple of quarters we have been on record to state that we are taking out free minutes and low margin minutes, and this is a rebalancing of the portfolio that we are consciously doing, by moving away from low margin businesses. And in last couple of quarters, we had already taken out about 50% of our free minutes and this quarter as well, we have furthered that. Also, we are consciously walking away from the low margin businesses which are the wholesale business of PCOs and FWPs. Now, this rebalancing the portfolio will typically take 3 to 4 quarters or may be 5 quarters in totality. We are already well under way at about 3 quarters; this will take another 2 quarters to balance out. What we are trying to do is release precious spectrum and capacity so that we can get high end data services going on the same spectrum that we have and hence you got to read it along with the 500 towns roll out that we have done for HSD and as that revenue starts coming through starting this quarter and next quarter, we will start seeing more balanced portfolio in terms of profitability. Having said that, our margins for the wireless business has been maintained at around 29% for the last 4 quarters. So they have not gone down despite a marginal erosion of revenue.

On MNP, still early days as we are just about 23 to 25 days into national roll out, I think it is still settling down. We are already bidding for the corporate accounts, we have been in contact with them for the last couple of months and the decisions to shift takes sometimes a month to two months, may be sometimes 3 months for the whole corporate account to shift, but we are beginning to see early traction. I just want to restate that we are clearly focused on driving value churn from corporate, postpaid customers and SME accounts than going for sheer numbers. It is very easy to go for just prepaid numbers porting in but we would rather focus on driving value churn and we are beginning to see early traction from some of the corporates who are already beginning to churn in, especially in our 3G circles. On the broadband side, I will hand over to Punit.

Mr. Punit Garg:

Thanks Syed. Sachin, there is couple of reasons for the decline:

RCOM has always focused on leveraging on the assets and resources. In Globalcom, we had additional bandwidth (bandwidth was lying idle out of the cable landing station) which we made available for internet in India. So in the past, we booked revenue from other carrier customers with the lower margin, to utilize the idle bandwidth.

The second point is that in the consumer broadband business, there has been considerable price pressure because of the already existing price pressure in the wireless and other competitions. As a result, a bit of price erosion has also happened. But going forward, as we are adding more customers we do not see this impact as a carry on effect.

Mr. Sachin Salgaonkar:

Thanks, this is helpful. Syed, just a followup. So is it fair to assume that the margin improvement on the wireless could come after a couple of quarters despite your move away from the free minutes and the low margin PCO business mainly because of the higher increase in opex related to 3G rollout?

Mr. Syed Safawi:

Sachin, you can already see that our margins are on a much firmer footing. For the last three quarters there has been holding on to margins despite the rebalancing of revenues. I think that is evidence of the fact that we are moving in the right direction. As data contribution and high value minute contribution improves further with the rollout done already in 500 plus towns for HSD and also now in 3G, you will definitely see the rebalancing of the portfolio and EBITDA improvements. It will take a couple of quarters for the whole rebalancing to get completed.

Mr. Satish Seth:

Sachin, we will be the only company who would be providing high speed data services in over 600 to 650 towns in India. We have already started providing in more than 500 towns already and the impact of that you will continue to see in the coming quarters on a continuous basis.

Mr. Sachin Salgaonkar:

Thank you, sir. This has been helpful.

Operator:

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

Ms. Reena Verma:

Thank you very much for the call. Just a few questions. Firstly, on the tower sharing deal that you had signed with Etisalat DB some quarters ago, please can you update us on the status of that agreement?

My second question is on your enterprise business, can you please help us understand what exactly you meant by the reclassification? From an accounting standpoint does anything change? And also why capex in the enterprise business is down to a trickle, is that sustainable?

And finally my third question is on 3G and HSD. Can you share with us in terms of megabytes, what kind of uptake you are seeing in these early stages? Thank you very much.

Mr. Satish Seth:

The tower-sharing deal is continuing and the agreement is intact. The Etisalat is using our passive infrastructure and therefore the contract continues.

On the integration of Enterprise with the Global unit, there has been no impact on the accounting side.

And on the enterprise capex being trickled, you would have noticed that in my initial comments I had said that whatever capex we had to do ahead of the time to capture the market, has been done. Now, we have the ready infrastructure which is capable of providing us higher and higher revenues on a continuous basis. As and when any capex is required, it can be incurred in a period of 45 -60 days as these are the last mile capexes beyond whatever the fiber capacity has already been built in. Therefore, please do not look at the trickling of the capex instead look at the sweating of the assets which will give us higher revenues and profits.

Mr. Punit Garg:

Reena, I said that on the idle capacity, we were looking at sweating the asset. What I mean was that there was idle capacity available on the cable landing station in India, which was being used by our broadband business in India, offering that capacity at a lower rate to some of the carriers. These contracts have now ended and we have not renewed them. We have now customers buying that capacity at significant higher charges. Now the capacity is being used and we are getting the right rates and the right margin, which is evident from the reported numbers

Ms. Reena Verma:

Thank you, I still have a pending question on 3G, but before I come back to that, just a couple of questions please. First one is, you had committed to deliver 30,000 towers by fiscal 2013 to Etisalat. Where do you stand in terms of the number of towers taken by them and do you still stick with the 30,000 target. My second question is on Enterprise side, where you had announced an ambitious FLAG NGN project. Has that been scrapped or has it taken a different shape? Thank you.

Mr. Punit Garg:

Reena, on the NGN project, our Mediterranean site project is progressing well. Initially, the project got delayed as the permissions related to the Ministry of Defense, Egypt were pending for the last 18-24 months. We were committed to complete the project in this quarter but the project is getting further delayed by 4-6 weeks due to the recent problems in Egypt.

The second project which we were looking was in Asia, to enhance the capacity by putting in the new cable system. We no more require that now because the technology has changed significantly during this period. The existing cable system itself can now be upgraded from 10G, which was announced two years ago to 40G and now to 100G. We have tested that and now the 40G system is already deployed on our FLAG Atlantic system. As a result, the capacity has increased by ten times of that on the same existing assets which literally means that we do not have to put in any new cable system over there.

The other system, we just converted those in the cooperation. So everywhere the newer capacity is coming up by either leveraging our assets or doing a deal with the other carriers.

I would say that in the next two quarters, you can see all of that added into our network.

Mr. Syed Safawi:

Reena, on your question on 3G, HSD and the megabytes that we are getting through data, just to put on record, it is only in the last 60 days that we have significantly ramped up our reach in terms of HSD and 3G. We have added more than 500 towns in between November and now. And I do not think it will be proper to look at success in terms of megabytes, because it is very easy, as we have learned from the west, to give unlimited plans and get megabytes and choke the network, with spectrum being scarce as it is here. I think the proof should be in profitable revenue growth. We are just 60 days into this hugely expanded town base and you will start seeing the proof of that revenue growth in the next couple of quarters, about which we are absolutely confident. We are a data starved country in that sense and with our expansion into 550 to 600 towns, we are confident of getting profitable revenue growth from there.

Mr. Satish Seth:

On your query on the Etisalat tower, we have been getting the orders from them on a continuous basis. So, we do not foresee that there will be a difficulty. It will all depend on their plans of the expansion now onwards.

Ms. Reena Verma:

Okay, thank you very much.

Operator:

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

Mr. Vinay Jaising:

Thank you so much for the call, sir. I have one question on wireless business and another question on the accounts. On the wireless space you mentioned that the free minutes are being sapped out of the system as a result of which, the revenues are where they are. My question is when free minutes go out of the network, how do the revenues fall? Because the revenues fell by about Rs. 97 crores, at about Rs. 4,064 crores down from Rs. 4,161 crores.

On the second question, when I am looking at the net interest cost in the income statement it is about Rs. 130 crores, but what I am seeing in the quarterly report is that the net debt has actually gone up by about Rs. 3,250 Crores and it is about Rs. 32,447 crores. Also, the working capital has increased. I am not being able to reconcile these two. Has there been some huge working capital or capex related increase which is leading to this higher cost element for the balance sheet? Thank you.

Mr. Mahesh Prasad:

Vinay, on the wireless revenue decline vis-à-vis the minutes, we have been continuously taking out the free minutes and we are also consciously moving away from the wholesale model of the minutes which do generate revenue but with very low margin and do take up the resources of the company. These are the PCO and the FWP segments where there are minutes of usage and of course the revenues. But by systematically moving out some of that into the data capacity that we are talking about, certainly you will see a marginal decline in the revenue and at the same time you will also see a decline in the minutes.

Mr. Syed Safawi:

Vinay, I must add to what Mahesh has said, this is a very conscious choice. If we are to sell high speed data in 500 to 600 towns and make profitable revenue over there, we have got to release capacity and unwanted low value minute capacity and dedicate that to data. This is a very conscious part of our rebalancing strategy, we started removing free minutes, we have removed a little more of those and more importantly we are rebalancing the portfolio so that in the next couple of quarters you will start seeing much higher proportion of revenues coming from high value data.

Mr. Vinay Jaysing:

My apologies here sir, but when I go back to June 2009, we had about Rs. 4,800 crores of revenues. It has been stuck to the Rs. 4,000 - Rs. 4,100 crores for the last 6 to 7 quarters. So, what I am not being able to judge is when do we see the turnaround of revenues coming into this space, you know, hence the question?

Mr. Syed Safawi:

Yes, I wish we can forecast precisely, but we can share with you the direction that we are taking. The direction clearly is a lot of focus on high speed data led by HSD to maximize our CDMA capacity. 3G is the key integral part of our whole strategy again, both on dongles as well as mobile data services. The third piece is the high value segment which is corporate SME and postpaid which we spoke about briefly, and obviously the fourth leg is GSM led rural growth. So, this is the end portfolio that you are going to see, obviously the anchor and the foundation is CDMA voice revenue, that is not going away, but these are the four growth drivers. As you see a more balanced portfolio, you will start seeing the growth. The difficult part is to precisely say which quarter how much revenue. But if we are doing these things right, there is no reason at all to assume that revenue and profitable growth will be otherwise.

Mr. Satish Seth:

Vinay, I will add one more thing. When the teledensity has been rising so steeply in the country, necessarily by and large most of the people have access to the mobile phones and therefore the usage of the FWP and PCOs have consistently and considerably gone down. Having recognized this fact, we said that let us move the portfolio which would be the next generation. That is how the whole strategy has been developed. Having now rolled out high speed data in more than 500 towns and another 100 - 150 towns to go, coming quarters you can only see better results.

Mr. Vinay Jaising:

Yes, sure sir.

Mr. Arvind Narang:

On your question on net finance charges, this has come down from Rs. 280 crores to Rs. 130 crores. This is basically on account of the foreign currency gain by 23 paise on the foreign currency borrowing of around Rs. 23,200 crores. There has been a MTM gain of around Rs. 100 crores in this quarter versus the loss of around Rs. 50 crores in the last quarter.

Mr. Satish Seth:

Also Vinay, we have paid the 3G license fees and incurred the 3G capex also. Until the 3G is fully commercialized, the interest on that will be capitalized. Thank you.

Mr. Vinay Jaising:

Another question is on the networking cycle and the net debt which has gone up this quarter. The net debt has gone up by about Rs. 3,250 crores and if I see your EBITDA and I see your capex that is largely balancing itself, it seems as you have shown in your cash flows you have a huge increase in networking cycle. I was wondering if you can throw some light out there.

Mr. Arvind Narang:

Vinay, this question you need to correlate with the movement in the CWIP in the last two quarters. There was reduction in advance paid to suppliers (shown in Q2 as reduction of CWIP) and the same has been used in this quarter (shown as increase in CWIP). The gross fixed asset has gone up in this quarter by about Rs. 682 crores and the CWIP has gone up by about Rs. 2,570 crores, totaling to around Rs. 3,250 crores. Subtract the capex which is about Rs. 1,914 crores and the balance figure of about Rs. 1,300 crores is basically the advance paid to the suppliers.

Mr. Vinay Jaising:

Thank you sir.

Operator:

Thank you sir. Next in line, we have a question from Mr. Suresh Mahadevan from UBS. You can go ahead sir.

Mr. Suresh Mahadevan:

Yes, good afternoon and thanks for the opportunity. I have two questions. One is can you update us on your plans to deleverage the balance sheet? Can we assume all the plans earlier to sell majority stake in the tower company, is it still on? Any color on that will be helpful.

The second question is almost a followup of what Vinay is saying. I think you launched GSM in early 2009 and obviously lot of investment has gone into the GSM primarily on the electronic side, but it has not been contributing to revenues. Obviously GSM is a growth area and does it mean that CDMA subs are all switching to GSM or is there an actual revenue loss and subscriber loss that is on the CDMA business? I would like to get some color on that because you have put in a lot of money on this GSM network but it does not seem to contribute to incremental revenues. Any thoughts on that how to monetize that will be useful?

Mr. Satish Seth:

Suresh, on the second question, if you recall the GSM services were launched between April 2009 and June 2009. Spectrum given to us was under 1800 MHz band and therefore it required a large number of additional passive infrastructure to be rolled out. Hence, there has been additional capex which has been incurred. And if you recall right from the 2003 onwards, the company had built up its product portfolio on the CDMA voice which included PCO and FWP business in a very large manner. As the teledensity started going up and particularly after 2008-09 and 2009-2010, these businesses started showing decline and that is why we have started defocusing from these businesses and started focusing on the high value businesses on the data side. We started the new business of GSM particularly at a time when there was hyper and intense competitiveness in the market. And immediately after we started the business, there has been steep reduction in the prices from nearly 1 rupee 25 paise a minute to about a 40 paise, 50 paise, or 60 paise a minute, depending on the different plans offered by different competitions, and within which also there was a huge variation.

If you look at in this context, the company has performed well having seen such hyper competitiveness.

To reiterate, we being in the 1800 MHz band of the spectrum with a 4.4 MHz spectrum as compared to the other competitors who are enjoying 8 - 10 MHz in 900 band which is at lower capex, this is the resiliency of this particular business which we have been able to deliver. Going forward having succeeded in our planning and our plan to move to other higher product portfolio, we definitely believe that we will continue to deliver better and better results.

On your first question on the debt deleverage, we continue to evaluate several plans and as and when we will have the highest value giving proposal, we will definitely implement it.

Mr. Suresh Mahadevan:

A small followup, is CDMA business doing pretty poorly because I am sure in GSM, you are getting enough adds, right?

Mr. Satish Seth:

I think it is a wrong impression that the CDMA is doing pretty poorly. As a matter of fact, let me tell you CDMA is a far better technology than GSM, unfortunately in this world GSM came first, and the ecosystem developed around GSM and therefore you have seen the GSM in more than 100 to 120 countries being developed, but if you really use the CDMA phones, and the CDMA voice clarity, it is great voice quality and the people who have been using the CDMA have given positive feedback and I recommend you also to kindly use sometime the CDMA phone and you will appreciate its good performance. On incremental basis, we are more focused on data services through CDMA (as earlier mentioned in the call) leveraging its strength of spectrum efficiency and data capability.

Mr. Suresh Mahadevan:

Okay, thank you sir. Thank You.

Operator:

Thank you sir. Next in line, we have a question from Ms. Malvika Gupta from J.P. Morgan. You can go ahead please.

Ms. Malvika Gupta:

Thank you for taking my question. My first question is just on the strategy of shifting away from the low margin PCO and FWP business. How many more quarters can we expect that to continue?

Second question is more of a clarification. I may have missed that earlier in the call, but I wanted to understand the capex guidance for the current year. Does that stay at Rs. 3,000 crores and what adjustment we should make to the number reported in the current quarter if that does stay at Rs. 3,000 crores? And just following up on the interest expense for the quarter, was it all capitalized with relations to 3G and how much was the amount? Thank you very much.

Mr. Syed Safawi:

Malvika, Syed here. I will take your first question on the rebalancing of the portfolio. I had mentioned earlier in the call, that it is a 3 to 5 quarter transition. We are already into the third quarter. We have taken out free minutes, a lot of them. The rebalancing is continuing as we also have rolled out the high speed data exponentially to 500 plus towns in the last 60 days. So, our estimate is that by next quarter end you should be seeing much more balanced portfolio coming through. So, it is two more quarters to be precise. We will come to your second question Malvika.

Mr. Arvind Narang:

Malvika, the capex guidance remains the same at Rs. 3,000 crores ex 3G. The 3G interest expense of Rs. 120 crores has been capitalized because the 3G launch was a soft launch during the quarter.

Mr. Satish Seth:

The 3G launch was basically a soft launch in the month of December in the four cities of Delhi, Bombay, and Kolkata, and Chandigarh, and the rest of the launch will now happen between January and March 2011.

Ms. Malvika Gupta:

Okay, thank you very much everybody.

Operator:

Thank you madam. Next in line, we have a question from Mr. Sanjay Chawla from Antique Stock Broking. You can go ahead sir.

Mr. Sanjay Chawla:

Hi, good evening, thank you for the call. I have 3 questions. First, given that you mentioned 3G was a soft launch in November, can we assume that you have not started amortizing the 3G spectrum for you at all in the third quarter?

Mr. Satish Seth:

First and foremost the soft launch happened on 13th December 2010, and it was a soft launch. The amortization will start as and when it is commercially launched in all of the towns.

Mr. Sanjay Chawla:

So, when do you expect to start amortizing the circles, I mean you mentioned the launch would be completed in all the circles by March. So, should we assume like from first of April that this cost will start coming into the P&L?

Mr. Satish Seth:

Yes, please.

Mr. Sanjay Chawla:

Okay, so obviously nothing should come in the fourth quarter as well.

Mr. Satish Seth:

A very small amount can come.

Mr. Sanjay Chawla:

Sure, I appreciate that. My second question is on the network cost which has declined by about 10% on a quarter on quarter basis. Can you please explain what it is due to?

Mr. Satish Seth:

Sanjay, when you are faced with hyper intense competitive scenario, what you do? You take into account both sides of the profit and loss account that is the revenue and the expense side. First, you continue to manage your revenue within the given external environment. And the second is you continue to look inward at your own expenses. We started focusing on that since about October 2009 and onwards. We took upon ourselves to undertake huge amount of optimization without impairing the quality, the needs of the company and without impacting the growth of the company. These efforts have become a way of life and the first item which we had taken over was power and the fuel cost, which was very huge and it has been optimized phenomenally. We have worked on about 20 to 25 different approaches which have given us huge benefits. Similarly we have undertaken operational excellence program as a way of life and that is translating into results.

Mr. Sanjay Chawla:

All right, okay, thank you.

Operator:

Thank you sir. Our next question comes from Mr. Sachin Gupta from Nomura. You may go ahead sir.

Mr. Sachin Gupta:

Hi, thank you very much. Just two questions, firstly on MNP. You mentioned that RCOM should be the net beneficiary. Just wondering is that something that is happening now or something you are hoping for?

And second question obviously on the regulation. Any thoughts from your perspective? How do you see the whole thing evolving from here onwards?

Mr. Mahesh Prasad:

If you look at the experiences of MNP worldwide, MNP is not a one quarter phenomenon, it is a long haul and what we believe is, given the MNP and the 3G in the three metros and lack of the GSM postpaid customers who have stayed with the number, we have an opportunity to tap into that. So, we see this as an opportunity going forward both on the retail front as well as on the corporate front. The corporates do take some time in terms of materializing the contracts; however, we still see this as an opportunity to go after with the MNP and the 3G.

Mr. Sachin Gupta:

Yes, thank you, all the best.

Mr. Satish Seth:

What is the second question, not been able to get that?

Mr. Sachin Gupta:

Second question was just on the recent regulations and TRAI proposals, is there any thoughts on how do you see the whole thing evolving from here onwards?

Mr. Satish Seth:

We are awaiting clarity from the Government of India and DOT.

Mr. Syed Safawi:

It is a very big topic and I do not think we will be in a position to attempt to answer it as it is very engrossing and in detail.

Mr. Sachin Gupta:

Ok, thank you sir.

Operator:

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

Mr. Rajiv Sharma:

Yes, thanks for the opportunity. Just a clarification on your rebalancing of minutes explanation. You suggested that you have been closing down or phasing out the PCO business, but what I understand is that this business has been mostly in smaller towns. So, my question is, are you facing spectrum crunch or you see data opportunities in these remote areas and have you taken a step in advance in that planning or am I missing something here?

Mr. Mahesh Prasad:

There are two elements to it, Rajiv. One you need to look at PCO in terms of the urban populous as well as the rural. On the urban front, we have done a lot of expansion that is in the top 500 towns where we see the wireless internet and data opportunity. Also, there is a teledensity push in the rural segment.

Thus we have seen that there is less and less use of the PCO in both the urban as well as on the rural front. There is less appeal of the PCO given people have access to mobile phones and very competitive offers and tariffs. This is essentially what is driving our strategy in terms of rebalancing. In terms of the spectrum crunch, we want to make sure that as we add more and more towns and also serve the customers in existing towns where we have data, the experience is the same despite adding quite a sizeable set of customers in those towns.

Mr. Satish Seth:

One more point I would like to add, Rajiv. We are a company which is providing CDMA services on 1X platform and EVDO platform. We are also providing on 2G GSM and 3G. It gives us an opportunity to provide wire free services all over India. We are the only company which can today provide wire free internet services on our 1X model and high speed data now about 500 towns and going forward about more than 650 towns. That means effectively if you all believe that the country is moving towards use of internet and broadband on a large scale basis, we should be able to reap the benefits to the maximum extent.

Mr. Rajiv Sharma:

Yes, thanks for that explanation, just a follow up here. There was a question on network operating cost coming down. So, is it fair to say that with the closure of the PCO business in some markets, the network operating cost is also a resultant of this phase down?

Mr. Satish Seth:

It is very difficult to locate any particular reason to this thing, and let me tell you, we are not closing down the business, please. It is the need of the day when the people start having possibility and facility to make calls from their own devices, why should they go to PCO? As the teledensity will increase, the needs of the PCO will reduce to that extent.

Mr. Rajiv Sharma:

Thank you very much.

Operator:

Thank you sir. At this time, there are no further questions from the participants. That does conclude our conference for today. Thank you for participating. You may all disconnect now.