RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended June 30, 2011

Conducted at 12.00 pm IST on Aug 16, 2011

Operator:

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

This is Mamta, 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. Syed Safawi along with other colleagues namely Mr. Mahesh Prasad, Mr. Punit Garg, Mr. Sanjay Behl, Mr. Hasit Shukla and Mr. Arvind Narang.

The call will begin with some key observations by Mr. Safawi 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. Syed Safawi. Thank you.

Syed Safawi:

Thank you, Mamta.

It is a great pleasure to once again welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the quarter ended June 30th 2011.

I am pleased to share with you that RCOM has been able to sustain its performance with fairly stable revenues and margins, not withstanding newer dimensions of competition in the industry.

Key highlights for the quarter:

Let me share with you the key highlights of the quarter:

1. **Revenue:** We have witnessed second consecutive quarter of 3%+ consumption led revenue growth in the wireless business. We believe this trend will continue going forward and expect to achieve consistent revenue growth based on various initiatives undertaken in the last 2-3 quarters

    - **RPM:** RPM stood at 44 paisa per minute, amongst the highest in the industry and stable for the last 6 consecutive quarters

- **EBIDTA:** RCOM EBIDTA margin at 32.4%, amongst the highest in the industry

2. **Free Cash Flow and debt management:** RCOM continues to be Free Cash Flow positive in this quarter

    - All major projects have been implemented and peak capex is behind us. All future Capex requirements are only incremental and focused on network quality, capacity and data growth driven

    - As already communicated, RCOM was the first and only operator to refinance its spectrum fees through ECB from China Development Bank. RCOM is benefiting from extended Loan Maturity of 10 years, and substantial annual interest cost savings of Rs 500 crore.

    - We have redeemed FCCB of USD 500 Mn. in the month of May, 2011. We are fully geared up to repay the future debt maturities (including redemption of FCCB worth USD 1.1 Bn due in March, 2012).

3. **Reliance Infratel Transaction:** RCOM received formal indicative offers from several interested parties, for the acquisition of RCOM's controlling interest in Reliance Infratel. Completion of such a transaction would facilitate RCOM's stated objectives of achieving a 'substantial reduction' of its overall debt position, and staying well within its target of long term leverage ratios.

    - The process of detailed due diligence is proceeding on track

    - Post transaction, RCOM debt may potentially reduce by over 50%

    - Visibility of significant Free Cash Flow & expected reduction of debt would put RCOM on a much stronger position

Financial Performance:

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

- Revenue at Rs 4,940 crore, against Rs 7,876 crore in the sequential quarter, which included first-time IRU income of Rs 2,545 crore as explained in last quarter

- EBIDTA at Rs 1,602 crore against Rs 4,122 crore in the sequential quarter, which included EBIDTA of Rs 2,530 crore associated with first-time IRU income

- EBIDTA margin at 32.4%

- Net profit of Rs 157 crore, against Rs 169 crore in the sequential quarter

I would now like to share with you some of the initiatives taken by RCOM, which are likely to have a significant positive long term impact on RCOM's performance:

1. **Wire Free India:** We continue to rapidly execute our 'Wire-free India' vision, which was unveiled by our Chairman during the last AGM about a year ago. We have remained committed to put accelerated efforts in enabling wireless broadband across India. As we speak, we are expanding our HSD Network and by the end of this quarter, we will have quality HSD coverage in over 900 towns up from 65 towns one year back.

   The presence of 3G in 333 towns in 13 circles (including Delhi, Mumbai and Kolkata), along with the rapidly expanding High –speed CDMA data network, RCOM is the only nationwide private operator to offer seamless Wireless Broadband experience in **over 1,100 towns** across the country as of June 30, 2011.

   Combine this with our extensive 1X Data presence offering high quality internet connectivity in 20,000 towns; it positions RCOM extremely well to take advantage of the rapid increase in data consumption across the country and enabling our vision of a **'Wire Free India'**.

2. **Mobile Number Portability** has been neither a boon nor a bane for Reliance Communications. Even at sector level, it has not made any significant impact. As of June 30th, 2011, we are net positive in Port-ins and Port-outs for the month of June. With our superior 3G network, we continue the drive to attract high value prepaid customers to churn to our network and our focus will continue to be on 'value accretive churn' in the coming months.

3. As an integral part of our 3G Strategy, we had established a **'3G Innovation Lab'** with the objective of facilitating the development of mobile service innovations by offering real-time product developmental capabilities to 3rd party developers.

   1. As part of that effort, we successfully launched **R.apps** last quarter – the Reliance branded application store, having more than 50,000 apps and games with innovative pricing options like try-and-buy.

   2. We have also refreshed **R-World** – the next generation entertainment portal - making it more user-friendly and with faster downloads.

   3. In the next couple of weeks, we will be launching our new **Video on Demand** application, that will render across various devices such as handsets, tablets, PC, etc.

4. To help develop the 3G ecosystem in India, we launched our proprietary 3G Tablet, **Reliance 3G Tab** – an Android-based Tablet at a very attractive price of

under Rs 13,000, enabling our customers to enjoy a futuristic 3G experience and explore a world of unlimited possibilities. This is a big step in the 3G revolution in India.

5. Last year, we did a massive Brand Refresh drive to make the brand youth and innovation centric. We are continuing the focus on our Brand through the TV Campaign that is on-air, as we speak.

Achievements:

Let me share with you RCOM's achievements during the quarter:

1. **Graham Bell Award:** RCOM has awarded by Aegis Graham Bell Award 2011 second year in a row. This year in the category of 'Best Broadband Performer'.

2. **RCOM Reliance Tech Services wins CIO 100 Award:** RCOM Reliance Tech Services has been adjudged as a winner of the CIO100 Awards, 2011, from among hundreds of worthy companies including Operators, and Suppliers.

Let me now share with you the financial and operational performance of our wireless business.

Overall, in the 1st quarter, the new subscriber acquisitions have slowed down for the industry. There was a decline in subscriber additions in the industry given the challenges of MDN series. The industry added 40.23 million wireless subscribers (against 59 million in previous quarter) and total wireless subscriber base stands at 846.17 million as on 30th June 2011.

However, for Reliance Communications, subscriber acquisitions have remained in line with previous quarter and RCOM maintained a share of 17% of customers.

- Wireless revenue for the quarter stands at Rs 4,327 crore, against Rs 4,198 crore in the sequential quarter, a consumption led growth of 3.1%

- EBIDTA stands at Rs 1,173 crore against Rs 1,149 crore, up 2.1%

- Our RPM stood at healthy 44 paisa, among the highest in the industry. We have successfully arrested decline in RPM for the last 6 consecutive quarters amidst increasing competition, driven by the 'quality of operations' focus

- We have continued our increased focus on data: we now provide high speed data coverage in over 1,100 towns. 3G customer base continues to grow and stands at ~ 2 million.

For the last 8 quarters, the focus has been to build Quality of Operations through initiatives focused on segmentation and cluster level profitability. As shared with you during the previous few quarters, we continue to remain focused on 'paid minutes'. The focus on driving a 'quality portfolio' driven by increase in non-voice services has continued. Our non-voice revenue contribution to overall revenues is amongst the highest in the industry, at close to 20%.

As I mentioned earlier, we continued with the discipline we imposed on ourselves a few quarters ago by keeping a strict leash on MoU growth without commensurate revenue growth, by not inducing 'free minutes' or FAT. This has helped in the RPM for Wireless remaining unchanged as mentioned earlier, at a healthy 44p/min vis-à-vis the industry, which continued to show a decline in the RPM. Given inflation and pressures on cost, we have recently revised tariffs upwards in both GSM and CDMA in most circles, which should further help in pricing stability. These initiatives will go a long way in laying the foundation for a sustained profitable revenue growth.

Reliance Communications is clearly focused on building a 'healthy portfolio mix', through driving profitable Data and VAS businesses thereby future proofing the business against voice led growth alone. This is in line with the trends in the Global telecom markets of building a 'strong portfolio mix'. Both these segments of Data and VAS are growing at a healthy double digit rate. We will continue this focus and already have the largest, widest and deepest footprint of 3G enabled data services in the country, providing speeds up to 28 Mbps. Couple with this, the HSD Services that we currently provide in over 800 towns and 1x across the country in 20,000 towns and 600,000 villages. Together Data and VAS would continue to drive the Company's Wireless business growth going forward.

We have already seen tangible evidence of accelerating mobile data adoption where consumers and business customers are seizing the benefits of fast, reliable mobile data networks using smart-phones and other mobile data devices such as Tablets. And hence, as a part of our Data and Devices Roadmap, Reliance Communications has launched its very own 3G Tab – the first of its kind in the industry by a service provider in India.

As of Jun 30th, we are at a subscriber base of 143 Mn and believe that the greatest asset for any consumer brand of our size is the trust of our customers. 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.

All these transformational changes are beginning to yield results. And hence for the last two consecutive quarters, we have had consistent consumption led growth of over 3% in each quarter. In Q1, revenue grew 3.1% driven by 3.1% of MoU growth, while RPM held at 44 paisa, amongst highest in the industry.

Let me now cover the non-wireless businesses.

As informed during our 2Q FY'11 earnings call, our business unit of Global and Enterprise Broadband has been integrated together and is known as "Global Enterprise Business Unit". Both the businesses offer similar type of products and services and serve similar clients in different geographies. Thus, in order to synergize and leverage their strengths and unleash advanced services to all our enterprise customers, we have integrated both the business units. Now, with the first quarter of this new financial year, we are going to report financial performance for the new integrated unit.

I will now brief you on the performance of Global Enterprise Business Unit. We achieved revenue of Rs 2,292 crore and EBITDA of Rs 564 crore for the Quarter ending June 30, 2011.

Hawk Cable System

I am pleased to announce that our HAWK cable system is operational now between Cyprus and France. The 3,181 km, 4 fiber pair HAWK system has design capacity of 10.00 Terabits. To put this into perspective, the current design capacity is around 20 times the total capacity lit into India and the Middle East. The Hawk system connectivity to Egypt which comprises few hundred kilometers of cable laying will be completed during next quarter of this calendar year.

Completion of HAWK cable system further consolidates the position of Reliance Globalcom as the 'world's single largest cable system' connecting over 30 countries. Our cable expansion has come at an opportune time as 3G and 4G revolution has exponentially increased adoption of broadband services. The current penetration is sub-1% and we have tremendous potential for expansion and growth. As a mark of confidence in our 'world class delivery and capacity', we are proud to inform that we have signed Capacity purchase agreement worth Rs 126 crore (USD 28 mn) already. To give a perspective, this capacity sale accounts less than half percent of the current capacity of the HAWK system.

Carrier Business

Our Carrier business continues to grow from strength to strength; we have booked orders of Rs 379 crore in Q1 FY 2011-12. Order value is 27% higher than the value of contracts signed in last quarter, showing robust demand coming from Middle East, Europe and Asia.

The International Voice segment continued its robust growth; traffic has grown 61% in Q1 on YoY basis and 11% on QoQ basis to over 5 billion minutes in Q1. We retain the position of #1 ILD traffic carrier into India. Our transit business has also grown significantly and has broken the 100 mn minute of traffic per month mark in April 2011.

With the continued growth in voice traffic we are aiming to be among the Top 10 voice carriers in the world during 2012 in terms ILD minutes.

In National Long Distance business, we signed orders of Rs 100 crore primarily Bandwidth sales to private service providers.

Enterprise Business

As outlined in our last earning call, the broad trends in Enterprise segment are playing out in the market place. For example, Data and internet requirement continues to grow exponentially and Enterprise connectivity requirement is increasingly becoming multi-point and global. Our strategy of leveraging our global and national long distance optical fiber backbone with an overlay of globally proven managed services is making our enterprise services an unbeatable proposition to customers. We have now integrated our Global Enterprise Service Center in DAKC for enterprises both in India and outside India.

In India, we have received orders of over Rs 256 crore in Q1 FY2010-11. Our continued focus on the government vertical in India has led us to a major win BESCOM (Karnataka APDRP) project worth Rs 25 crore and phase 2 deployments in Maharashtra for APDRP project. We added 39 new logos in India Enterprise segment of which 12 new logos were in Managed Services segment including MindTree, Shell Transource, Edelweiss, Praxair.

In the US and Europe, we signed contracts to provide managed services to the largest Italian auto part major, one of United Kingdom's largest international architectural practice firms and the largest producer of paints & coatings in United States.

The good news is that demand is robust for managed services, bandwidth and voice services with accelerated adoption of broadband and enterprises outsourcing their telecommunication needs to proven global service providers. Also, Reliance Globalcom has already in place the infrastructure in India, Middle East and Asia; customer credentials and proven managed service capability to fully exploit this great market opportunity. We are focused to pursue our two-pronged growth plan to (1) increase wallet share of existing customer base (2) increase revenue market share by winning new logos which will reflect in our QoQ results going forward.

Way Forward:

On the overall capex front for RCOM, we have already given guidance in 4Q FY'11 earnings call of capex at Rs 1,500 crore in this financial year. Similar to earlier quarters, our Q1 capex has been funded through internal accruals. We shall continue to generate free cash flows in order to meet our capex requirement through internal accruals. With the hyper intensity of capex behind us, 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 enhance value for our shareholders.

Conclusion:

To conclude my initial comments, I would like to say that:

1. 3G services in GSM and HSD in CDMA are going to create new growth opportunities; and data services are going to be one of the key drivers of profitable growth. RCOM, with its 3G services in 333 cities and high speed data connectivity in 800 towns is at the forefront of creating a "Wire-free India"

2. We are positive about the future outlook of the business and the focus on 'Quality of operation' is delivering dividends

3. While competitive intensity continues, the stability of RPMs and margins is a good sign for RCOM

4. With the initiative well underway on debt management, we look forward to a new stronger RCOM in the coming quarters.

Thank you.

I would now like to hand you back for the Q&As.

Operator:

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 the participants to interact with the management.

I would repeat, at this time participants who wish to ask any questions, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel the request, please press hash or the pound key.

First in line, we have a question from Mr. Srinivas Rao from Deutsche Bank. You can go ahead sir.

Mr. Srinivas Rao:

Thank you very much. I have two questions to ask. One, are you subsidizing the 3G tab which you have launched? Second, I appreciate your efforts on the debt management, but if I look at a slightly longer period over last five quarters I can see that the shareholders equity seems to have fallen and so has the net block. So, can you throw any light on that? This is an accounting question but basically I am trying to understand whether the debt is falling on account of cash flows from operations being ploughed into debt payment rather than capex.

Mr. Syed Safawi:

Srini, I will take the first one. No, there is no subsidy on the 3G tab. I will hand over for the second one to Arvind.

Mr. Arvind Narang:

Srini, the Reserves which you might have seen has gone down due to two primary reasons. One is that, premium payable for FCCBs which happened during the quarter 1QFY12 was from reserves, and also if you look at our Annual Report, it mentions about withdrawal on account of additional depreciation on the revaluation part of the fixed assets. These are the primary two reasons for the reduction.

Mr. Srinivas Rao:

Understood. Thank you.

Operator:

Thank you sir. Next question comes from Mr. Gaurav Malhotra from Citi Group. You can go ahead sir.

Mr. Gaurav Malhotra:

Hi! I just had one question. Could you highlight the reason why network opex has fallen quarter on quarter?

Mr. Arvind Narang:

Gaurav, network opex has decreased by around Rs 200 crore. Actually, the network opex cost in wireless business has gone up by around Rs 100 crore because of the network rollout and expanding HSD/3G services, etc. However, in the global enterprise business, the network cost has reduced substantially because the maintenance cost has come down significantly in 1QFY12. This is similar to the trend in 1QFY11 where the 4QFY10 cost was higher. Similar logic pertains in the Global Enterprise Business in this quarter.

Mr. Gaurav Malhotra:

Got it, thanks.

Operator:

Thank you sir. Next question comes from Mr. Vinay Jaysing from Morgan Stanley. You can go ahead sir.

Mr. Vinay Jaysing:

Thank you so much. I have three questions from my side. Firstly, in the Global Enterprise Business, if you club it up not just for this quarter but even historically then we see a decline in revenues of about 12-13% Q-o-Q and 8-9% Y-o-Y. Even the absolute EBIDTA is down by about 7% Q-o-Q and 3% Y-o-Y. Please share your thoughts and the direction going ahead.

My second question is on interest costs that are up 80% sequentially despite all the debt management you are doing. What should we look at, for the future, or was this a one off, or is the current quarter the right number? Also, what is your net debt draw down from the China Development Bank as, last quarter it was USD 1.3 bn of USD 1.9 bn? Have you drawn down everything?

Finally, on the Infratel part of the business, once the deal gets succeeded or once the company succeeds in selling part of it, how much of the absolute EBIDTA would go away to InfraTel and how much would remain in the consolidated entity? Thank you.

Mr. Punit Garg:

First I will take your question on global enterprise business unit and subsequently Syed will pitch in. As far as EBIDTA is concerned there is a slight decline because of significant increase in the incoming voice traffic. This particular segment of business has comparatively lower EBIDTA hence impacting the overall mix of the EBIDTA. To summarize, since the voice has grown significantly last quarter, it has eroded a bit of the EBIDTA in comparison to revenue.

Mr. Arvind Narang:

Vinay, the finance charges have increased from Rs 223 crore in 4QFY11 to Rs 405 crore in 1QFY12 largely on account of forex and derivative losses. There is also a marginal increase in the interest cost because of the overlap of the time duration of the draw down which we had from the CDB and when we paid to banks. Also, if you look at the 4QFY11 quarterly report, we had shown, post draw down, higher cash and cash equivalents of around Rs 5,300 crore. So, that is the reason for higher interest cost. On your question of draw down from the CDB, Yes, it is USD 1.3bn which has been drawn down and the balance is the sanctioned credit of about USD 600 mn for vendor equipment and related supplies, etc.

Mr. Syed Safawi:

Moving onto your fourth question Vinay, on the InfraTel transaction and the potential impact of EBIDTA going with the transaction, I think it is fair to say that we are in the midst of due diligence right now with the concerned interested parties and the EBIDTA shift will depend on the final contours of the transaction which will be clear in the next couple of months.

Mr. Vinay Jaysing:

Okay, thank you sir.

Mr. Syed Safawi:

Thanks Vinay.

Operator:

Thank you sir. Next question comes from Mr. Rajeev Sharma from HSBC. You can go ahead sir.

Mr. Rajeev Sharma:

Thank you very much for the opportunity. I just had a couple of questions. First, please help us understand what will be your longer term MOUs if the entire FAT was to go away today itself, because I think this has been an ongoing exercise from several quarters, and the MOUs has been coming down but the RPMs have been stable. So, what is that number if we were to build a long-term model we should be thinking of?

Second question is on your HAWK cable system, if you can just mention what were your initial remarks about signed capacity agreement of about USD 28 million, etc.

And last question is on your initial trends in 3G subscribers in terms of data pick up, and how many of your subscribers have taken 3G and how many of them are attached to VLR as of now?

Mr. Syed Safawi:

Rajeev, I will answer the first one. We had said about three quarters back that it will take three to four quarters to take out the unwanted minutes or the free minutes. Last quarter I had said two more quarters, and this quarter in this call that is exactly the position. In one more quarter all the unwanted, unrequired minutes that we are focused on will be removed. We are probably 75-80% there already. That is why you are seeing two quarters of consistent 3% plus MOU growth now which are paid minutes and which are translating into revenue growth directly. This is the correlation that I wanted to draw to your attention that it is the paid minutes now translating into revenue which is a healthy trend to have rather than MOU growth at any cost which we are not interested in and we should not be interested in. Long term trend that you mentioned will be more in line with the industry. If the industry trend settles at 3-5% then without free minutes we should be marked to market in the same range going forward. It also obviously depends on the price increase that we have taken and so on, but I guess that range is the reasonable range to look at.

On the HAWK system, Punit will clarify that.

Mr. Punit Garg:

HAWK system is our Mediterranean system. The first segment of it which is between Cyprus and France is up. We have sold Rs 126 crore worth of a deal in that and activating that capacity is just 0.5% of the total capacity available, or the potential which this cable has in terms of generating the revenue in future.

Mr. Rajeev Sharma:

And how much Punit this Rs 126 crore deal has been translated into revenue for this quarter?

Mr. Punit Garg:

Nothing is recognized in last quarter i.e. 1QFY12. It would be activated as they need and it could take 2-3 quarters. In 1QFY12, there was no booking, so it would be recognized from Q2 FY12 onwards.

Mr. Rajeev Sharma:

Will this be in line with your new policy of, as and when the cash comes in you will recognize revenues?

Mr. Punit Garg:

That is right.

Mr. Rajeev Sharma:

Okay.

Mr. Syed Safawi:

Moving onto your third question on 3G subscribers, we have 2 mn 3G customers now on our network compared to about 1.7 mn in the previous quarter. The early trends are positive, but I think there is much more to evolve in terms of the ecosystem for the industry, especially the devices ecosystem, where handsets will need to become more affordable. A decent handset is currently at about Rs 4,000 range. Those will need to come down to about Rs 2,000–Rs 2,500 level to become really mass, which I think is the opportunity for the industry. Our Reliance Tablet is just a step in the right direction to try and break the price barrier and offer a value to the customer at sub Rs 13,000 where data and such heavy devices can become a mass product down from Rs 25,000 to Rs 35,000 range. So, I think, we are in a good direction, but these are still early days. I guess this whole ecosystem will take three to four quarters to evolve across the industry.

Mr. Rajeev Sharma:

Thank you. Just one last follow up question. How many of your current BTS have 3G BTS, and what is your status in terms of roaming arrangements where you don't have 3G spectrum?

Mr. Syed Safawi:

We have about 11,000 3G sites currently in the 333 towns in 13 circles where we won 3G spectrum. For the balance circles, we are in active discussions with like-minded operators for a roaming arrangement and as and when we finalize that we will happily share that with you.

Mr. Rajeev Sharma:

And you plan to be how many 3G sites by end of this year given your capex which you have committed to?

Mr. Syed Safawi:

No, at this stage we are not looking at an immediate expansion in the 3G number of towns on our network. The balance expansion will happen through the intra-circle arrangements in the balance 9 circles.

Mr. Rajeev Sharma:

Thank you very much.

Mr. Syed Safawi:

You are welcome.

Operator:

Thank you, sir. Next question comes from Ms. Reena Verma from Merill Lynch. You can go ahead, madam.

Ms. Reena Verma:

Hi! Thank you very much for the call. A few questions, firstly on tariff. Could you please share your views on a longer terms basis on tariff, now that RCOM is following other GSM majors? In that light, can you please share some thoughts on why you did not hike on-net CDMA tariffs? And when do you think the impact of this will move into financials?

And my second question is on your cost. Over the last several quarters, your SG&A expenses have been trending down. How much further down do you think you could go, or is it likely that it may now start rising given that you have made a comeback on 3G advertising, etc?

Mr. Syed Safawi:

Reena, I will take your first question on the tariffs. Our decision to take a price increase was independent of other operators. We assessed the price increase in our own way and took increase on SMS about 3-4 months back, on the SMS pack price from Rs 11 to Rs 19 and then to Rs 30. Also given our own inflationary pressures and cost pressures, we took a price increase first in GSM, in both on-net and off-net, in about 18-19 circles in a phased manner. In CDMA, we have taken it only on off-net calls as an internal strategy as it is a USP for us in terms of CDMA and we would like to keep it that way at least for the near future. How long will it take for the impact to show through? For the new subscribers the impact starts coming in immediately, in the first month of acquisition itself under tariff change. On the existing base it takes time because as the old plans expire after 2-3 months and at times 6 months. Then subscribers will come onto the new plans of 1.2 paise versus 1 paise; that is when the impact kicks in. According to me it will take a good two to three quarters for all these changes to have its impact. The likely end impact of all these changes could be to the tune of 1 paise RPM on our total base.

Ms. Reena Verma:

Syed, thank you very much. So when you say 1 paise impact on total RPM, you mean two to three quarters down the road the RPM should be higher by 1 paise?

Mr. Syed Safawi:

If nothing else changes and no other rates drop on any other packs, plans, data and so on, then on like-to-like basis that should be the impact.

Ms. Reena Verma:

Okay. On a longer term do you think this is now a new multi-year phenomenon where you could hike tariffs every time there is inflation?

Mr. Syed Safawi:

No, this will not happen several times a year. It has taken us over 2 years to make this change from around September 2009 when we had changed to 1 paise pulse. It is difficult to predict when the next change will happen, or if at all it will happen in the near future. But, there is relatively more price stability now in the recent quarters than we have seen in the last 2 years. Even the newer players who are losing money on every minute that they sold are beginning to realize the virtue of having at least to not lose money if not make money. There is also some rationality coming in. It's unlikely that we will see any major step down happening on tariff in the next few quarters. We see more stability but it is very difficult to predict price increase, if there is. The one thing that is going to happen is that blended rates will continue to improve as data contribution to the total business improves, which is a key driver for us.

Ms. Reena Verma:

Does this mean then that every operator is happy with whatever revenue market share they have?

Mr. Syed Safawi:

We are more interested not only in the revenue and revenue share but in the EBIDTA share as well. I think it is important for the industry to start looking at the EBIDTA share of the total pie rather than only revenue. There are operators who are getting revenue growth but are losing Rs 600-700 crore a quarter. I don't think that is sustainable from a business model point of view. Revenue share should also be profitable. RCOM has an EBIDTA of 32.4% at consolidated level and 27.1% at wireless level, and that is the way we see the whole equation as profitable.

Moving onto your cost question, I think last quarter the SG&A was low because the whole industry was lower on subscriber acquisitions from 59mn to 40mn. Our advertising expenditure was higher in the last quarter, on account of the World Cup campaign that you would have seen. Part of that is already in the base. So, we will sustain advertizing going forward as well. And you will see a stable SG&A trend with no major spikes.

Ms. Reena Verma:

So do you expect gross adds to accelerate going forward and can you confirm if you have changed or cut dealer commissions please?

Mr. Syed Safawi:

We had already rationalized dealer commissions starting April 01, when we started the financial year, so some of that impact is already flowing through. There are some minor changes in 4-5 circles, recently, to the tune of 0.25%, but again those are smaller changes which do not have significant impact. But we keep our watch on what the market situation is and keep the course correcting from time to time depending on the product range. So, yes, there is stability in terms of dealer margin.

Ms. Reena Verma:

Thank you.

Mr. Syed Safawi:

Thanks Reena.

Operator:

Thank you madam. Next question comes from Mr. Rahul Singh from Standard Chartered. You can go ahead sir.

Mr. Rahul Singh:

Good afternoon. I just had one question, most of my other questions have been answered already. The question is on the capital work in progress (CWIP) and also the treatment of 3G license fee, both from a depreciation and amortization point of view and also interest on the loan which is not yet capitalized. So, when do we see that starting or that taking effect if it is not being done already?

Mr. Arvind Narang:

Rahul, we have marginally reduced the CWIP in this quarter by around Rs 100 crore. One of the biggest elements of CWIP is 3G related cost which includes the spectrum fees and related capex which is over Rs 10,000 crore. Within that Rs 8,585 crore is 3G license fee. In the last quarter we had mentioned that our total full year capex was Rs 4,300 crore and ex-3G it was Rs 3,000 crore. The balance Rs 1,300 crore was also part of 3G CWIP. We are currently working with our vendors in terms of the acceptance testing being completed on all the related sites which have been linked with the 3G. After its completion we will be able to take that view.

Mr. Rahul Singh:

So I presume, from this quarter can we expect and would it also impact the finance cost as and when the capitalization happens?

Mr. Arvind Narang:

It will have an additional amortization, linked with the amount which will be capitalized. There is no major impact on the net finance charges specifically on that.

Mr. Rahul Singh:

Okay. One last thing, the remaining Rs 8,000 crore of capital work in progress, ex 3G, is also a very high number for the current state of growth where you are in, where your annual capex is only Rs 1,500 crore. So, when do we see and what exactly is the remaining Rs 8,000 crore?

Mr. Arvind Narang:

A significant part of the CWIP is part of Reliance Infratel towers for which we took the call that we don't need to erect more towers immediately. Moreover, on the Global Enterprise Business unit, the cable system which has been under project is also a part of it. Once that gets completed a substantial part of CWIP will become a part of the fixed assets.

Mr. Rahul Singh:

Okay, Thanks Arvind.

Operator:

Thank you sir. Next question comes from Mr. G.V. Giri from IIFL Capital. You can go ahead sir.

Mr. G.V. Giri:

Thanks very much. My first question is on your 3G subscriber base of 2mn. Is it all small screens or is there some dongles revenue also in this?

Number two: In your CWIP, are the un-erected towers a substantial portion and will they form a part of your tower transaction?

Number three: Your loans and advances have increased quite sharply this quarter. Can you throw some color on that?

And lastly, the tax is negative in this quarter. How should we think about that going forward?

Mr. Syed Safawi:

Giri, the first one on the 3G, it is a combined number of all 3G users. We don't give segmented breakdown, but that is a combined number of all dongles as well as mobile data service users.

Mr. G.V. Giri:

Sure Syed, but don't you have the equivalent service on CDMA also and therefore how would one think about this?

Mr. Syed Safawi:

The ARPUs of the customers are in line with our CDMA ARPUs which are very healthy, post paid obviously being higher than prepaid and dongles being higher than mobile data services. So, if you have estimates of CDMA you can take those into account onto 3G as well. So, there is similar trend that you will see in 3G.

I will just hand over to Arvind for the remaining questions.

Mr. Arvind Narang:

Giri, the loans and advances which have gone up by Rs 622 crore are largely because of three reasons. One is the advance which has been paid to the vendors this quarter. Second is service tax related credits, and third is the related TDS. Regarding your question on CWIP, based on the transaction being progressed on the Infratel, the CWIP is a part of that and it should also get accordingly reduced. I am assuming that your question is on the post completion of the transaction, to which the answer is a yes.

Regarding your question on the tax, we had mentioned in the last quarter that there was a tax provision of Rs 171 crore on account of provision for the deferred taxes which is not there in this quarter and hence the tax is negative. We can't give you any specific guidance on the future taxes.

Mr. G.V. Giri:

Sure, thank you very much.

Operator:

Thank you sir. Next question comes from Ms. Malvika Gupta from JP Morgan. You can go ahead madam.

Ms. Malvika Gupta:

Thank you, I just have a couple of questions. I just wanted to clarify first on the depreciation and amortization in the quarter for Rs 976 crore that does not include anything in 3G. Can I assume that from the next quarter you will have a 3G amortization impact?

And my second question is on other revenue. I just want to understand why have it has declined in the quarter and what would it be going forward? Thank you.

Mr. Arvind Narang:

Malvika, in this quarter we have not included the amortization on the 3G cost because of the process of the vendor testing certification which is currently underway. Once we complete that process then it will be amortized in the coming quarters.

The other revenues have gone down by around Rs 86 crore. Other income broadly has four elements. One is the DTH business; the second is the Reliance World Stores which are pretty stable as both these businesses are on an ongoing basis. The third is Reliance Tech Services and the fourth is any other new initiative which happens at a corporate level. So, on a quarterly basis, it may have some ups and downs but on an annualized basis it may give a similar trend. Infact, the increasing trend between both the DTH as well as the Reliance World Stores revenues shall continue.

Ms. Malvika Gupta:

Okay, thank you very much.

Operator:

Thank you madam. Next in line we have a follow up question from Mr. Gaurav Malhotra from Citi Group. You can go ahead sir.

Mr. Gaurav Malhotra:

Hi! I just have one clarification on the 3G. Is the CWIP of around Rs 10,000 crore related to 3G, or is it that amount related to the fourth quarter? And apart from the Rs 10,000 crore of the 3G related CWIP, does the remaining includes towers as well as the 2G?

Mr. Arvind Narang:

Gaurav, Rs 8,585 crore is the license fee which has been paid for 3G. For the last full year our ex-3G guidance was Rs 3,000 crore and our capex for the full year was Rs 4,300 crore. So, the 3G capex was around Rs 1,300 crore. The current quarter's capex for the wireless business is around Rs 200 crore, which is also part of that CWIP. These numbers put together will give you over Rs 10,000 crore. We have already mentioned the three or four other projects which are also a part of CWIP including towers and submarine cable network.

Mr. Gaurav Malhotra:

Okay, thank you.

Operator:

Thank you sir. Next question comes from Mr. Sachin Gupta from Nomura. You can go ahead sir.

Mr. Sachin Gupta:

Thanks very much. Just two things, firstly on the Infratel transaction. Given the broader market volatility we are seeing, how likely will the Infratel transaction succeed/complete in the near term?

And secondly, you had mentioned previously about the recent price hike that, RCOM is not really following the broader market. What is the rationale for the price increase then, is it inflation related issues or is there something else? Thank you.

Mr. Syed Safawi:

In InfraTel, we are in the advanced due diligence stage with all the stake holders, and all the interested parties. They are extremely keen and there is no let down in any intensity that we have been seeing over the last 4-6 weeks. Even as we speak today, there are follow on engagements happening. The intensity continues and we hope the transaction will proceed on track and hopefully get closure over the next couple of months itself.

On the pricing increase, if over 2 years you don't take a price increase then obviously 8-10% inflation is bound to catch up. And that is the inflationary pressure that I was alluding to that all the costs are going up, diesel has gone up, network costs for us went up even in this quarter, salary increases and fixed costs are also getting impacted. We need to course correct on our pricing at some point in time which we have managed to do after 2 years looking at our own internal cost pressures. So, I think that is the honest answer to that.

Mr. Sachin Gupta:

Thank you.

Operator:

Thank you sir. Next in line we have follow up question from Mr. Srinivas Rao from Deutsche Bank. You can go ahead sir.

Mr. Srinivas Rao:

Thank you sir. I have two questions. Your EBIDTA per minute is coming off slowly for almost last 7 quarters. Given your potential RPM trend, is it fair to assume this could be the bottom?

Second, how many towers are there in InfraTel, the last number we had was around 55,000?

Mr. Syed Safawi:

Srini, the first one, EBIDTA per minute is stable at about 12 paise per minute for the last couple of quarters, and we are holding on there. It is difficult to say whether it is the bottom or not. But given the fact that finally we have managed to take a price increase as well, which should have some impact over the next two quarters, we should not see major deceleration from here at least in terms of EBIDTA. If at all we should see stability going forward at the EBIDTA per minute level.

Second is in terms of the number of towers, the number is about 50,000 towers with Infratel.

Mr. Srinivas Rao:

Okay, thank you very much. This is helpful.

Mr. Syed Safawi:

Alright Srini, thanks.

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.