



## **RELIANCE COMMUNICATIONS LIMITED**

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

**Conducted at 12.00 pm IST on Nov 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 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 to present second quarter, FY12 financial results.

The call will begin with some key observations by Mr. Syed 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 September 30th 2011.

I am pleased to share that RCOM has been able to grow its revenues and total traffic in minutes, not withstanding an overall seasonally weak quarter for the industry at large.

**Key highlights for the quarter:**

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

1. **Revenue:** RCOM wireless revenue has grown by 2.1% in Q2, amongst the highest revenue growth in the industry based on various initiatives undertaken in the last 3-4 quarters
  - **RPM:** RPM stood steady at a solid 44.7 paisa per minute, a growth of 0.5%; amongst the highest in the industry for the last 7 consecutive quarters now.
  - **EBIDTA:** RCOM EBIDTA margin at 31.8%, amongst the highest in the industry

**2. Free Cash Flow and debt management:** RCOM continues to be Free Cash Flow positive in this quarter and this financial year would be the first full year of free-cash-flow positive.

- 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, enterprise data center and wireless data growth
- As you are aware, we have redeemed FCCB of USD 500 Mn in the previous quarter. We are fully geared up to repay the future debt maturities (including redemption of FCCB worth USD 1.1 Bn due in March, 2012)
- 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 resulting in substantial annual interest cost savings of Rs. 500 crore.
- Reliance Infratel transaction is progressing well and an update to all our stakeholders will be shared at an appropriate time.
- As a company, our aim is to reduce debt significantly by March, 2013.

**Financial Performance:**

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

- Consolidated Revenue at Rs. 5,040 crore, up 2.0% against Rs. 4,940 crore (q-o-q)
- EBIDTA at Rs. 1,605 crore against Rs. 1,602 crore (q-o-q)
- EBIDTA margin at 31.8% is one of the highest in the industry
- Net profit of Rs. 252 crore, up 60% against Rs. 157 crore (q-o-q)
- On the capex front, we have spent Rs. 350 crore during Q2.

Let me now brief you on some of the initiatives taken by RCOM, which have already started showing positive 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 AGM in Sept'10. We have remained committed to put accelerated efforts in enabling wireless broadband across India. We have expanded our HSD Network and have quality HSD coverage in almost 1,000 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, makes RCOM the only nationwide private operator to offer seamless Wireless Broadband experience in **over 1,300 top towns** across the country as of September 30, 2011 including key metros.

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'**. We currently serve ~2.1 Mn active customers on our 3G network, highest in the industry.

2. 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.
  - a. As part of that effort, we successfully launched **R.apps** – the Reliance branded application store, having more than 50,000 apps and games.
  - b. We have also refreshed **R-World** – the next generation entertainment portal - making it more user-friendly and with faster downloads.
  - c. We will be launching our new **Video on Demand** application shortly, that will render across various devices such as handsets, tablets, PC, etc.
3. To help develop the 3G ecosystem in India, we launched our proprietary 3G Tablet in August 2011, **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 and we have seen huge acceptance and increasing demand across all cities. RCOM has also tied up with Nokia, Samsung, LG, Sony Ericsson and other OEMs for 3G models with attractive Money Back and Mobile Internet bundling offers to drive the 3G ecosystem.
4. In recent past, 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 Campaigns that are on-air and as we speak and we are seeing very significant traction of brand indicators.

### **Industry Highlights & Regulatory Developments**

During the first two quarters of FY12, the industry saw subdued competitive intensity as far as tariffs are concerned and recent tariff hikes by almost all the incumbents is a reflection of the abating competitive pressure on pricing. As mentioned during first quarter's earnings call, we have also revised tariffs upwards in both GSM and CDMA

owing to inflationary pressures on cost. This will certainly help the industry in achieving pricing stability and improving the revenue growth trajectory.

Overall, in the 2nd quarter, the new subscriber acquisitions have slowed down for the Industry. The industry added 22.47 million wireless subscribers as compared to 40.23 million subscribers in the first quarter of 2011. The total wireless subscriber base as on 30th September 2011 stands at 868.6 million.

For RCOM also, subscriber acquisitions have been in-line with the industry in the second quarter. We added 3.82 million wireless subscribers in the quarter. For RCOM, the total subscriber count stands at 147.1 million subscribers, maintaining a share of 17% of customers.

### **Draft NTP - 2011**

During the quarter, honorable Minister for Communications and Information Technology unveiled the Draft of New Telecom Policy – 2011. The policy has a vision of “Broadband on Demand” and envisages leveraging telecom infrastructure to enable all citizens and businesses, to participate in the Internet and web economy thereby ensuring equitable and inclusive development across the nation. The policy aims towards convergence between telecom, broadcast and IT services, networks, platforms, technologies and overcome the existing segregation of licensing, registration and regulatory mechanisms in these areas to enhance affordability, increase access, delivery of multiple services and reduce cost.

### **TRAI response to DoT on Spectrum Management and Licensing Framework**

Growth in the telecom sector in India has been pragmatically supported by government policies and regulatory framework. Earlier this month, TRAI responded to Department of Telecommunications on various issues related with Spectrum Management and Licensing Framework including M&A rules and spectrum sharing. Most of the recommendations are forward-looking & constructive and would surely bridge the gap between the incumbents and new players by creating a level playing field.

We believe that TRAI recommendation on M&A regulations are progressive and will help consolidation in the industry. 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 as part of contracted spectrum. 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, the Licensees with spectrum beyond 6.2 MHz will have to pay one time excess spectrum charges. While RCOM has excess spectrum merely in one circle (Bihar) and that too negligible, incumbent GSM operators have excess spectrum in many circles. Operators who have spectrum beyond 6.2 MHz have to pay huge sums as one time excess spectrum charges.

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

- Wireless revenue for the quarter stands at Rs. 4,417 crore, against Rs. 4,327 crore in Q1, up by 2.1%
- EBIDTA stands at Rs. 1,176 crore against Rs. 1,173 crore
- Our RPM stood at healthy 44.7 paisa, growth by 0.5% (q-o-q), among the highest in the industry. We have successfully arrested decline in RPM for the last 7 consecutive quarters amidst increasing competition, driven by focus on the 'quality of operations' and recent tariff increase has helped firm RPMs for RCOM
- We have continued our increased focus on data: we now provide high speed data coverage in over 1,300 towns.
- We serve ~2.1 Mn active customers through our 3G network.
- With this footprint and superior quality network, RCOM is the clear leader in the 3G data market space and would continue to drive this consistently.

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%, we target to double the contribution from non-voice in the next 2 years.

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 healthy and now reaching 45p/min. We have further cleaned up our non profitable products and tightened acquisition norms to ensure higher retention post 90 days and deliver better customer lifecycle value. We are focusing on special programs towards building the on-net community. CDMA business is a key focus area for RCOM and various programs/initiatives have been lined up for the same. We believe that these initiatives will help RCOM drive 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. Coupled with this, the HSD Services that we currently provide in almost 1,000 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 smartphones and other mobile data devices such as Tablets. As part of our Data and Devices Roadmap, Reliance Communications has launched its very own 3G Tab – the first of its kind initiative in the industry by a service provider in India.

These transformational changes are beginning to yield constant consumption led revenue growth.

**Let me now cover the non-wireless businesses.**

In our Global Enterprise Business Unit, we achieved revenue of Rs. 2,335 crore as compared to Rs. 2,292 crore in Q1, a growth of 1.9% and EBITDA of Rs. 569 crore for the Quarter ending September 30, 2011.

**Carrier Business**

Second quarter witnessed strong growth in Carrier business's sales order booking as well as revenue. We have booked sales orders of Rs 417 crore in Q2 FY 2011-12 which is 10% higher than the sales orders signed in Q1. The increase is driven by robust demand in Europe, Middle East and Asia. We have recently upgraded our FEA (FLAG Europe Asia) and FALCON cable system to add 400 GB of capacity on Europe-Gulf loop. We have increased the capacity of FEA by 400% which will help us cater to all future bandwidth requirements and technological implementations of our Carrier and ISP customers. Sales on the upgraded routes will help us maintain our leadership position in the Voice & Data Carrier business and at the same time establish our leadership in the Cloud Computing, Managed Services and Application Services portfolio.

The International Voice segment continued its robust growth; traffic has grown 34% in Q2 on YoY basis to over 5 billion minutes. Our transit business has also grown significantly and has clocked on an average more than 125 mn minute of traffic per month in Q2. We are confident of surpassing the 150 mn minutes per month of transit traffic by end of FY 11-12.

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

### **Enterprise Business**

As indicated in the last earnings call that there is a robust demand for managed services and enterprise outsourcing; playing on the market trend we had a bonanza quarter with sales orders booked of Rs 1,818 crore, the highlight of the same was the **largest** Data Center outsourcing deal in India with the second largest private bank in India, HDFC, worth Rs 1,400 crore for 15 years. Reliance will build and operate the 60,000 sqft Data Center for HDFC bank for a minimum Contract period of 15 years. In order to meet the huge demand of Data Center space, we are building a new 350,000 sqft Data Center facility in DAKC. The phase I of 100,000 sq ft will be ready in 12 months and complete Data Centre would be ready in 24 months.

In India, USA and Europe, we have received sales orders of over Rs 418 crore in Q2 FY2011-12. Our Q-o-Q success in the government vertical continued as we bagged a three year MCGM (Municipal Corporation of Greater Mumbai) project worth Rs 52.4 crore and a 3 year deal with DIT Maharashtra Government. We have acquired several other new logos in the Enterprise space notable being (i) largest manufacturer of paper packaging products in the Asian region, (ii) A European Motor insurance company with operations in 7 major countries, (iii) A Global technology product and services company with customers in automotive, mechanical engineering sectors (iv) World's largest online payment solutions company and the World's largest online marketplace.

We expect strong and continued growth in the Carrier and Enterprise space from both India and outside India. A strong sales pipeline in the carrier business driven by an increasing demand of bandwidth in Europe, Middle East and Asia will drive top line and profitability. India business will continue to focus on winning key orders and projects in its key verticals, the Government and Financial services.

### **Conclusion:**

To conclude my initial comments, I would like to say that the second quarter has been very satisfactory given the background of seasonality in the industry. We are now a service brand already serving over 150 million customers.

To summarise:

1. Wireless business delivered a strong MoU growth of 1.6% and revenue growth of 2.1% q-o-q, third consistent consumption led quarterly revenue growth
2. We are at the forefront of creating "Wire-free India" by offering seamless wireless broadband experience in over 1,300 towns across the country. With 20% of our



revenues coming from non-voice, we are the largest data player in the country. We target to double the contribution from non-voice in the next 2 years.

3. We are driving growth of paid minutes and combined with the recent tariff hike, we are able to grow RPM
4. Maintaining healthy trend in our Global Enterprise business backed by robust demand for bandwidth, managed services and enterprise outsourcing
5. We continue to deliver strong margins at 31.8% EBIDTA and are FCF positive for the quarter and will be FCF positive for the year.

Thank you.

And 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 question from Mr. Sachin Salgaonkar from Goldman Sachs. You may go ahead please.

**Mr. Sachin Salgaonkar:**

Hi, thank you for the call. I have two questions. Firstly, I wanted to understand why net interest expense was lower so much on a Q-o-Q basis. Also, could you help us understand the foreign exchange impact in this quarter on P&L and Balance Sheet due to the 10% rupee depreciation? My second question is on 3G. Of the 2.1 million active 3G subscribers, how many of them are on tablets and how many of them are on smart phones? And where are you seeing more demand as of now, tablets or smart phones?

**Mr. Syed Safawi:**

Sachin, let me handle the second question first and hand you back to Arvind for the first one. The 2.1 million active 3G customers are across devices. The ecosystem for handset is much larger. Tablets are an emerging category in India. Therefore, it would be obviously smaller in terms of size. Majority of the current demand is from handsets

rather than tablets. We will not know how the market evolves but, if you are talking of 850-900 million total subscribers or 600 million unique customers, they are all on handset. As they upgrade their handsets to 3G handsets, a larger number would again come to handsets. Let me hand you back to Arvind for the first question.

**Mr. Arvind Narang:**

Hi, Sachin. On your question on the forex and the net finance charges, please refer to the notes to accounts where we have mentioned that pursuant to the scheme of arrangement the company is permitted to adjust the variations on account of the changes in the exchange rates related to loans in foreign currency by withdrawal or credit to the General Reserves. And this necessary effect, whether it is positive or negative will be carried out at the end of the year.

**Mr. Sachin Salgaonkar:**

Sir, just one follow-up question on my first part on tablets. Currently, RCOM is one of the very few operators in India offering tablets. What is the approximate market share RCOM is having in tablets?

**Mr. Syed Safawi:**

Sachin, it is higher than 20% of all the tablets sold in India including iPad, Galaxy tab and everything else.

**Mr. Sachin Salgaonkar:**

Got it, thank you.

**Operator:**

Thank you Sir. Next in line we have question from Mr. Suresh Mahadevan from UBS. You may go ahead please.

**Mr. Suresh Mahadevan:**

Good afternoon and congratulations on a good set of numbers with both revenue growth and minutes growth. I have one question regarding RCOM's aspiration right now in terms of incremental market share. Tariff is one of the levers available to the operators. Hence, what is RCOM's aspiration on tariffs and market share?

**Mr. Syed Safawi:**

We are pleased with this quarter's result, being consistent over the last three quarters, driven by consumption led growth. This is a key driver for us. In the voice side, our objective is to drive mark to market or higher consumption led growth without diluting

rate per minute. We have said this for almost seven quarters that, we will keep RPMs firm. We are at 45 paisa now and we may see the positive impact of almost 1 paisa on RPM from the recent price hike over the next two to three quarters. The second lever is on the data side where we are seeing significant growth given our 1,300 towns of high speed data and 3G. Regarding the incremental revenue market share, we are targeting a minimum 20% incremental RMS. Simultaneously, it is also important to look at EBITDA share of the industry which is also our focus. We want to be a profitable player and not only a revenue player. So, we want to target more than 20% profit share of the industry as well.

**Mr. Suresh Mahadevan:**

Thank you Syed.

**Mr. Syed Safawi:**

Thanks, Suresh.

**Operator:**

Thank you Sir. Next question comes from Mr. Rajiv Sharma from HSBC. You may go ahead please.

**Mr. Rajiv Sharma:**

Thank you for the opportunity. I have got a couple of questions. First one is, Syed what is the reason that in this quarter there was minutes decline across GSM operators, but RCOM's total traffic has grown? And second, do you think in the interim, someone like Uninor, who launched closer to you on the GSM side, starts taking higher share of traffic would you get worried? And would your ability to be firm on the revenue per minute need a check? Or, what would change your stand on the RPM front? Lastly, when is your spectrum renewal date, is it 2021 or 2028?

**Mr. Syed Safawi:**

Rajiv, I will answer your first two questions on MOUs and RPMs first. We have said for the last seven quarters that we are not focused on minutes but on RPM. We need profitability and each minute has to be profitable. We have not let RPMs drop below 44 paisa over the last seven quarters and we do not intend to do that. There will always be some marginal players who will try and play a tariff game. But it is not about pricing alone. It is also about the total network experience and the customer experience being offered at the right value where, we have not seen any compromise. Initially, when we took out free minutes as a deliberate strategy over the last four quarters, RCOM saw slightly below market growth in terms of MOU. Finally that discipline is paying off and today we are getting a much higher share of paid minutes at the right rate which is translating into the 2.1% consumption led growth. We are focused on

driving this quality portfolio and quality of minutes. On your specific question on the spectrum or the license, this is coming up not before 2020.

**Mr. Arvind Narang:**

We got GSM spectrum in 2008 for all issuance, validity is 20 years. Also I would like to add that currently the process of delinking the spectrum and licensing has been undertaken by the Government. We will keep you updated on the progress.

**Mr. Rajiv Sharma:**

Arvind, given the present regulation what would be the renewal date since you got your GSM spectrum on your CDMA license? So, will the current date on the present regulation be 2021?

**Mr. Arvind Narang:**

It is a UASL license which is up for renewal around 2021-2022. The spectrums given are for 20 year validity.

**Mr. Rajiv Sharma:**

And my last question is on capital work in progress (CWIP) which has halved during this quarter. However, there is still some Rs. 9,200 crore left. What is the remaining amount and by what time that will get capitalized?

**Mr. Arvind Narang:**

Rajiv, we had mentioned in the last quarter that you will see a significant reduction, once the 3G license fees and related assets are capitalized. Secondly there is part of CWIP in the Reliance Infratel where we have not increased number of towers relatively in the last 3-4 quarters as the overall landscape of tower industry has changed. Additionally, CWIP related to global assets also exists.

**Mr. Rajiv Sharma:**

Okay, thank you so much.

**Operator:**

Thank you Sir. Next question comes from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

**Mr. Srinivas Rao:**

I just wanted to ask two questions. First is, in the Enterprise business there has been commentary over the last couple of quarters in terms of increasing sales and new

clients. But if you look at a slightly longer term, neither the revenue nor the EBITDA level has gone up. And I contrast this with some smaller players like Tulip who has seen a discernible increase in its revenue and EBITDA run rate. Second is, over the last 12 months, your network cost has not gone up but the employee cost, has actually been flat to falling which seems surprising given the level of inflation both for fuel and wages.

**Mr. Syed Safawi:**

Srinivas, let me just answer the second part and hand over to Punit to discuss the Enterprise business. We have always said that we are driving a lot of efficiency in network cost. The Q-o-Q initiatives like State Electricity Board (SEB) connectivity and also initiatives in terms of diesel consumption are helping us. Today our SEB connectivity is among the highest in the industry. We have driven it as a project and therefore, despite new network roll-out we have managed to contain our network cost. The slight increase this quarter of approximately Rs. 40 crore is because of new roll-outs that have happened in 3G. In the employee cost, due to right sizing and re-dimensioning, there is a Rs. 22 crore decrease on Q-o-Q basis, and this trend is going to continue. The employee costs may come down further over the next couple of quarters. Network costs should not go up because we are containing the fuel consumption very tightly. Let me just hand over to Punit for your first question.

**Mr. Punit Garg:**

Thanks, Syed. Srinivas, in the last quarter of the last fiscal year, there was an accounting policy change on IRU treatment. As a result, the way IRU revenue and EBITDA were treated earlier, those benefits are not available from Q1 onwards of this fiscal year. To that extent there would be a dip. But we are still able to maintain and grow, mainly due to Enterprise orders which are acting as monthly recurring revenue, and are also flowing into the bottom-line.

**Mr. Srinivas Rao:**

Fair enough. And Sir, I wanted to ask you regarding the HDFC order. I thought that RCOM had existing capacity or spare floor space available for data center or that is not the case? Is it the reason why you are building a completely new outsource data center for HDFC?

**Mr. Punit Garg:**

Srinivas, the data centers which we have in Mumbai are almost full. Mumbai has been the strongest growth region for RCOM's data center business. Our additional data center is essentially coming to meet our growing demand in Mumbai and that is also where the HDFC's outsourcing of the data center would be housed. Regarding your question that, is HDFC an existing customer of Reliance? The answer is, Yes. They are on all front, whether it is for the wireless, or the data connectivity or voice connectivity or

data center connectivity. But this particular order is like an outsourcing deal of data center they have done, rather than taking a service which is on a monthly recurring revenue basis

**Mr. Srinivas Rao:**

Sir, the payment is on a per month basis or yearly basis?

**Mr. Punit Garg:**

Srinivas, let us not discuss the contractual terms here.

**Mr. Srinivas Rao:**

OK, I understand. Thanks a lot Sir, this is helpful.

**Operator:**

Thank you Sir. Next question comes from Ms. Malvika Gupta from J.P. Morgan. You may go ahead please.

**Ms. Malvika Gupta:**

Thank you for taking my questions. I have a couple of questions. I just wanted to clarify about the 2.1 million active 3G subs, whether that compares to the 2 million reported last quarter or to a different number? My second question is on SG&A expenses, just looking for little clarity there, given the Q-o-Q increase. Third one, is about the minutes growth being above the industry. Is the earlier exercise of removing free minutes, now helping? And lastly on tax, could you give us an indication on full year tax expense?

**Mr. Syed Safawi:**

Malvika, I will handle the first three and then hand over to Arvind for the fourth one. The 2.1 million are active customers on the 3G network. Until last quarter the industry reported total 3G customers. This quarter onwards the industry has started reporting active customers as well. So, we have started reporting active customers and will continue to report active customers henceforth. During the last quarter, 2 million was total customers, and not active customers. This quarter, 2.1 million is active customer base, so it is not like-to-like comparison to answer your question. This is a much more aggressive number, and active customers are better number to track. On the SG&A expenses, we have increased some of our TV commercials over the last three months. This is the full quarter impact of the three campaigns that we are running, on 3G, high speed data, as well as voice. Therefore the SG&A expenses are higher. Going forward they should be sustained and should not be going up beyond these levels. On the MOU, you are absolutely right. The discipline of taking out free minutes has helped us. We said it will take three to four quarters and we are at the fourth quarter now, so that has

really helped us in driving paid minute growth. That is clearly the trend that we have seen and 1.6% total MOU growth in this quarter is part of that exercise as well. Let me hand over to Arvind for the tax.

**Mr. Arvind Narang:**

Malvika, I will not be able to give you tax guidance but you have the actual data points on for the last many quarters. The company is entitled for exemption under section 80 I(A) commencing from assessment year 2008-09, which will continue.

**Ms. Malvika Gupta:**

Okay, thank you. Would you be able to indicate to us the percentage of your subscribers that are actually active on 3G, whether it is the 25-30% we are hearing for the industry or whether it is a different number?

**Mr. Syed Safawi:**

It will be a higher number. We will not be giving this number because now we are only going to report active customers. That is what we are focused on right now. What I can tell you is, 2.1 million is the highest number of active 3G customers in the industry, and that is a very good data point to start.

**Ms. Malvika Gupta:**

Okay, thank you very much.

**Mr. Syed Safawi:**

Thanks, Malvika.

**Operator:**

Thank you madam. Next question comes from Mr. Vinay Jaisingh from Morgan Stanley. You may go ahead please.

**Mr. Vinay Jaisingh:**

Thank you so much. I have two questions. One to Syed, What do you think about traffic growth, for the industry, for the next two to three quarters, this quarter being a dull quarter which went by? The second question is on cash flows, RCOM's convertible bonds are coming up for payment in the next 12 months. How do you plan to fund that considering the current cash flow, net of Capex and interest cost this quarter? You may need to raise money or probably sell towers about which you have been talking for sometime. Any update on how you will fund the repayment of convertible bond?

**Mr. Syed Safawi:**

Let me answer the first one. In terms of MOU growth, I think Q2 is a typically seasonal quarter and most of the industry participants saw the impact. Luckily, given our early initiatives, we were able to drive good aggressive growth. We see from Q3 onwards, this typically being a festive quarter, consumption coming back. I do not think the industry saw any lack of elasticity because of tariff hike, and that is what people are conjecturing. We managed to take price increase as well as drive traffic up. I am not sure whether they will go back to 8-10% levels Q-o-Q but, they will definitely come back to decent levels for the industry. And we will like to be marked to market or be higher on consumption led growth. In terms of the cash flows and the likely FCCB redemption, the redemption is coming up in March 2012 for about US\$ 1.1 billion. Vinay, if you see our EBITDA, we are generating approximately Rs. 1,600 crore plus of EBITDA every quarter, and given that our peak Capex is behind us, our guidance is Rs. 1,500 crore for this year. We have done about Rs. 350 crore of Capex in Q2 and about Rs. 360 crore in Q1 of this fiscal year. So, we are very much on track and we are generating enough free cash flows Q-o-Q to be able to manage the FCCB redemption from internal accruals. Also, we do not see any major issues going forward on this redemption as well.

**Mr. Vinay Jaisingh:**

Syed, if you use the current quarter's numbers as well; use the Rs. 1,600 crore EBITDA, use the interest cost number, as well as the Capex for this quarter, you get net of Rs. 600 crore coming in. Rs. 600-650 crore multiplied by 3 or 4 depending on how many quarters you want to move on, you still have US\$ 1.1 billion to pay. You will have a gap, unless you do not plan to spend any Capex or not pay any interest for a quarter.

**Mr. Syed Safawi:**

Our interest costs are coming down by about Rs. 500 crore on annualized basis which we shared last time because of the CDB 10-year maturity loan and couple of other transactions that we have done. Second is our capital expenditure is at about a Rs. 1,500 crore level, quarterly Rs. 300-350 crore. Considering these combinations as well as improving operating performance and consistently delivering free cash flows, we are in the ballpark Vinay. Hence it is very difficult to predict five months before, the exact quantum that you may need or you may not need.

**Mr. Vinay Jaisingh:**

In case there is a need then do you have easy access to some debt or would you drawdown?



**Mr. Syed Safawi:**

Vinay, we will cross that bridge only if required. But at this point in time I can tell you we have just redeemed half a billion dollars in May and we will be on course to redeem the next one as well. I do not think we should be stressed about it.

**Mr. Vinay Jaisingh:**

One last question. If you look at the Others segment, the losses in the EBIDTA is still significantly high around Rs. 140 crore. Any thoughts of how that goes down to zero because that is where your EBITDA goes up by the same amount?

**Mr. Syed Safawi:**

Vinay, the Others segment constitutes largely DTH business, Reliance World Stores, Reliance Tech Services and so on. DTH business continues to grow and we have seen some of the examples in the industry at what ballpark number they start having positive EBITDA. So directionally it is EBITDA negative at this point of time, but over the next few quarters it should significantly improve.

**Mr. Vinay Jaisingh:**

Thank you.

**Mr. Syed Safawi:**

Thanks Vinay.

**Operator:**

Thank you Sir. Next question comes from Ms. Reena Verma from Merill Lynch. You may go ahead please.

**Ms. Reena Verma:**

Thank you very much for the call. I have some housekeeping questions on your quarterly results and just a few more. Firstly, just pertaining to the results, can you comment on how your paid minutes did versus last quarter, so that we can have a clearer picture on seasonality? And my second question again relating to results is, the reduction in your CWIP you said is due to 3G getting commercialized. So, have we seen the full impact of that on interest as well? What is VAS as a percentage of revenue? Can you please share with us what was the number in the previous quarter in 1Q FY12? Those are my result related questions and I have one more question for you please.

**Mr. Syed Safawi:**

Let me try and answer your questions on MOU and non-voice VAS. Yes, this is paid minutes growth that we are looking at. I had mentioned four quarters back that over the next three-four quarters we will take out free minutes. Currently free minutes are down to smaller level which I think is lower than the industry right now, as well as the exact details across the industry might not be available. If you see the mathematics, 1.6% minutes growth, 0.5% RPM growth overall translates into a 2.1% growth of revenue. You should see consistent paid minute growth from here on.

**Ms. Reena Verma:**

A small clarification, is that in total minute terms? Were the free minutes a relatively big number in Q1 that you escaped the seasonality which hurt other operators?

**Mr. Syed Safawi:**

I am not sure whether I am qualified to answer on behalf of the other operators. I can answer on my behalf that we have continuously focused on taking out free minutes over the last four quarters. We are now at a level where the free minutes or FAT is at a very marginal level and therefore you are seeing whatever minutes you are generating. When I said free minutes Reena I have always said that even loss making minutes need to be reduced. Therefore today you are seeing more profitable minutes getting generated at 45 paisa RPM and that is what is translating into revenue growth. Managing a portfolio of billion minutes a day, taking out free minutes, reducing non-profitable minutes and increasing the share of paid minutes, is a complex portfolio management. It is not a simple answer of X percent but a combination of all these things which result into MOU growth and therefore the revenue growth. Let me come to your VAS or non-voice revenue question. Our non-voice revenue is about 20% of total revenue which is the highest in the industry by a significant amount. It was slightly lower than 20% in the last quarter.

**Ms. Reena Verma:**

Sir, in terms of the premium that your RPM enjoys, your RPM is higher versus the market leader. Do you see that as being sustainable given that your VAS was more or less stable?

**Mr. Syed Safawi:**

Yes, we have seen it stable for the last seven quarters. We focused and deliberately managed the portfolio in a way where we did not let it drop. The moment we see loss making minutes getting generated or loss making data plans, we immediately focus on that. We want to drive customer life cycle value as a way of life, and that focus has helped us translating into this growth. It will always be a blended number. The same

blended number six to eight quarters back used to be at 44 paisa RPM. And in the industry, some of the players were at 53 to 54 paisa. Now it is reverse. We have held on steadfastly while the other players are now probably at 42/ 43/ 44 paisa levels. It is how much you focus on RPMs and paid minutes and paid data.

**Ms. Reena Verma:**

Thank you for that. I think you had a great call on the RPM convergence across operators a couple of quarters ago. That has completely panned out as you said it would. But now when I look at your overall RPM, you are now at a premium to the market leader. I do not think we see it in too many markets globally that the challenger's RPM is higher than the market leaders. So, do you think that we should expect a trend reversal against what we have been seeing over the last few quarters?

**Mr. Syed Safawi:**

Absolutely not, because first of all the full impact of the tariff increase in voice has still panned out and that I just mentioned probably 20 minutes back that it is going to have an impact of one paisa on RPM over the next two to three quarters. Currently the impact is around 0.2 paisa. That is still to flow in given the blend that we have in our portfolio with increasing post paid customers. We did not have this earlier which is driving better quality of minutes and higher end customers. As we are getting 3G in most of the towns, we are getting a much better post paid base as well which we did not have earlier on GSM. It is a combination of all these factors which is resulting in better and steady RPM. Today, if you are at 44.7-45 paisa and the other players in the industry are also at 43-44 paisa, you are in the same range. But it will be your quality of portfolio or your portfolio mix that will determine whether you can retain it. And given our healthy and changing portfolio mix we think it will sustain. One is RPM increase, second is non-voice which is a more profitable part of the business going up further from 20% levels to 35-40% levels, which is global trend again. I think this is sustainable at these levels.

**Ms. Reena Verma:**

On 3G capitalization?

**Mr. Arvind Narang:**

We have full impact of 3G in fixed assets and we also have impact of depreciation and interest in the P&L. Various circles have been included at various point of time during the quarter mostly in August and September, so accordingly the net effect has been taken.

**Ms. Reena Verma:**

Thank you very much. I just have one final question which is the news about the imminent entry of Reliance Industries into telecom. Do you see it overall as a positive for yourself given that you might have a tenant or do you see it as a concern given that there is a new competitor on board?

**Mr. Syed Safawi:**

If there is any responsible player coming into the industry and growing the business especially by data, it is very good news. This is because we are at very early stages of the data revolution and we have always said this is going to be the decade of data. Given the fact that spectrum is limited, in 5 MHz, in 3G and also in LTE, players are going to have a smaller footprint of size, everybody is going to be responsible in the data play. If a new player comes in and over the next two to four years builds an ecosystem which drives data revolution, it will be positive for the industry. On the tenancy side, if we have tenancies coming in that will be a net benefit for us.

**Ms. Reena Verma:**

Sir, have the talks commenced for tenancy?

**Mr. Syed Safawi:**

Yes, the talks have commenced.

**Ms. Reena Verma:**

Thank you.

**Operator:**

Thank you madam. Next question comes from Mr. Gaurav Malhotra from Citi Group. You may go ahead please.

**Mr. Gaurav Malhotra:**

Most of my questions have been answered. I have only one question. Despite the increase in minutes the access charge seems to have gone down. What is the reason?

**Mr. Arvind Narang:**

Gaurav, access charges have come down marginally from Rs. 668 crore in Q1 to Rs. 651 crore in Q2, or by just Rs. 17 crore. This is due to the reduction of off-net MOUs and related termination charges.

**Mr. Syed Safawi:**

Gaurav, it is always a blended number between on-net and off-net and we have also said in the earnings call that we are driving consciously on on-net community. And as the community becomes 147 to 150 million, the on-net minutes increase. Also the fact that data is growing very well, in all it is a blended number combination.

**Mr. Gaurav Malhotra:**

Thank you Sir.

**Operator:**

Thank you Mr. Gaurav Malhotra. Next question comes from Mr. Sunil Thirumalai from Credit Suisse. You may go ahead please.

**Mr. Sunil Thirumalai:**

Most of my questions have been answered. Just a follow-up question, I did not catch the reason behind the reduction in the finance charges despite the 3G number getting included.

**Mr. Arvind Narang:**

Sunil, as I mentioned earlier, we have mentioned in our notes to accounts as well, the treatment related to foreign exchange. Because of the scheme of arrangement the company is permitted to adjust the variations on account of the changes in the exchange rates related to loans in foreign currency by a withdrawal or credit from the General Reserves. And this necessary effect, whether it is positive or negative will be carried out at the end of the year.

**Mr. Sunil Thirumalai:**

Okay, sure. Thank you.

**Operator:**

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

**Mr. Shobhit Khare:**

Good afternoon Sir, and thanks for the opportunity. I had a couple of questions. The paid minutes focus is also visible in your wireless net revenues. In the last three quarters, it has gone up almost by 4-6% every quarter, but the same has not flown through on the EBITDA line. Thus the wireless EBITDA has been almost at the similar

level around Rs. 1,180 crore for the last three quarters. What is this increase in wireless operating expenses below the net revenue line? Are there any one offs, is it related to some write offs, etc.? And second is, the gross debt number in the quarterly report and then the loans which are reported in the stock exchange, there is a meaningful difference of around Rs. 7,000 crore. What is driving this difference?

**Mr. Syed Safawi:**

Shobhit, let me handle the MOU one and the EBITDA impact on that. Yes, indeed we are seeing good paid minutes growth which is helping in the top line growth of 2-3% consistently for the last three quarters. The EBITDA being marginally growing only by 0.2%, as you rightly said, is because of SG&A expenses going up in this quarter. This is because of the full quarter impact of the three advertising campaigns that we are running, focused on branding. The second one is the 3G network fully rolled out in the full quarter impact and the network cost going up a little bit. Despite the fact that our employee costs have come down by Rs. 22 crore, these are the two items which have gone up. This is sustainable and it can improve as your top line improves given better RPMs and MOU growth. Let me just handover to Arvind for the gross debt question.

**Mr. Arvind Narang:**

Shobhit, the numbers mentioned in the notes to accounts versus in the balance sheet will not match because that notes to accounts is relevant to the scheme of arrangement. So, if you look at the foreign exchange loan mentioned in the balance sheet, that loan amount is Rs. 26,184 crore. The relevant forex impact which is mentioned in the notes to accounts is Rs. 2,714 crore. There is also buyer's credit involved which is there in our annual report, in the range of around Rs. 1,100 crore, which is a published number. If you take all these into consideration and reconcile them, you will get the foreign currency loan amount of Rs. 29,961 crore which is mentioned in the notes to accounts.

**Mr. Shobhit Khare:**

Okay, Sir, how much of the buyer's credit would be there apart from the number which is in the quarterly report? It used to be around Rs. 4,000 to Rs. 5,000 crore.

**Mr. Arvind Narang:**

Buyer's credit is a part of the current liability in the quarterly report. The amount mentioned i.e. Rs. 1,100 crore is an approximate amount which is mentioned in the annual report and is a part of the current liability in quarterly report.

**Mr. Shobhit Khare:**

Okay sure Sir. Finally what is the data incremental ARPU RCOM is getting on the 2.1 million active 3G subscribers?

**Mr. Syed Safawi:**

Shobhit, it is difficult to talk about specific ARPUs on every segment, but it suffices to say that the data ARPUs would be typically three to four times of voice ARPUs on a like-to-like, prepaid-to-prepaid or postpaid-to-postpaid basis. Postpaid would be similar or slightly higher than prepaid.

**Mr. Shobhit Khare:**

Okay Sir. Okay, thanks a lot.

**Mr. Syed Safawi:**

Thank you very much Shobhit.

**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.