RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended June 30, 2013

Conducted at 12.30 pm IST on August 2, 2013

Moderator:

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 team from Reliance Communications namely Mr. Gurdeep Singh, Mr. Punit Garg and Mr. Arvind Narang.

The call will begin with some key observations by the management 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. Gurdeep Singh. Thank you.

Gurdeep Singh:

Thank you, Mamta.

It's a pleasure to once again welcome you all to discuss Reliance Communications' financial performance for the quarter ended June 30th, 2013.

On Thursday, August 1st, 2013, our Board of Directors adopted the unaudited results for the first quarter of the financial year 2013-14 ending June 30th, 2013. The Media Statement, Quarterly Report and The Results have been uploaded on our web site and I hope you have had a chance to go through the same.

Let me start by sharing the key highlights of this quarter:

- **Revenue:** We are happy to share that RCOM has continuously grown the revenue for the last three consecutive quarters. For the first quarter this fiscal year, total operating income stands at Rs. 5,315 crore, up 3.6% from Rs. 5,130 crore in 4Q FY'13.

- **EBIDTA** is up by 2% q-o-q at Rs. 1,701 crore, with EBIDTA margin at 31.4%, amongst the highest in the industry.

- **RPM:** RPM has increased to 45.7 paisa, up 4% q-o-q. We have significantly improved RPM with tariff hikes and strong focus on paid & profitable minutes.

- **Non-voice revenue:** Our non-voice revenue contribution to wireless revenues is at 21.3 % and amongst the highest in the industry.

- **GEBU Revenue and EBIDTA:** In our Global Enterprise Business Unit, we achieved revenue of Rs. 2,300 crore with an EBITDA of Rs. 518 crore.

- **Free Cash Flow:** RCOM continues to be Free Cash Flow positive in this quarter. Against EBIDTA of 1,701 crore, RCOM invested 245 crore on CAPEX during the quarter, and as has been mentioned in the previous calls, the peak of capex intensity is behind us.

Let me now share the financial and operational performance of our wireless business:

- The first quarter wireless revenue stands at Rs. 4,816 crore, up 4.1% q-o-q from Rs. 4,626 crore in Q4. Wireless EBITDA stands at Rs. 1,314 crore, up 6.6% q-o-q.

- This quarter, we are able to achieve highest revenue and EBITDA growth in the past 3 years.

- GSM and Data revenue up 6.3% q-o-q and now forming 67% of the wireless revenues.

- We are increasingly focused on data growth, and as such provide high speed data coverage in over 1,300 towns in India

- Our data focus have led us to serve 31.1 Mn. data customers out of which 7.7 Mn are 3G customers, highest in the industry

- Total data usage on our network at 31,050 Terabyte, a growth of 14% Quarter on Quarter and data usage per sub at 342 MB, still remains the best and highest in the industry.

I will now briefly talk about current status of Indian Telecom Sector. Indian Telecom Sector is witnessing virtual consolidation as many operators have either completely exited the business or reduced their footprint considerably. We expect the sector to have 4-5 Pan India private operators in the coming years. This will bring the sanity back in terms of further firming up of pricing in the market. The competitive intensity is also tapering off and indications of pricing power coming back to operators are evident by recent hikes in headline tariffs and reduction of free & promotional minutes by operators.

We are witnessing tangible evidence of accelerating mobile data adoption in the industry where consumers and business customers are seizing the benefits of fast, reliable mobile data networks using affordable smart-phones and other mobile data devices such as Dongles and Tablets. This is further supported by greater availability of content and applications. We are very positive about data led revenue growth in the industry going forward.

Update on Wireless Business and new initiatives: During the second quarter of last fiscal, RCOM took the lead and raised Pre-paid tariffs across GSM and CDMA platforms by 25%. We have completed migration of most of our customer base to headline tariffs of 1.5 paisa per second. In order to enhance RPMs and increase profitability, we have further raised our Pre-paid tariffs by 20% across India on both GSM and CDMA platforms. We have reduced promotional & concessional offers by as much as 65% and increased base line tariffs by 20% across all commitment plans, which are being used by a large part of our customer base. Due to these changes, we are able to grow our RPMs by 4% during the quarter, and now stand at 45.7 Paisa per minute, highest in the industry.

RCOM is the first operator in the country to have full compliance with TRAI's Guideline on obtaining explicit consent of consumers for subscribing and renewing of Value Added Services. Rest of the operators are still in the process of implementing these guidelines. Still, we are able to grow our wireless revenue at a healthy rate.

RCOM provides wireless broadband services in over 1,000 towns through its Pan India High Speed Data network. We also provide 3G services in 333 towns in 13 circles including key metros of Mumbai, Delhi and Kolkata. RCOM currently serves 31.1 Mn. data customers on its network, out of which 7.7 Mn are 3G customers. Total data usage on our network has grown 14 % quarter on quarter and stands at 31,050 Terabyte, which is highest in the industry.

As mentioned previously, RCOM is continuously working towards higher adoption of data services by its customers. We are creating a healthy ecosystem for data services through 3G and High Speed Data networks, providing affordable products and services by entering into relationship with leading brands of handset manufacturers and allowing easy access to social networks by entering into exclusive partnership with social media networks.

RCOM is focused on building a healthy portfolio mix, through driving profitable Data business 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'.

During the quarter, RCOM forged new partnership with Apple and started offering iPhone 5 in India through our Reliance World outlets. RCOM will allow iPhone 5 customers to connect to its fast, reliable & superior 3G network with data speeds up to 21 Mbps. With this tie-up, now RCOM have forged relationship with almost all leading handset manufacturers and offers bundled services across leading operating systems like Android, Blackberry and iOS on our "Built for Internet" network.

Very recently, we have announced launch of an exciting new 3G data offer at 2G data prices for Smartphone and Tablet users, targeting the fast-growing segment. The aggressive and affordable pricing is all set to trigger a wave of 3G adoption in the country, ensuring greater traction from mid- to high-level data users, and resulting in significant data usage and revenue growth across customer segments.

With this initiative, RCOM aims at 40% share of fast-growing Smartphones market of 66 Mn. handset, which is currently growing at approx. 2 Mn. handsets per month.

New partnerships and strategic initiatives at RCOM:

RCOM has undertaken key strategic initiatives on cost improvement, asset utilization and deleveraging the balance sheet.

1. As announced in the previous quarter, RCOM has entered into long term agreements with Alcatel-Lucent and Ericsson for end-to-end managed services contract. These partnerships will further improve network performance and customer experience by offering Next Generation telecom solutions across multiple devices and platforms.

2. We have unveiled plans to expand our network significantly through strategic 2G GSM Intra-Circle Roaming agreements with Aircel, Loop and other existing operators, offering our customers wider coverage and uninterrupted service across the country. These arrangements will help in a fast-paced expansion of RCOM's GSM network footprint at no extra cost and optimize Capex & Opex spends. These ICR agreements will increase RCOM's national 2G GSM network foot print by 10,000 base stations and bring in an addressable market of over 150 million pops, adding up to a market opportunity of over Rs 10,000 crore.

3. During the quarter, RCOM signed comprehensive agreement with Reliance Jio Infocomm for sharing of RCOM's nationwide telecom towers infrastructure. Under the terms of the agreement, Reliance Jio Infocomm will utilize upto 45,000 ground and rooftop based towers across RCOM's nationwide network for accelerated roll-out of its 4G services. The agreement has an aggregate value of over Rs. 12,000 crore (over US$ 2 Billion) during tenure of the agreement. The agreement provides for joint working arrangements to configure the scope of additional towers to be built at new locations to ensure deep penetration and seamless delivery of next generation services. RCOM and Reliance Jio Infocomm are going to derive major benefits from sharing of capital and operating costs. This agreement follows the inter-city optic fiber sharing agreement already signed in April 2013 as part of a comprehensive framework of business co-operation between the two companies.

4. Recently, RCOM announced that its Board of Directors has in-principle decided on a demerger of the Real Estate held by RCOM into a separate unit, Reliance

Properties Ltd., to unlock substantial value for the benefit of its approx. 2 million institutional and retail shareholders.

Reliance Properties Ltd. will be a separate listed Company. All shareholders of RCOM will receive fully tradable pro-rata shareholding in Reliance Properties Ltd., free of cost, based on their existing shareholding in RCOM. The preliminary and indicative monetisable value of RCOM’s real estate on development is estimated by independent valuers at over Rs. 12,000 crore, which is equal to Rs. 60 per RCOM share. Reliance Properties will work with leading global partners to develop the real estate, and unlock this value for the benefit of its approx. 2 million shareholders.

5. We have also initiated steps towards deleveraging the balance sheet by completing the securitisation of proceeds under the Rs. 1,200 crore inter-city Fibre Agreement signed with Reliance Jio Infocomm in April 2013. Deliveries of inter-city fibre links to Reliance Jio have already commenced and total deliveries of 120,000 kms inter city fibre under the Agreement are expected to be completed within the current financial year.

Now, let me hand over to my colleague Mr. Punit Garg to cover Global Enterprise Business.

Global Enterprise Business

Global Enterprise Business Unit has seen good traction in 1Q FY’14 with a new order booking of approximately Rs.500 Cr. without NLD fiber of Reliance JIO.

Carrier Business

Our Carrier business continued its strong performance with order booking of around Rs. 200 Cr. including approximately Rs 100 Cr. from International Carrier business. This fiscal year starts with focus on service quality and stronger relationship with our customers. We introduced innovative solutions like IP-Transit with Point to Multipoint Global Ethernet pipes, which allow our customer to provide scalable, cost effective and flexible internet services. Suited ideally for regions like Middle East, where cost of subscribing IP Transit ports is highly prohibitive, our innovative solution provides lower total cost of ownership with high scalability. With pay as you grow option under Optical Wave Service, we are now offering higher bandwidth granularity to our customers of upto 1Gbps. This helps our customers to meet their connectivity needs with greater flexibility, higher scalability and lower risk. Our Single Board Number (SBN) service has grown on Q-o-Q basis with increased demand from enterprise customers. In the National Long Distance business, we have signed orders of Rs. 100 crore primarily for Infra sales to private service providers.

We have crossed 300 plus customers in Reliance Global Call Enterprise segment and expecting to grow the numbers further. Reliance Global Call Enterprise service is currently available in 11 countries - USA, UK, Canada, Australia, New Zealand, Singapore, Spain, Belgium, France, Netherlands and India. In addition our SIP Trunking calling option has been recently introduced to offer customers more convenient options for all their International calling needs.

Enterprise Business

In Enterprise business, we achieved new sales of about Rs 300 crores in the first quarter.

Our Pay per Use model for Data Centre business, continue to show strong traction in enterprise market. Once our new Data Center (IDC5) will be ready for revenue in the fourth quarter, our IDC capacity will be 60% more than nearest competitor. With this we continue to maintain our leadership position in Data Centre business, not only in terms of market share, but also in terms of Technology and Innovation.

We continue to strengthen our focus on the “Small office” segment through the success of new flavor of VPN as ConnectPrimeTM, launched last year. We continue to see strong demand for ConnectPrimeTM from enterprises, both small and big, having multiple small offices spread across the country. With ConnectPrimeTM we strive to provide the most cost optimized and efficient connectivity option to our growing Enterprise customer base using the synergies of our Pan India wireless and wireline network.

Following our success in Government sector with prestigious orders like National Informatic Center, UID.

We also added several news logos in the Private Enterprise space across business verticals including financials, IT & ITES, Manufacturing and Media & Electronics.

This year we are poised to step up our product innovation initiatives with industry vertical focused solutions. These products will help us differentiate RCOM as an advanced player in Enterprise market, taking advantage of our unique asset combination and spread.

To summarise, let me reiterate:

- Industry to have 4 – 5 Pan India Private operators in coming years through consolidation

- Tariffs are going to harden and contribution from data likely to grow, leading to improvement in RPMs

- We continue to enter into strategic alliances and partnerships to enhance device ecosystem, providing easy access to social networking in order to increase data usage

- We will continue to pursue strategic initiatives in order to expand the network and better asset utilization.

Finally, I would like to say that RCOM is committed to enrich customer experience through provision of ubiquitous network coverage, affordable devices, value for money products & services and improve customer services. We are also committed to enhance shareholder value by sweating our assets and unlocking value in our businesses.

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

Moderator:

Certainly Sir.

At this time participants who wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

First question comes from Mr. Shobit Khare from Motilal Oswal. You may go ahead please.

Mr. Shobit Khare:

Good afternoon, and congratulations on a good performance in the Wireless segment. This is obviously driven by a good pricing improvement, so I just wanted to check with you, as mentioned by you in a previous call about 6-8 paise improvement in RPM. What are your thoughts on it, now that we've seen some improvement this quarter for the first time, and what is the risk that the pricing discipline in the sector breaks at any point before we get to that kind of improvement?

Mr. Gurdeep Singh:

Thanks Shobit and thanks for being on the call. Let me answer this in two parts. The first part is when we took the price correction in October on moving the headline tariff from 1.2 paise to 1.5 paise, we said that it takes nearly 6-8 months for all the customers to migrate to this headline tariffs, and I'm happy to share that most of our customers have now moved to the headline tariff. Second, in the month of April, we began to correct the free and promotional minutes on the commitment plan, and we had also said that this will take anywhere between 4-6 months for us to migrate all our customers to the new commitment plans, and that process is more than half over, and we expect it to get over by the end of August. In the sense, Q3 will be the quarter when you see the complete impact of the combination of headline tariff change and the reduction of free and promotional minutes from the commitment pack. Having said that, we have seen the impact of the change in the headline tariff and partially of the commitment plans in this quarter. We hope to see continuous improvement in RPM even in this quarter as we go forward, and as I said last time, industry is at a stage where hyper-competitive phase is behind us. There is more rational behaviour on the ground and we believe the pricing power is back to the pan India scale operators. RPM hardening is a journey, it's not a definitive movement or an event, and we see no room or head room available for the telecom companies now to absorb any of the rise in the input material cost.

Mr. Shobit Khare:

Okay, understood. One small question was on current liabilities. Current liabilities quarter on quarter seem to have jumped significantly, so just wanted to understand why this is the case?

Mr. Arvind Narang:

Shobit, Arvind here. This is just a notional change because of the foreign exchange fluctuation which has happened during the quarter, and hence gone up by around Rs. 3,400 crores. On actual basis it has been largely the same as it was in the last quarter, and in the last quarter actually it had significantly come down.

Mr. Shobit Khare:

Yes, understood, sir. Okay sir, thanks a lot and all the best.

Mr. Arvind Narang:

Thank you.

Operator:

Thank you sir.

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

Mr. Gaurav Malhotra:

Hi, thanks for the opportunity, there are just 2-3 questions from my side. Firstly please guide us through the events which took place in the Global Business, as we see that the revenue dipped quarter on quarter, that's the first question. The second question is more on housekeeping, in terms of depreciation and finance charges. We see that the depreciation has come off, so is there some revaluation of life which has been done, and also in the interest, if we can just get some sense on the breakup of the interest charges, and the last question is on the balance sheet. The Current Liabilities have again seen an expansion, so anything on that front? Thanks.

Mr. Punit Garg:

I will answer the first question on the Global Business segment. In the Global operations, i.e. in our sub-sea business, under the new accounting policy, the IRU revenues actually materializes not when the order is picked up but when it is activated and money is collected. In 1QFY14, the activation has been lesser. However, in terms of demand, there has been a great demand, and we have a very significant backlog of orders. Our funnel as of today stands close to Rs. 500 crores, which will be realized in the coming quarters, and hence, this is something which we see as a one-off. IRU revenues are different in different quarters, so you might see a dip in one quarter while in another quarter it will go up as more IRUs are done. Across the four quarters that would vary. So, apart from IRU, if you look at it, Global Business is stable and growing QoQ.

Mr. Arvind Narang:

Gaurav you have three questions, one on the current liability, second on the interest cost and third on depreciation. The movement in current liability as I just explained is largely due to the notional fluctuation in the foreign currency, and that is reflected in the current liability of around Rs. 3,400 crores. Excluding that, it is flat. In the last quarter, this had significantly come down. On the depreciation which has decreased by Rs. 206 crores, if you recollect in the last quarter's call, I had mentioned that there was a one-time increase of around Rs. 134 crores and we gave you the breakup related to that. If you take out that, then around Rs. 70 crores of depreciation has further reduced during the quarter. RCOM is making lot of efforts to connect our sites through the State Electricity Board rather than using some of the ancillary infrastructure existing there. So because of those initiatives, the utilization of certain assets like the DG sets for example, where the life is measured not in terms of number of years, but more in terms of the running hours. So, to that extent, these got extended, and that has caused a reduction in the depreciation. Going forward, it should remain in the range of around Rs. 900 crores.

On your question on the interest cost, the finance charges which have come down by Rs. 60 crores, if you recollect in the Q4 call, we said that finance charges had a one time management and arrangement fee of around Rs. 71 crores. This one-time fee is not there in this quarter 1QFY14, which is causing a reduction by Rs. 60 crores. The swap between the foreign currency and the rupee loan is visible in the report which is around Rs. 2,000 crores. So even if you take a 5% interest difference between these two, it will give you Rs. 25 crore per quarter or an average of around Rs. 10-12 crores. So that is why the Rs. 71 crores has reduced to Rs. 60 crores. And as mentioned in the previous quarter as well, the average cost of debt shall be around 6.75% and that is where it stands today.

Mr. Gaurav Malhotra:

Okay, thank you.

Operator:

Thank you sir.

Next question comes from Mr. Rajeev Sharma from HSBC. You may go ahead.

Mr. Rajeev Sharma:

Hi, thanks for the opportunity. Just a couple of questions, first is on the 3G side. It's been couple of weeks RCOM announced 3G data rate cuts, so what has been the traction you are seeing in terms of the 3G subscriber movement, after you've cut tariffs? And second is on the RPM. Do you think that given this is a seasonal quarter; there will not be much improvement in RPM this quarter? And because of possible elasticity will the industry wait for 1 or 2 quarters before they again start tweaking tariff upwards or the discounts would narrow?

Mr. Gurdeep Singh:

Thanks Rajeev. First on 3G and 2G rates, let me take a minute to explain the thinking behind what we did. We pooled around 5,318 customers across competition and ours and figured out that why you don't use 3G in spite of you owning a 3G handset. So 75% of the consumers came back and said, we find the pricing of data per MB to be prohibitive. Now, if we are at the cusp of smartphone penetration in this country and we are seeing adoption of 3G but not at a pace that we would love to see, the important aspect is to grow affordability, thereby leading to adoption and the growth of usage. The fundamental thought is that the 3G market to come is far, far bigger than the market that we are addressing today. So any changes that we make towards growing that ecosystem, helping consumers leapfrog from 2G to 3G, giving them a high speed affordable internet service at the price that they are used to paying today at 2G, we believe will help grow the entire 3G off-take and help consumers leapfrog from a 2G handset and migrating straight to 3G. Also, if you look at the data usage, when you look at a 3G customer, a 3G owner using 2G, their usage is limited because of the speed of the 2G. We believe when you upgrade customers to 3G at the 2G price, their current off-take, which may be limited to 100/200/400 MB will see a significant uptake. Besides that, of the users that we have on the 3G, it also helps us expand usage. So, if we look at the volume of consumers on our network who are not using 3G in spite of having 3G handsets, and plough that back into the possibility of them getting into the data packs and beginning to use the 3G, the overall revenue mix at the word GO gives you a positive picture. Now having launched it for over 10 or 12 days, we have seen a very positive traction. I will not be able to share the exact number, but I would say that we are reasonably happy and satisfied at the way this is growing today, and this is aimed from RCOM's perspective to gain 40% share of the smartphone sold in our 13 circles. We believe the future is not about the ARPU by subscribers, it is ARPU by the quality of the handsets and ARPU directly related to the size of the screen, larger the screen size, larger the propensity or the opportunity to get more ARPU. So this is in line with our data strategy, and we continue to forge our data leadership in the market.

Second, coming to the issue of RPM, well, we have seen a 4% RPM increase over the previous quarter coming largely on the back of some of the initiatives that I spoke earlier. However, having said that, migration of some of the customers still continues and will get completed by August. We believe the RPM should harden even in this quarter, and the full impact of RPM increase due to the combo, i.e. the headline changes and the free & promotional minutes been taken away will be seen in Q3. I would like to conclude by saying, at this moment in RCOM, we are intensely focused about growing paid and profitable minutes on the network. We believe, cross subsidization which is between the consumer segments of the high versus low RPM segment is over, each segment needs to be profitable and needs to align to cost to serve that segment demand. So our efforts are all in that direction.

Mr. Rajeev Sharma:

Thanks a lot, Gurdeep, for the answers. I have just two follow-up questions. First is on the data piece. What is the kind of target you have in mind for FY14 for 3G customers, from 7 million 3G customers today to around 12-13 million? What is it that you plan to achieve? And if you see that, will it signify the success of the data rate card? However, my problem is that with these rates it will be difficult to recover the Spectrum cost, so do you think they are sunk and one should not be looking in that manner? Please help me understand that. My second question is that your network costs have gone up and your incremental EBIDTA margins for this quarter are lower than your peers despite tariff hike, so just wanted to understand these couple of things.

Mr. Gurdeep Singh:

Okay, I would not go to the trajectory of saying that what numbers do we estimate. This is purely in-line with the growth of the smartphone penetration in these markets; smartphones being sold at the current level are at about 2 million a month. We will have to wait and see how that trajectory grows with an action like ours. We believe that this will trigger the growth of the smartphone adoption. Our aim is to get 40% share of these smartphones sold in our 13 circles on our network. So I would say that we would judge the measure of success by co-relating these numbers to that quantum of the sale, because at the end of the day you can only give 3G to the subscribers who buy the 3G phones, and that is limited by the sales that happen in the market and we expect to get 40% share of that market. That's point number 1. Point number 2, about whether spectrum cost is a sunk cost, look, we are only into the third year of the 3G, it's a 20-year license, and as I said earlier, the 3G market to come is far larger than the current 3G market. Maybe few years down the line, we will see the death of the 2G phone, and we will see all the consumers migrating to 3G. So in that sense, it is too early to say on those issues. But we remain focused on growing adoption and growing usage. I think that will more than justify the cost of the spectrum charge on the network. Third, on the increase in the network cost, Arvind you want to say something?

Mr. Arvind Narang:

Yeah, the network cost has gone up by Rs. 27 crores. There are three reasons for it. One is on the regular repair and maintenance, second the power tariff and some of the utility charges have also gone up, and the third is that we have announced our outsource partners for network management in the previous year. That understanding triggers from 1st April 2013, so there have been some payouts to those partners as well. So, these are the three key reasons for that increase.

Mr. Gurdeep Singh:

And if you look at the incremental revenue to incremental EBITDA, nearly 50% of the incremental revenue has flown through into the EBITDA in the previous quarter.

Mr. Rajeev Sharma:

Arvind, is this the base for network cost which we should be looking at, means if you can help us understand this and what was the one-time payment to the vendors?

Mr. Arvind Narang:

It may be marginally down, but even if you look at the Q1 last year, the number was very similar, slightly higher than this.

Mr. Rajeev Sharma:

Okay, just one last question. Gurdeep, your minutes are not growing despite the RPM doing good. At some point of time, the networks are still low on utilization. What point of time of tariffs on the voice side you will think that okay, I must now go and take minutes because that makes more sense. That's the last question from my side.

Mr. Gurdeep Singh:

Well, in October, we fairly realized that even though we continued to lead the industry's RPM, coming on the back of a significant data contribution, as our non-voice is one of the highest in the industry, but we still needed to correct some of the voice RPM, particularly in the 14 circles, where we are a young GSM player and we are no longer a new entrant. We've now been there for 3 or 4 years. So in line with that, we took the price corrections in the market, and going forward, we see room for us to realize more benefits out of these changes because we are correcting the revenue mix of the company in the wireless segment we are correcting the customer mix of the wireless segment. If you look at our 3G at 2G rate initiative, it is largely aimed at metro markets in our 13 circles, where we are a young GSM player. We have yet to capture a lot of post-paid business and mid to high value customers. So our thrust is to get disproportionate share of such customers on our network and help correct our revenue table or revenue mix table once and forever as we go forward. So if you look at it, we have gone through this price correction in the last quarter. The fact that seasonality started in June, it continues as we speak today on the traffic side, but which is what is known to all of us, and that at this moment, our complete focus is to weed out free and promotional minutes out of the network, weed out lower than cost to serve sales of the minutes that we do on the network so that we increasingly bring more paid and profitable minutes on the network. So at this moment, I will not be overly concerned about non-growth of the traffic, as much as I would be concerned about correcting the RPM table to the customer mix that I have. We know for sure as the seasonality bounces back, to grow revenue at the increased revenue table, will mean a larger revenue growth for the future. So it's a correction that we are making for the long term benefit of the wireless business.

Mr. Rajeev Sharma:

Thank you very much, thanks a lot, and all the best for coming quarter.

Mr. Gurdeep Singh:

Thank you, Rajeev.

Operator:

Thank you sir.

Next question comes from Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Thank you very much for taking the questions. Sir, I have three questions. You have mentioned that data revenues obviously are a very large proportion of your overall revenues which is about 21%, much higher than the industry. How much of that is internet access, if you can throw some light on that? Given the usage which you report, would it be fair to assume that a large proportion of that is actually because of the

CDMA dongles or GSM dongles? That's my first question. Second one Sir is, the SG&A costs going down which you have mentioned. I just wanted to understand is this a good sustainable level for you to kind of look forward to? and finally, what is the usage pattern if you can throw some light on the customers who have already seen the impact of either headline tariff increases or who are seeing the cut in promotional minutes from their commitment plans? Thank you so much.

Mr. Gurdeep Singh:

Okay. Thanks for being on the call and let me answer your first question. We have seen the data usage is a combination of 3G and high speed data, right, and we have never given out the breakup of our non-voice revenue, but given the context of what other elements of the non-voice are and we are in the same industry as others, you can well imagine what is the proportion of our data revenues as a contribution. It is fair to assume that, yes, we continue to lead in the dongle business, both in 3G and HSD. With 3G and 2G prices, our attempt is to correct now the handheld market, where we are looking at the disproportionate share of handsets coming on our network. With that it puts us into a saddle for a very strong leadership into the overall data business. Secondly, on SG&A going down, well, we believe that with the recent changes of the customer acquisition process that happened with the TRAI, the gross acquisitions are getting rationalized. And currently, Q1 is not the indicator of the exact SG&A costs because when you enter into the festival season, the gross acquisitions will move up in line with the cash flow of the consumers and the purchase cycle that begins in India, but we will have to always see it in co-relation to the acquisition revenues that it brings in, so I'm saying that as a percentage to the acquisition revenues that it brings in, it will continue to remain at a level it is, but it will be a far more productive acquisition, even if they were incremental on what the Q1 is. Third, on the usage pattern after the RPM impact, yes, we have seen reduction of minutes in the category of very high users and I will not mince my words to say, in some cases, the abusers. Where have we seen the largest impact of the rate per minute hike? We have seen the largest impact in curbing the minutes of the abusers, and we have also seen the largest impact on the consumer segment which is giving us ARPUs in sub Rs. 30-40. We find both these category of customers are below our cost to serve. So we are happy about that reduction, as we speak at this moment, because we know once the tariff table gets corrected, the consumer wallet share has to be little more towards the telecom going forward. We will be able to grow traffic on this reset table, which all is well for our long term journey.

Mr. Srinivas Rao:

Thank you very much, sir, I'll come back for more questions.

Operator:

Thank you sir.

Next question comes from Mr. Vinay Jaising from Morgan Stanley. You may go ahead please.

Mr. Vinay Jaising:

Thank you so much. Firstly, thanks for the opportunity. I have a couple of questions. Focusing on the net debt, your net debt this quarter is Rs. 38,480 crore, you have a lower forex element out here as well. My question here is you have commented about securitizing your Rs. 1200 crore amount which you are going to get for Reliance Jio on the inter city fibre, that should have reduced your net debt. When can we see that?

Mr. Arvind Narang:

Vinay, Arvind here. The Reliance Jio deal securitization announcement happened on 11th July. So it is a part of Q2. Probably you may see that effect in the subsequent quarter.

Mr. Vinay Jaising:

Would it be fair to say that this securitization would reduce your net debt by another Rs. 1,200 crores?

Mr. Arvind Narang:

I won't comment on the exact number, but the effect should come in the coming quarters.

Mr. Vinay Jaising:

Again, moving on the same part of the question, if you were to securitize the Rs. 12,000 crore tower deal, are you working towards that because that would also reduce your net debt substantially and when can we hear any news on that?

Mr. Arvind Narang:

Conceptually Yes, but it's a large transaction. In terms of the value, volume and the due diligence on both sides, from the bank's perspective, it's a large and voluminous work. What you say conceptually makes sense, and we are looking at it. But as and when we are able to make any firm view, we will announce, and we will definitely share that, like we have done already for inter city fibre deal.

Mr. Vinay Jaising:

Any time frame on that Arvind; 3 months, 6 months, any kind of timeframe?

Mr. Gurdeep Singh:

Vinay, Gurdeep here. What I would say is that, look, we are working on three areas, I mean, one is the Globalcom sale, second is executing Reliance Jio's comprehensive arrangement, where some deliveries have already begun, and we hope to complete both the inter-city fibre and the tower tenancy delivery during this fiscal, and to realize the benefits to RCOM. As Arvind said, we've taken these steps on Rs. 1,200 crore securitization. The towers' annual rental which is like an annuity income is a great source for securitizing some of our loans. It will be dealt with in phases as we are currently focusing on other two larger issues.

Mr. Vinay Jaising:

Sure sir. Since I have you on the line, the traffic, not just for you but for the entire sector is not been as pleasing as it would have been this quarter normally. Do you think there's just been the technicality which has hurt the sector a bit earlier than expected?

Mr. Gurdeep Singh:

I think Vinay, you are absolutely right. Although we may not want to acknowledge the fact it is this time the bad seasonality started about 3 weeks earlier than what it was in the last year, and it still continues. So I would say that the right step is the RPM correction, and we should not be overly concerned about the volume drop at this moment, because volume will bounce back as we go into the festivity starting from September, and once it bounces back, let's all remember, it is going to come at a higher RPM which augurs well for the sector.

Mr. Vinay Jaising:

One last question and this is for Punit. Punit, you did address one of my colleague about dip in the Global business' revenues. What's happening out there, what can we expect, is this the new base, was the last quarter the real base, as far as revenue is concerned, similarly at the EBIDTA level?

Mr. Punit Garg:

Vinay, let me repeat what I said earlier but I would say it differently this time, not repeating my words. When it comes to the order book for the IRU revenues that's very good. It is only a matter of realizing that, which is largely from the accounting perspective, and it may vary from one quarter to another quarter. And I'm not seeing the current base to be a new base. I think what we had, it would improve going forward, and as you have seen in the last two quarters i.e. Q4 of last fiscal, and Q1 of this fiscal, the sales has been very good. I think you should see these numbers certainly going up in the following quarters. We have already done some work in this quarter, but obviously when we discuss the result in this quarter, you would see those numbers as well.

Mr. Vinay Jaising:

Thank you so much sir. I have no other questions.

Operator:

Thank you sir.

Next question comes from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Ms. Reena Verma:

Yeah, hi, thank you for the call. I just have a couple of questions. Firstly, on the 2G ICR, I just wanted to understand what defines the timing of these deals, because the regulatory framework for such agreements has existed for a long time, so is there something changing in terms of your comfort with the other operators? That's my first question. My second question is in terms of voice tariff, what is the risk that we see things changing from here in terms of possible tariff attrition? Are you seeing any signs of smaller operators clawing back at you in circles where they are trying to consolidate their presence? That's my second question. And finally, on the 3G, you mentioned that you are looking to get a share of smartphone sales. Can you just share with us what percentage of your subscriber base today is holding smartphones as in, what is the device percentage on your network today, please? Thank you.

Mr. Gurdeep Singh:

Okay, thank you for being on the call. First on the ICR. Yes, 2G ICR framework is in existence for long. As we said, we have forged the partnership with three operators, which is mainly Loop, Aircel and Tata. With that we have completed the sign up on the 10,000 possible base stations coming under our ICRs, mainly to supplement our young GSM circles and this should get on air in the next 45-60 days, and we should be able to see a full impact of that on the business in the Q3. That's the answer to your first question.

Second, on the risk on the voice tariff, I would say that for long, the wallet share spend of the consumers on telecom has dipped for many years. In spite of inflation and the rise of input cost to materials, we have been in a linear inverse situation to cost inflation versus the price drops. Today we are out of the hyper competitive stage. There's a far more rational behaviour on the ground, and we believe the matured and serious players who are of Pan India scale have the pricing power coming back to them and to that extent we are not overwhelmed by any of the actions of the smaller players in some of their markets. On the contrary, we are seeing some of the smaller operators also towing the line of a profitable sales growth in the number of smaller number of circles that they have. So the only risks to the voice tariff increase in the future could be to judge what is the point of elasticity, and I would say at this stage, we have not reached that stage.

Third, we have currently 7.7 million 3G users on our network, which is the highest in the industry, and we also have over 12 million 3G handset on our network, out of 30 million possible handsets in the 13 circles where we operate. So we already have close to 38-39% of those smartphones on our network, and this is largely been because of the superior 3G and data experience on our network, and our intent is to continue to get incremental at least 40% of those smartphones coming on our network in the 3G circles.

Ms. Reena Verma:

Gurdeep, thank you very much, very clear as usual, but just one small follow-up question on 3G. You've seen a bit of a slowdown in 3G subscriber additions pretty much in line with the other majors as well, though I thought you did not have any ICR arrangements on 3G, so you should not have been hurt by these slowdown seen as for others. Am I missing something?

Mr. Gurdeep Singh:

Not exactly. We're still awaiting the ORG GfK report which comes from the handset sales. Our fair guess at this moment is there has been a bit of a slowdown on 3G sales, particularly in the months of May and June, which I will attribute to seasonality. So I think going forward, if we can realign some of our collective thought process around seasonality and its impact, I'm sure you agree with the fact that the durable sales goes through a seasonality, FMCG business goes through a seasonality, so is the handset business which is going through the seasonality, so we should see a larger number of customers coming from August right up to the April next year.

Ms. Reena Verma:

And if I may dare to ask, in how many quarters or what is the timeframe on which you will measure the impact of your tariff reduction or slashing in 3G rates, if in next two quarters or in next five quarters you don't see 3G subscriber numbers move up meaningfully, can we expect tariffs to be rolled back?

Mr. Gurdeep Singh:

I would say that we will see a partial impact starting from this quarter itself because we made the changes from July 19th, and of course the next quarter should see a full impact. We are very hopeful and initial results are very encouraging and I'll tell you on two accounts, one, we are seeing the larger 3G number of phones coming on our network, intake from MNP accounts, people wanting to migrate to Reliance network has moved up, which was the intended intent. And also to get a little more extra share from a Delhi and Mumbai market, where we are relatively a young GSM player and we need to up the ante on post-paid and the mid to high value customers. Having said that, the heartiest part is that all the 3G owners of handset who were using the 2G internet and buying the 2G internet packs, we have now migrated them as a bonanza to 3G at no extra cost, because the pricing is the same. We have seen a significant change in their usage. To us that is the starting point. Once the usage takes off on the 3G, it becomes more relevant to the consumers, they get the benefit of high speed internet services and once it becomes a way of life, I think we have a lifetime to look at what kind of revenue per MB that we can get in the future. Having said that, I think our survey very clearly reveals that consumers were overwhelmed with the 3G pricing and more and more consumers that we spoke on camera to them, they said why differentiate internet pricing, give us the best internet that you can offer to us at more affordable pricing. So I think the stage for data to charge premium, and data to charge premium linked to speed is not yet in. That stage will come once we have a very large proportion of the customers on our network and I think that is still one or two years away.

Ms. Reena Verma:

Thank you very much and all the best.

Operator:

Thank you ma'am.

Next question comes from Mr. Rahul Singh from Standard Chartered. You may go ahead please.

Mr. Rahul Singh:

Yeah, hi, good afternoon and congrats on good set of numbers and what is turning out to be a good patch for the telecom sector. I have three questions, firstly, on the last quarter you gave the GSM revenue growth sequentially, I don't know whether you've already given it, but if you can provide it for this quarter as well so that we can compare. The second question was a follow up on the Current Liabilities. Arvind said that it's gone up because of the forex. But the extent of the increase is too much compared to the overall stock of Current Liabilities. So, is it also on account of debt, the provision that you are counting as part of Current Liabilities? And the last question is on, the difference in Gross Revenues as you report to TRAI and what you report in these disclosures. I presume it's because of the data portion of revenues. If I look at that difference over the last 4 or 5 quarters, it's remained more or less flat. So just wanted to check despite the increase in data as a percentage of revenue, why that number is not going up if we just took a simple difference between these two numbers?

Mr. Gurdeep Singh:

Thanks for the question. Three things, I think first is, this has been our best quarter in the last 3 years, from a revenue and EBIDTA growth perspective. This is also our third consecutive quarter of wireless revenue growth versus previous 12 quarters of a continuous decline. So I would say today wireless business is standing at a firm footing where we are far more bullish about the growth of wireless in the coming quarters. Third, we said last time that GSM and data as a part of the wireless revenue segment is our growth engine, and this part of the growth engine now contributes 67% to the wireless revenues, it was 64% in the previous quarter, thereby continuing to reduce our dependence on the CDMA voice, which we have been successfully migrating either to GSM or upgrading the customer to CDMA + GSM as a combo offer. This part of the business which is GSM and data which is 67% of the revenue has grown 6.3% QoQ, which is by far our one of the best performance in the recent past. And this also comes on the back of our 4% hike in the RPM and a continuous growth on the data segment.

Mr. Arvind Narang:

Rahul, Arvind here. On your question on Current Liabilities, it includes the forex denominated short term liabilities as well as from the borrowings, provision on the forex side is taken in the current liabilities. If you consider both these then it will stack up. Regarding your next question on the data portion of the revenues, in the last couple of quarters, the increase in the non voice revenues is in line with the difference of the two numbers which you are referring to.

Operator:

Thank you, Mr. Rahul.

Next question comes from Mr. Rama from Daiwa. You may go ahead please.

Mr. Rama Maruvada:

Hi, good afternoon. I have two questions please. Firstly, with regards to the Reliance Jio partnership, have you recognized any revenue or income in the current quarter and also can you talk broadly about the accounting impact of the securitization process on your P&L? The second one has to do with your post-paid strategy, just wondering how the price cut is working and what are you seeing in terms of market share as well as overall momentum in the metros? Thank you.

Mr. Gurdeep Singh:

Thank you for your question. First one, on the Reliance Jio, yes, our pre-delivery and handover work, both on the fibre and the tower has started, as we said it earlier. Having said that, the nature of the agreement between us is highly confidential, and that prohibits us from sharing the fact that how much is being delivered and by when, because this means spelling out their roll-out and preparedness from a competitive knowledge point of view. So I would say that we would keep it to that extent, but yes, we are aiming to deliver the entire fibre and the tower tenancy during this fiscal, and realize the benefits thereof.

Mr. Arvind Narang:

The securitization deal was announced on 11th July, actually in the Q2, so to that extent the effect probably will come in Q2.

Mr. Gurdeep Singh:

Third question on the post-paid, I think 3G at 2G rate is also one of the tool or a driving strategy element that we are using to drive higher post-paid contribution on our network. It has just been about 11 or 12 days as we have been underway with this strategy. Initial results are encouraging, but we would wait a while to tell you how effectively it is working. But having said that, our intent is very clear, to correct our mid to high value bucket, largely in the metros, Delhi, Mumbai, and Kolkata, where large number of customers is sitting with the incumbents. We being the young GSM players, and having the spectrum across 2G, 3G and CDMA are best positioned to offer superior services, both in voices and the internet area to our customers, and hence, we do look forward to improvement in this share. Our objective is to correct the revenue and the customer mix table.

Mr. Rama Maruvada:

On the post-paid, can I clarify then, are the indications clear, are you gaining share at the moment from what you are seeing or is it too early to say, have your competitors reacted to that at all?

Mr. Gurdeep Singh:

It is too early for me to say how it is working, and too early to comment whether there is a competitive reaction on the ground or not. We have not seen any competitive reaction as yet. I would not like to comment why they have not reacted to it, probably they are constrained, but the fact is that we have relatively high availability of the spectrum across two technologies of 3G and CDMA in Delhi and Mumbai which we use both for 3G and high speed services. Our intent is to keep our dongle customers on the high speed data network and utilise the entire 3G spectrum for the handheld market, and that is why we took this action to drive disruptive smartphone growth on our network.

Mr. Rama Maruvada:

Okay, I understand, thank you very much.

Operator:

Thank you sir.

Next question comes from Mr. Piyush Choudhary from CIMB. You may go ahead please.

Mr. Piyush Choudhary:

Thanks a lot. Congratulations for a hardening RPM. Just a follow-up on the Reliance Jio agreement. I appreciate the confidentiality agreement, but did I understand correctly that all the 45,000 towers would be delivered for tenancy during this fiscal?

Mr. Gurdeep Singh:

Yeah, most of it will be delivered during this fiscal, including the fibre.

Mr. Piyush Choudhary:

Will we start recognizing revenue benefits on account of those tenancies starting this fiscal, right?

Mr. Gurdeep Singh:

Yes, as and when the delivery happens.

Mr. Piyush Choudhary:

Okay, alright, thanks a lot, and all the best.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you sir.

Next we have a follow-up question from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Sir, just one question I had. The demerger of the real estate assets, in which it is mentioned about the DAKC complex, for the realization of the monetizable value, that would require building office space in that complex (a), secondly, some time back, maybe about 9 months or prior, there was some news report of JV of ADAG group with Wanda group of China. Just wanted to check if these are related?

Mr. Arvind Narang:

No, they are not related, though they may be doing some work with our Group companies separately. We have said in the press release that we will work with various global players in this space to monetize that. Regarding your question on the DAKC, you'll appreciate that the business is run across circles, not only from Mumbai or as a one-state office or headquarters. So none of the operators obviously, would operate a Head Office from 135-150 acres land space. You need space for the headquarter and NNOC building to monitor your operations across the country, but that doesn't require, a land bank of 135-150 acres. So, in addition, there are some other land parcels, if you look at the press release, it says inter-alia and doesn't give the full list there as part of the land banks which are going to be part of Reliance Properties. We've already mentioned that a committee has been formed and they are working on it, and we plan to list that separately where all RCOM shareholders will get the benefit of the demerger.

Mr. Srinivas Rao:

Understood, thanks.

Operator:

Thank you sir.

Next, we have follow-up question from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Ms. Reena Verma:

Hi, thanks once again, just very quickly on the DTH business, there has been various media reports about you looking to sell that business. If you could comment on it, and also, comment on the contraction in your Others segment, is that a reflection of the DTH business now kind of being on standstill? Thank you.

Mr. Gurdeep Singh:

Well, Reena, thank you for the question. We are certainly exploring and continue to explore how to create more value out of the DTH business. So at this point in time, to say that are we in definitive discussions will be purely based on market speculations and rumours, but yes, we continue to explore options to create more value out of our DTH business.

Mr. Arvind Narang:

The Others segment's income which you are referring to, if you look at it in absolute numbers, it is not large. I think you are referring to Rs. 29 crores difference QoQ. That's a minor reduction, not related to DTH. DTH has actually grown marginally even the subscriber numbers have grown. The contraction is because of the reduction in some Retail revenues and some due to R-Tech Services.

Ms. Reena Verma:

Yeah, thank you Arvind, and just a small follow-up on the earlier network cost issue, is the rise in network cost QoQ mostly attributable to wireless?

Mr. Arvind Narang:

Yes, except the third point out of the three points which I had mentioned earlier, , about the payment to network outsourced partners beginning from 1st April, the other two are more specific to wireless.

Ms. Reena Verma:

Thank you very much.

Operator:

Thank you ma'am.

At this time, there are no further questions.

That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.