RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended 31st March, 2017

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Moderator

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

This is Deepesh 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.

We have the senior management team from Reliance Communications today on the call.

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

Good Afternoon and welcome to Q4 FY17's earnings conference call. I have with me the senior management team of Reliance Communications. On behalf of us all, I thank you for joining this call.

On May 27th, 2017, our Board of Directors adopted the results for the fourth quarter FY17 ending March 31, 2017. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I trust you had a chance to go through the same.

During the last quarter, **sector's operational and financial performance has seen continuing severe adverse impact due to free offers, disruptive pricing and hyper competition.** The entire industry has trended down this quarter and the revenue, EBITDA and profitability for all players have been affected. For the first time in over 20 years, the sector has registered de-growth in revenues, leading to a reduction in the Government's share in revenues, sharp drop in operating margins, accompanied by increased interest costs arising from a staggering industry debt burden, and higher depreciation and amortisation charges as a result of higher spectrum purchase costs.

Steep declines in profitability and / or net losses have been reported for the past two quarters by all telecom operators in the country without exception, and a couple of operators have shut down their entire operations in the country. **This sector situation needs urgent requisite corrective policy initiatives by the Government and regulators to infuse operational and financial health.**

In this backdrop, our key financial & operational highlights for the quarter are:

- Consolidated revenues stood at Rs. 4,524 crore, down 8.1%, and EBITDA at Rs. 1,083 crore, down 10.2%, compared to the trailing quarter, in line with industry trends.
- The EBITDA margin declined to 24%, compared to 24.5% in the trailing quarter.
- Indian operations' revenues and EBITDA stood at Rs. 3,916 crore and Rs. 908 crore respectively; while Global revenues and EBITDA were Rs. 988 crore and Rs. 175 crore respectively.
- Total MOU was at 105.6 billion, up 3.4% Q-o-Q and our 3G/4G data subscribers' base stood at 20.8 Mn.

Financial highlights for the full year FY 17 are:

- Consolidated revenues stood at Rs. 19,949 crore, down 10.8%, on account of free offers, disruptive pricing and unprecedented competitive intensity in the industry; the impact of complete shutdown of RCOM's CDMA operations during 1stHalf FY17; and full year impact of moving to higher cost ICR arrangements in 5 circles consequent upon end of the validity period of 900 MHz spectrum held by the Company.

- The Company suffered a net loss of Rs. 1,285 crore for the year, compared to a net profit of Rs. 660 crore in the previous year, owing to the drop in revenues, decline in EBITDA margin for the year from 34.2% to 27%, and increase in interest costs.

This is the first year since inception, when RCOM has incurred a net loss during the year, having shown steady financial and operational performance during last 10 years of its operations. Last two quarters during FY17 have been totally unprecedented and unanticipated by any operator, and have resulted in deep stress in the sector.

<u>Let me now talk about the current situation in the sector:</u>

The vitality of telecom sector is not only a critical pre-requisite for the growth of the Indian economy, but also for the execution of 'Digital India' vision, wherein a healthy and operationally efficient telecom industry is an absolute necessity.

The **current stress in the telecom sector** is a matter of grave concern not only for the industry players but also for the financial sector, regulators and the Government. This is a massive disruptive situation and no other sector in Indian economy has seen such an unsettling operating scenario. Even globally, in any telecom market, such disruption has not been experienced by the operators. In the current situation, viability and sustainability of the industry is at risk.

The sector's free cashflows are at highly negative levels and there is a huge deficit in the servicing of the fixed payments and deferred spectrum liabilities through sector EBITDA. High level of total sector liabilities of around Rs 7.5 lac crore would be unsustainably burdensome if the sector's current operating pressures continue.

The telecom industry has been urging the government to initiate requisite policy actions urgently to improve the sector's health. Based on the pleas by the industry bodies, the Ministry of Communications has set up an **Inter-Ministerial Group (IMG)** to look at the current sector situation and suggest policy solutions. We welcome the formation of IMG and hope that a Corrective Policy Framework would be put in place very soon.

It is critical that the government relooks at all the policy driven components of the industry's cost structure. Some of the key recommendations by the industry as well as TRAI to the government include revamping of methodology for estimation of Adjusted Gross Revenue for levying License Fees and Spectrum Usage Charges, lowering of levies in form of License Fees and Spectrum Usage Charges, increased moratorium and duration of installments for payment of deferred spectrum obligations, and formulating a financing package for the sector. Also in this changing scenario of ARPU led tariff plans rather than per minute/per GB tariff plans, per minute Interconnect Usage Charges itself, let alone a staggering rate of 14 paise, should be reviewed and scrapped by the Government.

The Key Point is that remedial policy actions and financing package is critically needed to infuse operational viability in the sector.

Current perspective about the telecom industry trends:

The data consumption has exponentially grown over last few quarters. A mature smartphone user in India is expected to consume far higher data per month than global averages. The data usage will continue to grow with adoption of smartphones and thus the quantum of 4G deployed spectrum and network capacity will be critical to serve this growth. RCOM is well positioned to operate in this market, with access to a nationwide, state-of-the-art 4G LTE network. Our comparative 4G business advantages were not visible in the last quarter till March due to free offers in the market, but since April we have started seeing upsurge in data consumption as a matter of fact, our May data consumption trends show a 2X jump over March.

Key takeaway about the trends is that data capacity and seamless execution of date-led strategy are crucial for incremental market shares.

Let me now spend some time to share with you the key developments at RCOM and how RCOM is trying to achieve best possible business execution in these challenging times.

RCOM, with its well planned business and corporate strategies, is managing its business execution in the best possible manner in the current industry situation.

In wireless business, we have been following a **dual-pillar strategy with a strong focus on execution.**

- Our **asset light strategy** for 4G services – our customers have access to a readymade pan-India network and we did not and do not have to incur any major capex for network rollout.
- We were the first player among the existing operators to switch over from a tariff led pricing strategy to an **ARPU led pricing strategy.** We have been offering a full bouquet of ARPU led products.

As part of our data led strategy, we have launched smart acquisition products offering generous quantities of 4G data to our prepaid customers.

1. One of these products offers 1 GB of 4G data everyday per month along with all voice calls priced at 25 paisa per minute, at an aggressive price of Rs. 96 per month. This product thus offers best-in-class voice tariff to 4G customers including those who have high STD usage.
2. The other product offers 70 GB of 4G data at a price of Rs.149. At an effective price of Rs.2 per GB of 4G data, this is one of the most

competitive data offers in the industry. In this plan off-net calls are priced at 1 paisa per second whether calls are local or national.

We have also launched **new post-paid plans** targeted to acquire high value Voice & 4G Data customers. All the plans offer unlimited calling on any network. Rentals start at Rs 299 which offers 6 GB 4G data and is targeted towards mass market customers hooked on to the social media, while Rs 499 plan offering 15 GB data is targeted towards customers whose usage extend beyond social media to downloading of music/videos and Rs 699 plan which offers 30 GB data targeting the heavy users who might like to use the phone as a Hotspot as well.

These innovative plans are helping us in managing the churn better and also enabling us to acquire post-paid and corporate customers in the 4G LTE business.

VOLTE is the technology for the future and as our plan of future-proofing the business, we expect to introduce **our VOLTE offering in next few quarters.**

During Q4, we have also been executing various revenue and cost driven operational measures:

A. Revenue driven operational measures

- Targeting acquisition of the primary SIM customers by focusing on postpaid acquisition
  - ~10% of incremental acquisitions are now on postpaid, and we hope to increase this to 20% over the next two quarters.
  - ~25% of our incremental revenue is through postpaid customers.
- Offering attractive 4G offers to customers on own network with 4G handsets but not currently using 4G allowing upgrade.
- Improving customer retention by proactively offering best-fit plans to our existing customers
- Turning existing customers into partners through a customer referral program

    - A good number of incremental postpaid acquisitions are being contributed by the referral program.

- By this program we are not only adding "filtered" i.e. better quality customers, we are also strengthening our bonds with the corresponding existing customers.

Concurrently we have been cautious in the "new" customer acquisition race. We have done this consciously, as we would like to prune the multi-SIM category and have been focusing our energies on deepening and widening our post-paid and corporate customer base by leveraging our pan-India 4G network.

We are also having focused **content partnerships** with Hungama, EROS Now, Saregama, Shemaroo, OnMobile, Opera and others. These partnerships allow us to offer all round entertainment like Music, Videos, Games, Live TV streaming, Sports, Utility tools etc. These offerings continuously increase our customers' delight and thereby help in our data usage. Additionally, to improving the 4G device penetration and getting more smartphone customers on board we have tied up with financial services companies to offer **financing options** to our buyers for purchasing smartphones. We are driving sale of handsets through our own shopping portal as well. We are happy to see that a lot of customers have shown interest in buying smartphones through these financing schemes and are converting to use our gold standard 4G services.

B. Cost driven operational measures

We have reorganized and regrouped our operational departments and teams. We have dismantled the legacy circle based organization structure. This was a legacy structure arising out of the "circle" being the basis for issue of "licenses". **We have transitioned to a FMCG like organization** where all backend activities have been centralized to maximize economics of scale.

The role of the decentralized field units now is to have a single-minded focus on generating sales. Concurrently, we have automated and digitized our processes e.g. e-KYC is being used extensively. We have created “apps” ecosystem (Instacare for customers and Channelcare for the retail channel) to ensure higher efficiency at lower cost. With all the above, we have **improved our “teeth to tail ratio**” significantly.

Our Key message is that RCOM is fully geared on best possible execution of its business operations in a focused manner.

I will now like to update you on the deleveraging strategy and corporate transactions.

RCOM launched a comprehensive programme of all-round strategic transformation in the year 2015, with emphasis on industry consolidation, an asset light business model, future sustainability, and cost efficiencies. The programme is now at the final stages of completion.

- **SSTL’s consolidation into RCOM:** The proposed merger of SSTL’s wireless operations with RCOM, marking the 1st in-country consolidation in the Indian telecom industry, is expected to be completed in June, 2017 with receipt of DoT approvals. The merger will add highly valuable 30 MHz of 850 band spectrum in 8 key circles, and will extend validity of spectrum in these circles for an additional period of 12 years, till 2033.

- **Spectrum trading and sharing deal with Jio:** Our 850 MHz spectrum trading and sharing arrangements with Reliance Jio have been fully implemented, and are now operational for the past over 6 months. This unique arrangement has enabled RCOM to deliver access and connectivity to a world class, nationwide 4G LTE network to millions of valued customers, with minimal capex and considerably lower operating costs.

- **Consolidation of RCOM's wireless business with Aircel:** The proposed consolidation of RCOM's wireless business with Aircel will place the merged wireless entity among the top 3 ranking operators in 12 important circles, and among the top 4 operators in India on the basis of customer base and revenues.

  The combined entity will enjoy substantial benefits of scale, and capex and opex synergies with an estimated NPV of ~Rs. 20,000 crore. As part of this transaction, RCOM's overall debt will reduce by Rs 14,000 crore, together with transfer of liability for spectrum instalments of an additional approx. Rs. 6,000 crore.

  We have received approvals from the Stock Exchanges, Securities and Exchange Board of India's (SEBI) and Competition Commission of India (CCI). The demerger and merger Scheme has been filed in the National Company Law Tribunal (NCLT). Approvals from the shareholders of both RCOM and Aircel have been duly received in the NCLT convened meeting during April 2017. The lenders' and other requisite consents are expected to be received in the next few months.

- **Monetisation of Tower Assets:** The proposed transaction for sale of the tower infrastructure owned by the Company to Brookfield has received requisite approvals from CCI. The business demerger and transfer scheme has been filed with the NCLT. Shareholders' approvals have been received in the NCLT convened meeting during April 2017, and lenders' and other consents are expected in the next few months.

  RCOM will receive an upfront cash payment of Rs. 11,000 crore from the proposed transaction and the same will be fully utilised for reduction of debt. RCOM will also receive 49% future economic upside in the Towers business.

Upon completion of the Aircel merger and sale of the Tower business, RCOM's debt will stand reduced by approx. Rs 25,000 crore and the Company will hold highly valuable **strategic stakes** of 50% in the Aircel JV and 49% future economic upside in the towers business, providing future monetisation opportunities for significant further deleveraging.

Post these transactions, remaining substantially lower debt in RCOM would be serviced through RCOM's existing high growth and higher margin businesses in the domestic enterprise segment, Data Centers, optical fibre and international business in GCX. All these businesses have higher stability of revenues and stickier customer base with minimal churn.

Further deleveraging through monetization of our prime real estate properties at Delhi and Navi Mumbai would be achieved.

Liability Management: Post signing of binding documents for the Aircel and Brookfield transactions, RCOM has formally advised all its lenders that it will be making repayment of an aggregate amount of Rs 25,000 crore from the proceeds of these two transactions, on or before 30th September 2017. The said amount will cover not only all scheduled repayments, but also include substantial pre-payments to all lenders on a pro-rata basis.

RCOM is presently engaged in discussions with its lenders to obtain their requisite consents for the two transactions and to refinance scheduled instalments falling due in the interim period up to 30th September, 2017, to facilitate expeditious closing of both transactions in the best interests of all stakeholders. Based on the large number of approvals already received for the two transactions and continuing good progress for the balance, RCOM expects to meet its all debt repayment obligations in line with these plans, and substantially reduce its overall debt.

RCOM has been working steadfastly on execution of its well-planned, future-proof, all-round strategic transformation strategy since last two years. Had the hyper competitive disruptive situation not happened during last two quarters, RCOM would have been in a far better operating and financial situation due to its forward-looking planning. **Clearly, this has been a totally unexpected development, and we urge all our stakeholders to appreciate the current situation and support the current transformational phase of the Company, which would usher RCOM into a very solid and sustainable position.**

I will now request Bill to give you an update on the developments in the Enterprise and GCX businesses.

<u>Bill Barney</u>

RCOM's Enterprise and GCX business continues to show steady performance while gaining visibility across key markets globally.

Here are some highlights of our Achievements in Q4:

- We completed significant Network upgrades and enhancements in Q4 across our global network infrastructure, with 1.75 Tbps added on subsea and 1.1 Tbps added on backhauls.
- GCX signed a partnership with vScaler to enable direct access to vScaler's cloud services platform via GCX's CLOUD X Fusion, delivering next generation application specific Cloud services to consumers and enterprises on a global scale. The collaboration leverages on GCX's core assets which include a global network with data centers connected in key hubs, and a leading ecosystem of on-net Clouds and providers as well as on vScaler's cloud platform powered by OpenStack, a leading open source IaaS provider. The joining of the two platforms will enable customers to simplify and accelerate their strategic deployments of cloud by allowing them to provision full HPC-on-Demand clusters, Big Data analytics, accelerated GPU compute (for Machine Learning),

tiered and accelerated storage platforms via CLOUD X Fusion, from Global Cloud Xchange.

- We initiated Reliance Branch Connect launch—India's first 4G Enterprise VPN Solution. This 4G last mile for MPLS VPN with pan-India reach offers bandwidth options up to 2 Mbps; simple deployment with usage based plans; and bandwidth throttling to avoid bill shocks. Pre-launch orders received for about 1500 MPLS spoke locations from marquee enterprise customers across India.
- GCX won "Excellence in Connectivity for Data Centers" award at the inaugural Datacloud Asia in Singapore on 23rd February 2017. In addition, CEO Bill Barney (that's me) was honored with "Data Center Industry Achievement Award" in recognition of contributions to the Data Center Industry. Broadgroup's inaugural Datacloud Asia Awards showcased innovation and recognized new sectors in Data Center and Cloud. The winners were chosen by an independent panel of Judges from across Asia and the US, with the objective of recognizing excellence in data centers, cloud services and operations.

Now I would like to hand over back to Gurdeep to summarise:

Gurdeep

To Summarise:

1. Sector's operational and financial performance has seen continuing severe adverse impact due to free offers, disruptive pricing and hyper competition. This sector situation needs urgent requisite corrective policy initiatives by the Government and regulators to infuse operational and financial health.
2. RCOM is moving ahead steadfastly with the focused execution of business and strategically transformational corporate transactions. **RCOM is in final stages of completing its Aircel merger and tower transactions which would deleverage our balance sheet substantially.**
3. RCOM is intensely focused on executing its 4G data led strategy riding on access to the Pan-India state-of-the-art network.

4. RCOM, post completion of transactions, would emerge a stronger player, with solid operating businesses of high-margin domestic enterprise segment, Data Centers, optical fibre and international business in GCX. **Additionally, RCOM will hold valuable strategic stakes of 50% in wireless JV and a 49% future economic upside in the tower business.**

Thank You. Over to the operator for the Q&A.

Question-and-Answer Session

Operator

First question comes from Manish Adukia from Goldman Sachs. You may speak.

Manish Adukia

I have three questions for you. My first question is a follow-up on your opening remarks around the debt. There have been a number of recent press reports on RCom's ability to service debt, and you did provide some color on it in your opening remarks, but if you can just provide us some more color on your current debt profile. And at this point, are you continuing to service your interest costs on the debt?

My second question is on the wireless revenue and subscriber trends. This quarter RCom saw a decline of about 3 million subscribers. Can you help us understand the profile of these subscribers? And are these high-end subscribers who were moved from your network to the Jio network, for example? And are you also seeing pressure on your dongle and MiFi business versus wireless handset subscribers?

And lastly on EBITDA which steeply declined this quarter, would you say that you have hit the bottom in terms of profitability and things should start improving going forward, like you mentioned in your opening remarks? I think initial trends in the quarter have been encouraging. Thank you. Those are my questions.

Gurdeep Singh

Well, we've seen an erosion of 3 million customer base during the quarter, because we did not participate in the unlimited prepaid business voice segment, because that was value negative for the company, and we rather focused on profitable subscriber base and a profitable growth.

As you would appreciate that unlimited voice calling attracts interconnect costs that are at 14 paisa. It was a conscious call taken not to participate in that ecosystem aggressively. So we saw erosion of those customers. These are primarily voice-heavy customers.

On the EBITDA margin side, I think if you compare our performance with other peers in the industry, we have performed reasonably well. But the fact being our minutes of growth are not in line with what others have reported because of us not participating in the unlimited prepaid segment, which consumes high minutes and provides a very low yield. And that's why, even if you look at our KPIs, our RPM decline is far lower than that of the industry, which kind of reflects a balanced MoU growth and our focus on profitable minutes' growth.

So I would say that, we have done better than our peers in managing the entire company's revenue, protecting the interest as well as looking at the profitability. So it's a kind of a balanced quarter.

Regarding your question about debt, RCom is presently engaged in discussion with its lenders to obtain their requisite consent for the two transactions and to refinance the scheduled installments falling due in the interim period to facilitate expeditious closing on both transactions in the best interest of our stakeholders.

Based on the large number of approvals already received for the two transactions and the continuing good progress for the balance, RCom expects to meet all its debt repayment obligations in line with these plans and substantially reduce its overall debt.

Regarding your question on dongle and Mi-Fi business, as I kind of illustrated in the opening speech itself, we are beginning to see a large upsurge in the data in the last couple of months as the market is moving into a better environment in the sense that for March versus April and May, we are seeing a data shift. May is already 2x of the March. We are seeing a large acceptance to our newly launched Rs. 299, Rs. 499 and Rs. 699 plans in the corporate sector. We are buoyant about the postpaid. And the new form of the postpaid is also like an online postpaid-only, removing the middle man, thereby lowering our cost to serve and improving the profitability, while being able to give highly competitive plans to the market.

Current combination of the business includes the dongle business, the MiFi business as well as the normal handheld smartphone acquisitions, but our focus is largely on the smartphone segment.

Manish Adukia

Understood and just one small follow-up. You mentioned that, in terms of volumes in May you have seen twice the amount in terms of data carried than in the month of March. How much of that is also translating in terms of revenues? I mean, what are the trends that you're seeing of that data usage getting translated into revenue growth?

Gurdeep Singh

All of us know that data growth is coming on the back of lower realization per MB. So the good thing is that consumers are lapping up the paid data, they're willing to pay and the data payload is increasing. Though the yield per MB will be lower we will have to wait for another 45, 60 days to see how the whole quarter pans out and how it settles. But fundamental point being there will be a fine point between a profitable data growth coupled with the high usage from the customers.

Operator

Thank you, Manish. Next, we have Gaurav Malhotra from Citi. You may speak.

Gaurav Malhotra

Hi, good afternoon, everyone. I just have one question. Gurdeep, you mentioned that between the Aircel and the Brookfield transaction, you will get Rs. 25,000 crore which will be used to repay part of the debt and maybe you'll prepay some of it. But if I'm not mistaken, Rs. 11,000 crore is what you'll get in cash, but the remaining Rs. 14,000 crore will be transferred to the new entity with no cash coming in. So if you could just kind of explain as to how the prepayment will happen of that Rs. 14,000 crore, please? Thank you.

Anil Ladha

Gaurav, Rs. 11,000 crore for the Tower proceeds will be cash amount, as you said rightly. In the Aircel transaction, Rs. 14,000 crore of debt will be a transfer to Aircel from RCom wireless along with the RCom wireless entity assets to the MergedCo. And the MergedCo will be refinancing the total loans of our Rs. 14,000 crore plus their Rs. 14,000 crore; a total Rs. 28,000 crore of refinancing will be done there. And through that refinancing, lenders to RCom of Rs. 14,000 will be repaid.

Gaurav Malhotra

From this Rs. 14,000 crore, how much debt is due until September 30, which is when you mentioned you're trying to complete the transaction of Aircel?

Anil Ladha

As we mentioned in the speech, there will be pro-rata repayment of debt, through the two transaction proceeds. It is not possible currently to give further granular details on maturity-wise repayment plan at this point in time.

Operator

Thank you, Mr. Gaurav**.** Next, we have Srinivas Rao from Deutsche Bank. You may speak.

Srinivas Rao

Hi, thank you very much. I have couple of questions to ask. First, you mentioned the industry distress and then the competitive activity. Part of the reason is obviously Reliance Jio, which actually rides on your spectrum and your towers. It does look like the deals that you have done, especially for spectrum for Reliance Communications it seems to be a net negative actually. So any comment on that would be helpful, because part of the reason for the competitive activity is the ability to leverage your spectrum and your towers. So how should we view this? That's number one.

Secondly, according to some news reports it seems RCom debt has been classified as SMA by some banks, and again, would you please comment and let us know is that correct or not? And again, there are suggestions that the lease payments and interconnect payments are overdue. It would be helpful if we can get any feedback on that.

Gurdeep Singh

Let me attend to the first question. I think every entrant to the market has their own strategy to for customer acquisitions and their own ambition in terms of market share and the revenue share. These ambitions of going to market are irrespective of underlying infrastructure that they put in, whether it is of their own, whether it is shared or it is leased. I think we need to deal with the two issues separately. One is the market approach another is the assets and the infrastructure.

So I would say that RCom was quite visionary in the sense of entering into an infrastructure-sharing deal and monetizing the assets for a longer period of benefit. Any operator who wants to enter the market will anyway put the infrastructure together as a part of their ecosystem to come into the market. It's a matter of question to choose between owned, shared or borrowed. So I will leave it at that.

Second on the debt; RCom is presently engaged in discussions with its lenders to obtain their requisite consent for the two transactions and to refinance scheduled installments falling due in the interim period up to 30th September 2017. That's one. Second, all our lenders and partners are working with the company and they're fully aligned to the current market situation and our strategic focus on getting the transactions completed. I hope that clarifies.

Srinivas Rao

Yes, it does, but I just had one follow-up on that. I appreciate that partners may be aligned, but when it comes to payments, I'm sure people would like to know a bit more. The reason I'm asking is because of the news reports, and it would be helpful if we can get any clarity also on the cash flows of the company at this stage. Your cash flows for the year suggest that, the cushion is quite thin at this stage.

So how do you actually propose to continue to finance the proposed CapEx, which you said last year would run into something like Rs. 4,000 crore for next year? Clearly, the current EBITDA level of the company along with its interest payments offers fairly little headroom for that. So, any feedback on that would also be helpful.

Gurdeep Singh

As I said, interest of all the lenders and the vendors is aligned. And they're all working together expeditiously to get these transactions consummated as it reduces our debt significantly, and leads into a better tomorrow. So I think all of us in the ecosystem are working together cohesively.

Secondly, when we adopted the spectrum sharing and trading, we wanted the access to the 4G network across India. It was very clearly founded under the asset-light approach. And we have said at that point in time that there is not much on the CapEx needed going forward, barring the CapEx required for the maintenance of our 2G and 3G network. So we see no reason or issues in managing that CapEx situation while continuing to execute our asset-light strategy.

Punit Garg

Just wanted to add few colors to what Gurdeep has said. Now, I think we all have to understand first the industry situation today. We all know that industry in last year has generated EBITDA of Rs. 53,000 crore. Industry has bank borrowing of Rs. 2,60,000 crore and DoT spectrum liability of Rs. 3.08 lakh crore, and when we are talking about third party liabilities, it is another Rs. 2 lakh crore.

So we are talking about somewhere close to Rs. 8 lakh crore of borrowing by the industry. If you have the EBITDA of Rs. 53,000 crore, how are you going to do the debt financing, because to DoT alone, you pay around Rs. 20,000 crore per year of spectrum installment, and you have to pay, interest costs which could be around Rs. 36,000 crore.

In addition to that, you got to take into account the bank borrowing which averages 5 years. So you got to pay 20% of your bank borrowing as the debt servicing or the repayment. That comes for Rs. 52,000 crore. So if you have Rs. 53,000 crore of EBITDA, you have Rs. 52,000 crore of repayment, you have Rs. 36,000 crore of interest, you have Rs. 20,000 crore of DoT installment, on top of that comes CapEx.

So I think if you are talking of industry in general, we are really looking at DSCRs (Debt Service Coverage Ratios) to be sub 1. I think it should not be surprising to you because the 18th April circular of RBI very clearly says that telecom sector is stressed. Coming back to the Jio, I would characterize that deal into Classic 3C. And a Classic 3C, you compete, you collaborate, you coexist. When we did the deal with them, we compete with them at the market place, we collaborate as far as sharing is concerned and we coexist with them because we do our infrastructure sharing, et cetera, with them.

So let's look at it at this way, and as Gurdeep said, we monetized our assets. We got into offering 4G services where we got Rs. 20,000 crore straight advantage in terms of what it would have required for us to roll out 4G; a three year advantage in terms of the roll-out time that it takes. So I think we certainly benefited with that as we migrated from CDMA into the 4G. So I think last eight, nine months need to be discounted. Barring that, I think we have done very well.

Operator

Thank you, Mr. Rao. Next question comes from Ms. Amruta Pabalkar from Morgan Stanley. You may speak.

Amruta Pabalkar

Hi, I have two questions, firstly, on the revenue front. We are seeing an increase in the Others Business revenue. Are there any one-offs in this? And secondly, the Global Voice Business' revenues have seen a decline. If any cyclicality is involved, we would like to hear your comments. And secondly, on the land monetization front, do we have any timeframe in mind? What should we expect? Thank you.

Manikantan Iyer

Yes, there is a one-off. In the fourth quarter, we had Rs. 109 crore of real estate monetization as a one-off item included in other income.

Bill Barney

On the global voice, I think if you look across the board, even TeleGeography published a report that voice revenues were down across the board, and that's really just the movement from what used to be traditional TDM type services to a VoIP type solution. I think most of the operators around the world have been announcing that there has been slight decline in not only the ARPUs, but the total actual revenues in the international voice as well. So we think we're sort of inline with industry. According to TeleGeography I think they mentioned 8% negative decline in the year for the industry.

Gurdeep Singh

On your question on the land monetization, we are currently focused on monetizing our two really large real estate assets. One is the Reliance Center, which is erstwhile Ranjith hotel in New Delhi, and the second is our ~130 acre DAKC Navi Mumbai campus. In order of priority and magnitude, the Delhi property will be first off the block and then we will look at the monetization of the 130 acre campus of the DAKC either partly or fully over the next one or two years period.

Operator

Thank you. Next we have Mr. Dheeresh Pathak from Goldman Sachs. You may ask your questions sir.

Dheeresh Pathak

I just want to know that post the Aircel and the tower transactions, the balance entity would have about Rs. 25,000 crore of debt and would have the Global Business, which is running at about Rs. 700 crores annualised EBITDA. Obviously you would have the stake in the tower and the wireless JV. So even then on this adjusted number the leverage of the balance entity looks very high.

And then if you could also talk about the capital structure of the wireless JV that you'll have with Aircel, what would be the pro forma EBITDA, the debt numbers you obviously mentioned, and the capital structure of that entity.

Gurdeep Singh

From a current debt level tower transaction and Aircel put together will reduce the debt by approximately Rs. 25,000 crore getting the debt in the residual RCom entity to be closer to Rs. 20,000 crore. While the residual entity will continue to focus on a high-margin annuity-like income coming through the Enterprise, GCX, IDC and the Fiber Optic business.

Going forward, as I said, one is the land monetization of the Delhi and the DAKC property, continuing economic upside into the 49% in the new tower company of the Brookfield, that is a great opportunity for us to monetize over the next couple of years, and third is 50% strategic stake in the new wireless entity – are the avenues available for us to further deleverage and to service the residual RCom entity.

Since we are in the middle of the transactions at this point and looking at the consummation of the transactions with the help and support of the lenders and the bankers, we'll be able to share the pro-forma revenue or EBITDA in the residual entity in the due course of time.

Dheeresh Pathak

Okay. But the debt at that wireless JV would be about Rs. 35,000 crore, Rs. 14,000 crore into two plus Rs. 6,000 crore of your spectrum liabilities and Rs. 1,000 crore of Aircel deferred payment?

Gurdeep Singh

The debt will be around Rs. 28,000 crore, plus the deferred spectrum liability, which has to be repaid over a period of time, to be serviced out of the operating income of the company.

Dheeresh Pathak

Okay. And what is left in the entity after these two transactions will have a current annualised EBITDA run-rate of Rs. 700 crore, right, apart from the stakes that you have in the two entities.

Punit Garg

You have to look at all the businesses that are operated by RCom. What is today as a consolidated company, will later be quite different. You are looking at only one business currently, the GCX business, which is the overseas business, but you are forgetting the India Enterprise business, DTH business as well as the most important one, the income from fiber optics business. As Gurdeep explained all of you, the businesses are annuity-like and sticky in nature for which we have the contracts with us.

The EBITDA is several times more in the remaining entity. The debt in the company post the transactions would be around Rs. 20,000 crore and we have the monetization plan for property, et cetera, after which it would come down significantly. Thereafter we would be much better than we are today. But as these transactions progresses we would put in the pro-forma balance sheet of residual RCOM then. But as of now, you are several times lower in terms of your estimation.

Bill Barney

At the closing of the transactions, we'll show you what the residual RCOM looks like, obviously for our reporting we'll have to do that going forward once the transactions are consummated.

Operator

Thank you, Mr. Pathak. Next, we have Mr. Varun Ahuja from JPMorgan. You may speak.

Varun Ahuja

Good evening, thank you so much for taking my questions. I just want to first get an idea about the process on the lenders; would you also be seeking the bondholder approvals since they are part of the lenders group? Secondly, if you could give some guidance what is the ex-GCX run rate of EBITDA right now that you have for the India business?

Gurdeep Singh

Okay, coming to your first question, as I said in my opening speech also, that we have already received some regulatory approvals, and we continue to expeditiously work together with lenders to seek their approvals for these transactions. And it's a part of the process that one is going through. In addition, bondholders approval will be sought as may be required for the consummation of this transaction.

Bill Barney

We actually don't break out the Indian Enterprise and the IDC numbers at this time. We will do that, when we actually consummate the transactions.

Varun Ahuja

And a couple of questions on the financials. I see that there's a big working capital outflow, if you can guide for the quarter, what's that related to? And if I look at the cash flow from financing, it's about Rs 24 billion inflow. If you could throw some color on that as well?

Manikantan Iyer

It’s actually a reclassification between the working capital and the financing activities.

Operator

Thank you, Mr. Ahuja. Due to time constraint of one hour for the call, we will take one last question. Mr. Rajiv Sharma, you may please ask your question.

Rajiv Sharma

Just wanted to know that what is the amount of liability which is pending before September or up to 30th September? That's the first question. And apart from the tower deal, keeping aside real estate and anything else, is there any other money coming into the company? Thank you.

Anil Ladha

Rajiv, as far as the overall debt which is due, we have stated our short-term and long-term liabilities in our stock exchange filing. So you can refer to those amounts. As far as the break-up of these amounts from an overall repayment pattern perspective is concerned we will be disclosing that in our annual report in the next few months.

Rajiv Sharma

Yes. I also wanted to understand where is the Rs. 25,000 crore you mentioned coming from? Because, you are transferring debt of Rs 14,000 crore plus spectrum liabilities of Rs. 6,000 crore but, you're not getting in any money from the Aircel deal of Rs. 14,000 crore. You're just getting Rs. 11,000 crore, and that's exactly my second question.

Punit Garg

As far as the Aircel deal is concerned we are transferring Rs. 14,000 crore as per the terms into Aircel. On the day one itself the entire amount of debt is getting refinanced. And RCOM's debt of Rs. 14,000 crore, which we are transferring, they're getting paid off by the refinancing at MergedCo. So that Rs. 14,000 crore is the cash coming from them directly to the current lenders. And, through tower deal the Rs. 11,000 crore is coming to the current lenders of RCom Group including RITL. This is the total Rs. 25,000 crore we have been talking about.

Rajiv Sharma

And what is your India Enterprise EBITDA for this quarter and what is Aircel's EBITDA for FY 2017?

Gurdeep Singh

Well, Aircel is still a separate company. So we are not reporting, I'm sure you would come to know through their filings et cetera. As far as India Enterprise is concerned, I think a while back we said that, we report Indian operation as combined which is wireless plus enterprise. And that stands at Rs. 909 crore for fourth quarter.

Operator

Thank you, Mr. Sharma. I'll now hand over the call to management for final remarks. Over to you.

Gurdeep Singh

Yes. Thank you very much to all of you for joining on the call today. Thank you.

Operator

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

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