RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended December 31, 2011

Conducted at 5.30 pm IST on Feb 10, 2012

Operator:

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

This is Sunita, the moderator for this conference.

At this time, all the participants are in listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised, this conference is being recorded today.

Today, we have the senior management from Reliance Communications namely Mr. Punit Garg, Mr. Shamik Das, Mr. Sanjay Behl, Mr. Arvind Narang, Mr. Hasit Shukla and Mr. Suresh Rangachar.

The call will begin with some key observations by Mr. Punit Garg 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. Punit Garg. Thank you.

Punit Garg:

Thank you, Sunita.

It is a great pleasure to welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the quarter ended December 31st 2011.

Let me start by sharing the key highlights for the quarter:

1. **Revenue:** RCOM wireless revenue stood at Rs. 4,447 crore, as against Rs. 4,417 crore in Q2, up by 0.7%

    - **RPM:** RPM stood steady at a solid 44.6 paisa per minute

    - **EBIDTA:** RCOM consolidated EBIDTA margin at 31.9%, amongst the highest in the industry

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

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

- During the quarter, RCOM tied-up refinancing for redemption of outstanding FCCBs of USD 1.18 Billion, which is due on March 01, 2012. This refinancing is provided by Industrial and Commercial Bank of China Ltd (ICBC), China Development Bank Corporation (CDB) and Export Import Bank of China (EXIM) and other banks at an attractive interest cost of about 5%. The Company is also going to benefit from extended Loan Maturity of 7 years. This is the largest refinancing in history of FCCBs by any Indian Corporate.

- Our aim is to reduce debt significantly by March, 2013.

3. **150 Mn. Subscriber Mark:** This quarter we have achieved 150 Mn. subscriber mark and continue to remain 4th largest wireless operator in the World in terms of single country subscriber base.

Financial Performance:

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

- Consolidated Revenue at Rs. 5,052 crore against Rs. 5,040 crore (q-o-q)

- EBIDTA at Rs. 1,611 crore against Rs. 1,605 crore (q-o-q)

- EBIDTA margin at 31.9% is one of the highest in the industry

- Net profit of Rs. 186 crore, against Rs. 252 crore (q-o-q)

- On the capex front, we have spent Rs. 355 crore during Q3.

Let me now brief you on some of the initiatives taken by RCOM, which will have positive impact on RCOM's performance going forward:

1. **Wire Free India:** We continue to rapidly execute our 'Wire-free India' vision. We have remained committed to put accelerated efforts in enabling wireless broadband across India. We have expanded our HSD Network and have quality HSD coverage in almost 1,000 towns up from 65 towns almost one year back.

   The presence of 3G in 333 towns in 13 circles (including Delhi, Mumbai and Kolkata), along with the rapidly expanding High –speed CDMA data network, makes RCOM the only nationwide private operator to offer seamless Wireless Broadband experience in over 1300 top towns across the country as of December 31, 2011 including key metros.

Combine this with our extensive 1X Data presence offering high quality internet connectivity in 20,000 towns; it positions RCOM extremely well to take advantage of the rapid increase in data consumption across the country and enabling our vision of a 'Wire Free India'. We currently serve ~ 2.8 Mn 3G active customers on our High Speed Broadband network, highest in the industry.

2. Reliance Communications has always been a pioneer in innovating and re-inventing the telecom ecosystem in the country. In our endeavor to provide unique value propositions to our customers, we launched a true value based product "Mera Plan" across India on both GSM and CDMA platforms. This superior product will provide most competitive local call tariffs to meet the unmet demands of high local call users. While providing value for money to the consumer, this plan is an effort to make RCOM's SIM as a primary SIM in the present multi SIM environment and reduce value churn from existing and new RCOM customers. With this, we intend to increase the realization per customer, build a strong on-net community and increase customer stickiness to RCOM network.

3. The market is witnessing an explosive growth in the Tab market and embracing the roaring success of the Reliance 3G Tab, we have hit the sweet spot with a terrific combination of a fully loaded Tablet and a bundled offer to further enhance value and customer experience for our 3G customers. Having won accolades and received rave reviews from customers, the Reliance 3G Tab took the market by storm with its aggressive price of Rs. 12,999 for a fully loaded tablet bundled with attractive data plans.

4. During the quarter, Reliance Globalcom has set up world's first global Mediterranean Gateway and Hub at Cyprus in Europe with the Next Generation submarine HAWK cable system. This will enable US and European Multinationals seeking high speed access to Asia and Middle East. This is going to provide connectivity to the fastest growing 3G / 4G markets of India, Middle East and Asia covering 60% of world population to Europe. This is only private cable system with end to end, metro to metro connectivity directly from India and Middle East to Europe with unmatched reliability on 3-diverse cable systems: FEA, FALCON and HAWK.

Industry Highlights

During the first three quarters of FY12, the industry saw subdued competitive intensity as far as tariffs are concerned and tariff hikes in the recent past by almost all the incumbents is a reflection of the abating competitive pressure on pricing. As mentioned earlier, we have also revised tariffs upwards in both GSM and CDMA owing to inflationary pressures on cost. This will certainly help the industry in achieving pricing stability and improving the revenue growth trajectory.

Overall, in the 3rd quarter, the new subscriber acquisitions have slowed down for the Industry. The industry added 20.77 million wireless subscribers as compared to 22.47 million in Q2 and 40.23 million in Q1 of FY12. The total wireless subscriber base as on 31st December 2011 stands at 889 million.

For RCOM also, subscriber acquisitions have been in-line with the industry in the third quarter. We added 2.99 million subscribers in the quarter. RCOM's total subscriber base stands at over 150 million, maintaining a share of 17% of total customers.

Regulatory Developments

Last week, honorable Supreme Court pronounced its judgment cancelling 122 licenses issued after 10th January, 2008. RCOM's licenses are not affected by this judgment as they were all issued in 2001 or prior.

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

- Wireless revenue for the quarter stands at Rs. 4,447 crore, against Rs. 4,417 crore in Q2, up by 0.7%
- EBIDTA stands at Rs. 1,182 crore against Rs. 1,176 crore
- Our RPM stood at healthy 44.6 paisa, we have successfully arrested decline in RPM for the last 8 consecutive quarters amidst increasing competition, driven by focus on the 'quality of operations' and recent tariff increase
- We have continued our increased focus on data: we now provide high speed data coverage in over 1,300 towns
- We serve ~ 2.8 Mn 3G active customers through our high speed data network.
- With this footprint and superior quality network, RCOM leads the 3G data market space and would continue to drive this consistently.

For the last 9 quarters, the focus has been to build Quality of Operations through initiatives focused on segmentation and cluster level profitability. As shared with you during the previous few quarters, we continue to remain focused on 'paid minutes'. The focus on driving a 'quality portfolio' driven by increase in non-voice services has continued. Our non-voice revenue contribution to overall revenues is over 20% and amongst the highest in the industry, we target to double the contribution from non-voice in the next 2 - 3 years.

We continued with the discipline of not inducing "free minutes "or FAT, as a result our RPM has remained healthy at 44.6 paisa/minute. We have further cleaned up our non profitable products and tightened acquisition norms to ensure higher retention post 90 days and deliver better customer lifecycle value. Building the on-net community remains a key focus area. Arresting the decline in CDMA business is a special focus area for RCOM and various programs/initiatives have been lined up for the same. We believe that these initiatives will help RCOM drive profitable growth.

RCOM is clearly focused on building a 'healthy portfolio mix', through driving profitable Data and VAS businesses thereby future proofing the business against voice led growth alone. This is in line with the trends in the Global telecom markets of building a 'strong portfolio mix'. Both these segments of Data and VAS are growing at a healthy double digit rate. We will continue to provide differential and superior 3G experience to customers through our large and superior 3G footprint with speeds upto 28 Mbps.

We have already seen tangible evidence of accelerating mobile data adoption where consumers and business customers are seizing the benefits of fast, reliable mobile data networks using smartphones and other mobile data devices such as Tablets. As mentioned earlier, the 3G R Tab launched in the last quarter has received great response and to carry forward our impetus on "Wirefree India", we plan to launch the CDMA Tab in the near future.

Let me now cover the non-wireless businesses

In our Global Enterprise Business Unit, we achieved revenue of Rs. 2,352 crores as compared to Rs. 2,335 crore in Q2, a growth of 0.7% and maintained EBITDA of Rs. 569 crores for the Quarter ending December 31, 2011.

Carrier Business

Second quarter witnessed strong growth in Carrier business's sales order booking as well as revenue. We have booked sales orders of Rs 512 crores in Q3 FY 2011-12 which are 15% higher than the sales orders signed in Q2. The increase is driven by robust demand in Europe, Middle East and Asia. We have recently upgraded our FEA (FLAG Europe Asia) and FALCON cable system to add around 1 Tbps of capacity overall across different segments to meet the growing demand of capacity in the Middle East and Asia.

The International Voice segment continued its robust growth; traffic has grown 17% in Q3 on YoY basis.

In the National Long Distance business, we signed orders of more than Rs 117 crore primarily from Bandwidth sales to private service providers.

Enterprise Business

In India, USA and Europe, we have received sales orders of over Rs 417 crores in Q3 FY2011-12. Our QoQ success in the government vertical continued as we bagged order to provide IDC, VPN and Leased line services to Manipur State IDC, Syndicate bank, National Payment council of India and South India Bank among other orders. We have acquired several other new logos in the Enterprise space notable being (i) largest banking group of UK (ii) One of the world's leading engineering, architecture and environmental consulting company (iii) a full-service, international law firm with offices in the United States, Europe, the Middle East and Asia (iv) US largest innovative solutions provider for elastomers and thermoplastics.

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

To summarise:

1. We are at the forefront of creating "Wire-free India" by offering seamless wireless broadband experience in over 1,300 towns across the country. With more than 20% of our revenues coming from non-voice, we are the largest data player in the country. We target to double the contribution from non-voice in the next 2 - 3 years.

2. We are driving growth of paid minutes and have maintained a healthy RPM

3. Maintaining healthy trend in our Global Enterprise business backed by robust demand for bandwidth, managed services and enterprise outsourcing

4. We continue to deliver strong margins at 31.9% EBIDTA and are FCF positive for the quarter and will be FCF positive for the year.

To conclude my initial comments, I would like to say that we will continue to strive for innovation in order to offer unique value proposition to our customers in terms of product portfolio, bundled tariff plans, network experience and customer service.

Thank you.

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

Moderator:

Thank you sir. We will open the call for Q&A. We request all of you to focus on key strategic and business issues. We also request each participant not to ask more than two questions and provide an opportunity to other participants to interact with the management. Participants now if you wish to ask any question please press * and 1 on your telephone keypad and wait for your name to be announced. The first question we have Srinivas Rao from Deutsche Bank, you may go ahead please.

Srinivas Rao:

Thank you sir. I have one question regarding the wireless business. The minutes growth has probably been lower than what we have been generally expecting. Please throw some light on that. Also, your RPM has been stable over last many quarters. I have two questions on this. One, what is the outlook for growth in minutes? And second, given the tariff hikes which RCOM has followed, can we see the impact of that over the next 2 to 3 quarters?

Shamik Das:

We have steady and healthy, close to 100 billion minutes in this quarter and as we have already mentioned in last few quarters, we are concentrating on profitable portfolio mix and paid minutes. Our business is generating an RPM of 44.6 paisa per minute and we have added about 3 million customers this quarter. We have an aggressive plan to explore the market further especially in our new GSM circles which we had successfully launched around 2009. Hence we will see the minutes growing over a period of time but, our concentration will continue to be on paid minutes to deliver stable RPM.

Srinivas Rao:

Thank you sir.

Moderator:

Thank you sir. Next question we have from Gaurav Malhotra from Citigroup. You may go ahead please.

Gaurav Malhotra:

Please explain us the sharp jump in finance charges?

Arvind Narang:

The net finance charges have increased from Rs. 227 crore in Q2 to Rs. 378 crore in Q3 primarily due to the effect of net interest cost. The net interest cost on the gross debt is sub 5% which translates to approximately Rs. 378 crore.

Gaurav Malhotra:

Thank you sir.

Moderator:

Thank you. Next question is from Varun Ahuja from UBS Securities. You may go ahead please.

Varun Ahuja:

What is the specific reason for depreciation to come down in this quarter and what can be expected in the future? Similarly on the Wireless business; EBIT has jumped up significantly from the last quarter while depreciation has come down significantly. What is the reason for this? And lastly, what is the non-voice percentage contribution?

Arvind Narang:

Depreciation has reduced by Rs. 76 crore in this quarter on a q-o-q basis. The movement is on account of net impact of three main reasons. Firstly, there is an increase in depreciation because of the first quarter of full impact of the 3G. The second reason for depreciation to increase is the NGN project which has been completed and has been capitalized. Finally, depreciation has reduced significantly due to bringing RTL, one of the subsidiary’s depreciation policy in line with the RCOM i.e. to straight line method which was earlier on WDV basis. We have mentioned that in the notes to accounts as well. The overall net effect of these three reasons is a decrease in the depreciation by Rs. 76 crore.

Shamik Das:

I would like to address your question on non-voice revenue. We have the highest non-voice revenue contribution in the industry which is ~20% of our revenue, primarily led by our data revenue which is growing quarter-on-quarter. We have implemented a specific strategy to grow our data revenue which is based on personalization, rich content, simplicity and affordability. We believe that the data has a huge potential to grow and we are the largest data player in the market having covered about 1,000 cities for high-speed data through CDMA and about 333 cities for 3G. We will continue to drive our growth on non-voice data revenue quarter-on-quarter.

Varun Ahuja:

I just have a follow up to the previous question. In last quarter also you mentioned non-voice revenue to be ~20%. Is there any jump in that number or it is still at the same level?

Sanjay Behl:

In the last quarter we had 2.1 million active 3G subscribers on our network which has gone up in the current quarter to 2.8 million. This is the most accelerated growth of activated 3G subscribers amongst any operators and has led to an accelerated growth of data. We have seen a reasonably good month-on-month data revenue growth which is ahead of voice revenue growth. We are well above 20% on our data revenues with an ambition of doubling it in the next 3 years.

Varun Ahuja:

Where do you book the revenue in tablet, is it in the mobile or the other segment income?

Sanjay Behl:

It is booked in the mobile revenue.

Varun Ahuja:

Thanks.

Moderator:

Thank you sir. The next question is from Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma:

In the initial remarks you mentioned that you are taking various initiatives to revive the CDMA business. Could you throw some light on that?

Shamik Das:

CDMA is RCOM's core business having a very healthy customer base which is delivering a very healthy data revenue growth through HSD platform across 1,000 towns. We have taken a couple of initiatives which are helping us to sustain the voice part and exponentially grow the data part of CDMA. Currently there is a choice of about 70 handsets available in the market, and to which we have added 7 more handsets in the price ranging from Rs. 2,000-2,500 up to Rs. 13,000. We are also looking for a high end smartphone coming into this category. Also, we will be the first operator to launch branded CDMA tablet in the market very shortly. So the entire ecosystem of devices is being actively pursued. Thus, we are doing 2 to 3 specific initiatives at a time, growing the network and also at the same time enhancing our distribution reach and launching the attractive devices for exponentially growing the data part of CDMA.

Sanjay Behl:

The device lead strategy, which Shamik just talked about, is coming from both proprietary devices as well as open market devices. Proprietary devices, both in terms of entry-level handset as well as high end handsets. And there is a the value strategy that we are offering. The core of our CDMA business has been built on unlimited callings. We have fairly large on-net community and the propositions will be strengthened through plans like Mera Plan.

Rajiv Sharma:

The last point is somewhat conflicting with your overall strategy of paid minutes. You are saying unlimited calling but we have seen a cut down in FAT for the last 6 to 8 quarters and it continues. Could you help us understand?

Sanjay Behl:

Actually the strategy is not only on paid minutes but also on the profitable growth of revenue, that is the totality of the strategy. The “Mera Plan” pack is adding critical local on-net paid minutes that have the highest retained profitability for the business. So from profitability perspective very high level of margin accrual happens if there is a large on-net minute being marketed in the system. And there is a fare differential policy which comes in, which limits unlimited kind of usage of any of the packs and these obviously come at certain consideration that you have to pay. So, there is an upfront payment which itself accounts for usage. So overall, one will have to walk very carefully as the marketer to balance and blend the portfolio to maintain RPM and also retained profitability from the RPM. So it is a fair game that one needs to play.

Rajiv Sharma:

How much of your revenue comes from CDMA business currently?

Arvind Narang:

We don't disclose revenue based on the technology. However, the subscriber numbers are already in public domain to consider.

Rajiv Sharma:

You launched some products in the GSM segment sometime in the end of December 2011. How much is the traction on that product and what kind of benefits, can we see in KPI's in the next quarter because of that product?

Shamik Das:

There are many existing plans in the market that offer a similar value proposition. The 'Mera Plan' offers heavy usage of 500 min of off-net usage which is far higher than our current off net usage. This plan is actually an effort to make RCOM GSM SIM as the primary SIM for our new customers in the present multi-SIM scenario. This is the primary objective to launch such a product to build a much higher level of on-net community and reduce the value churn from the existing and new RCOM customers. This is actually on the line of innovation, which RCOM keeps on offering to the market and create a different market segment which actually induces higher level of usage as well as get retained within our network. With this plan, we intend to build a strong on-net community and increase customer stickiness. We have got an excellent response from the market; not only from the customers but also from the retailers and distribution community. This product is also delivering healthy ARPU.

Rajiv Sharma:

Could you give us the number of towers which are on both GSM and CDMA, and the number of 3G BTS?

Arvind Narang:

Our captive tenancy is around 1.5x. Tenancy of 0.5x comes from CDMA on our total base of around 50,000 towers while our total tenancy is around 1.85x. The rest comes from third parties. We are providing 3G services in about 333 towns through 11,000 sites.

Rajiv Sharma:

Thank you very much.

Moderator:

Thank you very much sir. Next question is from Vivekanand from MF Global. Please go ahead.

Vivekanand:

I had a query on the 3G data trends. What is the average active user's 3G monthly data consumption and what would be the incremental ARPU? What is the Capex guidance for FY13?

Sanjay Behl:

On the 3G data we are seeing ARPUs in the range of Rs. 500-600. That is the blended ARPU of a pre-and post-paid user today with a postpaid user closer to the range of Rs. 800-1,000 and prepaid at about Rs. 250-350. The data usage is in the range of 800 MB to 1GB.

Vivekanand:

What would be the incremental ARPU on account of 3G for these users; incremental over the voice ARPU?

Sanjay Behl:

That would be about 2.5x-3x times, on the blended ARPU.

Vivekanand:

Sir if I understand that correctly, these users would typically be Rs. 300 voice ARPU users and over and above that they would be using data

Shamik Das:

The factor of 2.5x–3x mentioned is with respect to average ARPU and not for any specific segment.

Arvind Narang:

The Capex guidance for this fiscal year is Rs. 1,500 crore and we are on track. Our Capex guidance for the next year will be provided in Q4. It will remain low as the peak of capex intensity is already behind us which we have stated earlier also.

Vivekanand:

Thank you sir.

Moderator:

Next question is from Amar Mourya from IndiaNivesh Securities. You may go ahead please.

Amar Mourya:

I have one book keeping question. Why the financing charges have gone up in this quarter?

Arvind Narang:

As mentioned earlier, the net finance charges have increased from Rs. 227 crore in Q2 to Rs. 378 crore in Q3 primarily due to the effect of net interest cost. The net interest cost on the gross debt is sub 5% which translates to approximately Rs. 378 crore.

Amar Mourya:

Thank you sir.

Moderator:

Thank you. The next question is from Anirban Roy from Morgan Stanley. You may go ahead please.

Anirban Roy:

What is happening on the tower sale for your Company? Why is there a decline in traffic trends and when do you see it growing?

Shamik Das:

We will take the second question first. This quarter, our total voice minutes have grown by about 1% to 100 billion minutes. The traffic is of two types - one is voice traffic and the other one is data traffic. Voice traffic is currently going through some rationalization however we are continuing with the profitable mix of portfolio strategy and maintaining the paid minute growth. But in data, we are seeing tremendous growth coming in, mostly in HSD data portfolio. Gradually, we are also seeing traction coming in on 3G traffic. We believe that the industry will continue to grow in traffic and RCOM will also grow its traffic**.**

Anirban Roy:

Could you give us some numbers on that may be for the next quarter and the next year?

Shamik Das:

We will not be able to give a forward-looking statement but if you see our recent traffic pattern, our total MOUs have grown.

Anirban Roy:

Voice traffic for one of your competitors was much higher. So what is actually keeping yours down?

Punit Garg:

The 'Mera Pack/Mera Plan' which we mentioned earlier has already started showing good results. Hence, the traffic has started increasing. We have received very good response from customers and from retailers, and distributors as well.

Arvind Narang:

Tower sale is progressing well but we won't be able to share any specifics at this stage. We will provide the details at an appropriate time.

Anirban Roy:

All right, thank you.

Moderator:

Thank you sir. Next question is from Shobit Khare from Motilal Oswal Securities. You may go ahead please.

Shobit Khare:

Good evening and thank you for the opportunity. I have three questions; One, could you share what has been the growth in the dongle business and how the growth has been after launch of 3G services this year? Second, what could be the revenue as well as cost implication of the licenses which have been cancelled? How is RCOM exposed to some of these new operators? And third is on the GSM spectrum. Does RCOM plan to bid for more spectrums after this recent judgment? RCOM is still having 4.4 MHz, so what is the path going forward for further spectrum in the GSM business?

Shamik Das:

Regarding the 2G spectrum auction question; RCOM holds Pan India CDMA at 800 MHz and GSM at 900 MHz & 1,800 MHz spectrum. Additionally, RCOM has won spectrum for 3G in 13 circles in 2,100 MHz band. It is our endeavor to provide unmatched network experience coupled with wider choice of technology to our 150 million plus customers. At the same time, we also want to maximize return to our shareholders. To achieve the stated object we would like to take a call once the spectrum comes for auction and detailed guidelines are announced.

Punit Garg:

On the second question regarding the impact of 122 license cancellation on RCOM, we currently do not see any impact on our business.

Sanjay Behl:

On the dongles side, it is clearly visible that the competitive intensity in the space has gone up with incumbent GSM operators now coming with the offerings on 3G. In any industry, the competitive intensity goes up when the rate of growth starts to accelerate. We have been seeing this acceleration in the data space which is a good news for us because we are market leaders in data which manifests itself from the fact that we have the largest distribution footprint as far as number of towns is concerned and offer widest choice of access devices. So overall, we are seeing heightened activity and competitive intensity, leading to an accelerated market growth. And RCOM has continued to enjoy the market share of this accelerated market space. We will not able to share specific numbers at this point of time but overall we expect that this market is going to more than double in the next 3-5 years.

Shobit Khare:

Thanks a lot and all the best.

Moderator:

Thank you. The next question is from Sachin Salgaonkar from Goldman Sachs. You may go ahead please.

Sachin Salgaonkar:

I have two questions Sir. Firstly, post license cancellation notice; is RCOM seeing subscribers of these new operators trying to port-out and with that respect, do you have any strategy on targeting some of it like, raising some distribution commissions or actively targeting them to port-in to your network? Secondly, when I look at your capex spend for the last few quarters and compare it with the other listed operators, your capex is significantly lower than others which also gets translated into slightly lower revenue market share (RMS) or the loss of RMS, which we are seeing for few quarters. Does RCOM see this trend reversing where your capex investments pick up on a YoY basis and hence may be getting reflected into a RMS increase also? Thank you.

Shamik Das:

For RCOM, the business is as usual. As the competitive intensity will continue in the market, there is no change in customer acquisition plan or program by RCOM so far. Coming to the second point, on capex investments vis-à-vis RMS, already the investments have been made on different technologies whether it is 3G, 2G, CDMA, data as well as voice and we don't need to immediately invest in enhancing the network. In case of HSD data, during the last one year, we have expanded from 65 towns to 1,000 towns and going forward we may expand it further. Our current capex outlook on voice front is that we don't envisage further investment immediately.

Sachin Salgaonkar:

Sir, just a follow-up on that one. When I am basically looking at your capex spend on yearly basis and on a quarterly basis even after 3G licenses were given couple of years ago, I don't really see the capex picking up that much. What kind of investments are you talking on WCDMA platforms since you got 3G? Sir, if you could throw a color on how many Node Bs are you having or what's your population coverage on WCDMA basis vis-à-vis your 2G coverage?

Punit Garg:

On 3G side, the total capex incurred was about Rs. 10,500 crore which included spectrum payment plus the capex on equipment. If you refer to TRAI Quality of Service (QoS) reports with respect to RCOM, in five circles we are the clear leader and in other circles, we are among the top three players. This was possible as we have invested sufficient capital expenditure in our pan India 2G network. When we rolled pan India GSM network out in 2009, it was 3G ready and with minimal additional capex we were able to launch 3G services. In case of other operators, considering the ageing of the assets, they have to replace some of the equipments which are already 12 -13 years old. But, in our case, GSM being a newer rollout, our capex investment would be much lower for next few years as we do not have a replacement cost which is required.

Sachin Salgaonkar:

Thank you sir.

Moderator:

Thank you. The next question we have from Reena Verma from Merrill Lynch. You may go ahead please.

Reena Verma:

Just a few questions, firstly from the housekeeping perspective. Your network cost appears to have shown a significant jump but all your divisional margins are fairly stable. I just wanted to know what is the increase in network cost attributable to and for which division? Also, Arvind you said that the rise in finance charges is due to net interest cost rising. Can you just elaborate what you really mean? Does it mean that the interest income shrunk because your debt levels have not moved up that much? And just on the strategy front, if you could share with us your outlook on tariff going forward, particularly in light of comments by some of your competitors and also the recent consultation paper from TRAI, how are you thinking about tariff? Thank you.

Arvind Narang:

I will take your first two questions, on network cost and on the interest cost. The network cost has gone up by around Rs. 121 crore in this quarter primarily on account of three reasons. One, there was a major fiber cut, which has happened on our Flag submarine cable network, which is a one-time cost. Second, there was some additional maintenance costs being provided in the Flag and third is that this is the first quarter for the full 3G sites. However, the network cost is in line over a period of time. If you see the network cost for the last 8 to 10 quarters it has been in the range of Rs. 1,350-1,500 crore and in this quarter it is Rs. 1,495 crore, which is in the same range as mentioned.

Reena Verma:

Sir, how much is the one-time cost for Flag fiber cut?

Arvind Narang:

One-time cost is, approximately, Rs. 90 crore. Regarding the finance charges, the whole effect is because of the net finance charge. In the last quarter, there was a modest interest income and that is why there is a difference. But if you look at the current number i.e. Rs. 378 crore and see in terms of the cost of debt on our gross debt you will find this is in the same range, which we have been saying as less than 5%.

Reena Verma:

Sir, this level of interest expense of about Rs. 3.8 billion, is it sustainable level for the next 2 quarters?

Arvind Narang:

Yes, it is likely to be in this range.

Reena Verma:

Thank you sir.

Shamik Das:

Coming to your question on tariff, a couple of months back, there was an increase in tariff. The major reasons being the inflationary pressure on cost and the increase in input cost. But we didn't see much elasticity post increase of the tariff and we see that the market has accepted this tariff hike. We will evaluate how the telecom industry is evolving from here now and take a decision accordingly.

Reena Verma:

Does that mean that you will be happy to participate in tariff cuts, if we see that?

Shamik Das:

We will observe and see how the other players in the industry are reacting to that and then we will take our decision accordingly.

Reena Verma:

Thank you sir

Moderator:

Thank you. Next question is from Srinivas Rao from Deutsche Bank. You may go ahead please.

Srinivas Rao:

I wanted to check with the level of margins, which is generally higher than the other players but, there is a modest increase too. Given that your revenue share has generally either been stable-to-falling over the last four quarters, how do you explain an increase in your margins, and the fact that you have three network technologies to work with? Finally, please help us understand the improvement in margins in this quarter?

Punit Garg:

Is your question at RCOM level or on the business segment level?

Srinivas Rao:

The particular question pertains to your wireless business. It is bit surprising that despite having three networks and they being larger than what we assumed in the synergy in the networks, the revenue shares have not changed much and your minutes growth has not been significant to give any economies of scale over the last couple of quarters?

Arvind Narang:

One of the biggest reasons for more profitable business model is our non-voice business which is largely driven by the data, CDMA, 1X, EVDO as well as 3G. All these are much higher in proportion versus any other player in the country. Also, the incremental economics of this (data) business is extremely profitable. We have already incurred all the costs whether they are on the utility side, the staff side, SG&A or in any other line item. So the incremental economics becomes much stronger. Moreover, operators don't have to pay any access charge / IUC for the data which exists in the voice business. So the profitability on an incremental basis is comparatively higher, especially when you are already profitable on that segment. This helps us to maintain or even improve profitability even if the revenue growth was marginal.

Shamik Das:

We have a healthy mix of data in our total revenue pie. We have also mentioned that we have about 20% non-voice based revenue. Monetization of the capex investment is also taking place through the usage. So all put together, we could deliver one of the highest operating margins in the industry.

Sanjay Behl:

You should also consider the on-net community because we have the second largest wireless subscriber base in the country with over 150 million subscribers. Combination of our data, retained margins, added to a very large on-net community. This leads to the overall margin profile being competitively on the top of the deck.

Srinivas Rao:

Sir, this is the follow-up. We do get the share of on-net calls, TRAI releases the data every quarter. Would it be fair to say that your share of on-net calls is higher than the industry average which TRAI reports?

Arvind Narang:

It could be in line with the industry. Given that our on-net community is larger, we get benefited a little more, but the percentage would be same.

Srinivas Rao:

Thank you.

Moderator:

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