



Communications

RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended December 31, 2012

Conducted at 12.30 pm IST on January 24, 2012

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, Mr. Arvind Narang and Mr. Hasit Shukla.

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 December 31st, 2012.

On Wednesday i.e. January 23rd 2013, our Board of Directors adopted the un-audited results for the quarter ending December 31st, 2012. 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's third quarter consolidated revenue stood at Rs. 5,301 crore, as against Rs. 5,055 crore, up by 4.9% year on year basis
- **EBIDTA** at Rs. 1,653 crore as against Rs. 1,614 crore, a growth of 2.4 % year on year. RCOM consolidated EBIDTA margin at 31.2%, amongst the highest in the industry
- **RPM:** Our RPM is now healthy 43.9 paisa, amongst the highest in the industry.

- **Non-voice revenue:** Our non-voice revenue contribution to wireless revenues is at 20.9% and amongst the highest in the industry.
- **GEBU Revenue and EBIDTA:** In our Global Enterprise Business Unit, we achieved revenue of Rs. 2,454 crore as compared to Rs. 2,352 crore, a growth of 4.4 % year on year basis with an EBIDTA of Rs. 567 crore. Global and Enterprise Business Unit contribute a very steady 34% of RCOM's business.
- **Free Cash Flow:** RCOM continues to be Free Cash Flow positive in this quarter. Against EBIDTA of 1,653 crore, RCOM invested 416 crore on CAPEX and as mentioned in the previous call, the peak of capex intensity is behind us. RCOM has already pre-invested in a strong fiberized transport & backhaul network and future Capex requirements would focus on network quality, capacity, enterprise data center and wireless data growth.

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

- Wireless revenue stands at Rs. 4,515 crore up by 4.7% year on year on comparable basis
- Wireless EBIDTA at Rs. 1,206 crore up by 14.9% year on year on comparable basis
- We have continued our increased focus on data and provide high speed data coverage in over 1,300 towns in India
- We serve 27.6 Mn. data customers out of which 6.1 Mn are 3G customers, highest in the industry
- Total data usage on our network at 22,512 Terabyte and data usage per sub at 280 MB, which is highest in the industry.

I will now briefly talk about current status of Indian Telecom Sector. During the last year, after cancellation of licenses by Honorable Supreme Court and post spectrum auctions in the month of November, industry is witnessing consolidation. High spectrum cost and increasing cost pressures have led some players to reduce the number of circles in which they operate while some others have completely exited the market. This has opened up new opportunities and we aim to increase our incremental share in the market. We also expect that this consolidation will reduce the competitive intensity in the market place and will bring back the pricing power in the industry, which will help improve the RPMs going forward.

Telecom Industry is under pressure on several fronts. However, the impact of these pressure points varies for each player in the industry. Some of these issues, which have huge cash-flow impact, include one-time access spectrum charge and high cost of spectrum renewal payout along with re-farming in next 2 – 3 years.

There is also likely to be pressure on many operator's P&L due to abolition of national roaming, SMS traffic migrating towards new messenger apps & disapproval of 3G ICR arrangements by the Government.

Though these developments have bearing on the whole sector, RCOM impact is relatively modest as historically RCOM never had these advantages in the competitive landscape. In fact, as some of these disparities are removed, it will now be a level playing field. Since, RCOM marginally affected by issues related to high payouts and network reconfiguration due to re-farming of spectrum, it would take this opportunity to fully concentrate on superior execution on the ground.

In order to sustain these macro pressure points, industry need to focus on enhancing revenues along with reduction in operating expenditure, so that the additional funding requirements can be minimized. Tightening of acquisition guidelines has already reduced net additions across industry. This coupled with rationalization of channel commission has reduced acquisition cost for the industry. We believe that for industry to improve revenues, price hike is imminent. And this could happen multiple times in the next 12 – 18 months. Since RCOM has modest incremental payment obligation in foreseeable future, the positive impact of pricing power will help in increasing the economic value of business versus some other players where payment obligation is so large that it can at best partially offset inflows for price hike.

Now, let me talk about future revenue growth opportunity. We believe that industry currently has 550 – 600 Mn. unique users. Going forward in next 3 – 4 years, approximately 200 - 300 Mn. more users can go mobile in India. We expect voice to continue as “Bread and Butter” for the industry, but data will expand exponentially from its lower base. We expect data to contribute over 40% of incremental revenues in next 2 – 3 years, primarily driven by data consumption on large and small screens.

This is a great opportunity for RCOM. We are best positioned for this data opportunity as our network is “Built for Internet”. RCOM's unmatched Pan India access network deployed across technology platforms along with world's largest IP enabled backhaul network gives it a unique competitive advantage. RCOM has historically invested in creating robust backhaul network, fiberizing most of urban centres / major cities' sites, which are capable of high speed / broadband services including handling 4G services.

New initiatives and partnerships at RCOM: As mentioned in my second quarter's address, we have now adopted a spectrum based “Go To Market” strategy, clearly focusing on 3G States 900 MHz circles, 3G Metro 1800 MHz circles and 3G dark circles. We are focused on gaining incremental Revenue Market Share and aiming to garner significant share of data market in most of the geographies.

Now for the past six months, we have taken various initiatives in various phases starting with retail engagement, aligning our organization structure with our “Go To Market”

strategy, harmonizing our technology platforms and we will work on brand re-fresh in coming months.

- In the first phase, we started actively focusing on retail engagements for improving our reach and enhancing channel efficiency. We worked on the channel processes and channel payouts to become the preferred brand for the retail. We have implemented a common electronic recharge platform for GSM and CDMA customers on a pan-India retail basis. The counter share of Reliance services in key retail outlets have increased during the quarter. A series of large format retail stores and e-Retail partnerships were executed for selling and promoting the services, esp. Data dongles and proprietary devices, including tablets.
- As the spectrum cost varies by circles, second phase was to more to align our organisation structure on the basis of our “Go To Market” strategy. We have adopted “Circle as a Country” approach rather than having a Pan India “Fit for All” approach. Now we have a leaner, meaner and more empowered field organization.
- Currently, in our third phase, we are in the process of re-harmonising our technology platforms to be ready for internet generation. RCOM’s improved platform capabilities will increase self care functionality for voice and data customers including applications to run on handheld devices. It will provide us with an ability to sell, deliver and hence offer services based on specific applications of customer choice than data as a whole bundle. It will deploy system capabilities to analyze customer interaction and usage in real time and align treatment processes. This will also help in enhancing billing system capability to support emerging use of voice and differentiated data.

During the same time, we have initiated several cost optimization and RPM enhancement initiatives. As far as Network Cost is concerned, we are concentrating on reducing utilities cost along with adopting managed services approach (which I will discuss later). The channel commissions have been revised downwards and indirect costs are being closely examined to optimise acquisition costs. The new customer facing organization, moving away from hubs will allow us in optimizing manpower cost. For RPM enhancement, we have increased our Prepaid tariffs in the 2nd quarter by 25%. This quarter we have firmed up data tariffs to improve the realized rates. So, in the past six months or so we are doing some serious under water paddling to gear ourselves to gain at-least market to market incremental Revenue Market Share and sustain profitability.

As far as our CDMA network is concerned, we are strategically focusing on providing ‘data services’ through this spectrum. We are concentrating on device agnostic high data usage subscribers on CDMA network, and we have seen that these subscribers have a longer life cycle on the network. RCOM aims to garner dominant share in the large screen connectivity market through CDMA network. In the 13 circles, where we

have both 3G and HSD spectrum, we aim to dominate both large screen and small screen devices. In the rest of the 9 circles, where we have only HSD spectrum, we target to lead large screen data market and simultaneously introduce branded CDMA smart-phones with top 5 smart-phone brands.

Last week, RCOM and Alcatel-Lucent entered India's first end-to-end managed services billion dollar long term contract. This partnership will further improve network performance and customer experience by offering Next Generation telecom solutions across multiple devices and platforms. Through this agreement, we are aiming to achieve cost effectiveness by introduction of next gen processes, tools and integrated management. This will help us in creating a leaner organisation, moving 4,000 employees to partner rolls, providing them with global opportunities. This will also reduce Investment risks with pre-defined costs, targeted towards enhancing customer experience. The contract which extends RCOM's existing relationship with Alcatel-Lucent will deliver world-class, seamless voice and data communications services to RCOM customers. Alcatel-Lucent will enhance RCOM's operations and synergize independent wireless and wireline teams to form a single network management organization.

Subsequent to our exclusive partnership with Google for Android platform, we had announced more partnerships and unique plans in the market including exclusive partnership with "WhatsApp", "Facebook Messenger Plan", etc. These partnerships provide customer stickiness and compelling new experience with incredible affordability to Smartphone users across the country on our superior network.

Let me now ask Punit to cover the non-wireless businesses.

Punit Garg

Carrier Business

Our Carrier business continued its strong performance with order booking of over INR 337 crores. We continue to upgrade our network across Middle East, Asia and America's route. We continue to strengthen our relationship with our growing BFSI, Trading, and Content Distribution Networks (CDN), etc customer base across the Trans-Atlantic route by being the fastest Trans-Atlantic carrier between New-York and Slough with latency of 64.6 milliseconds. We have also implemented technology agnostic systems across our Asia route to support the next wave of growth with added Optical Transport Network (OTN) capabilities.

The International Voice segment continued its robust growth; traffic has grown by 9% on YoY basis driven by increase in inbound traffic. We continue to grow leaps and bounds in Asia where our traffic has grown by 26% on a YoY basis. Our Single Board

Number (SBN) service has grown by 30% on QoQ basis with increased demand from enterprise customers.

In the National Long Distance business, we have signed orders of more than Rs. 89 crore primarily for bandwidth sales to private service providers.

Enterprise Business

In Enterprise business, we have signed contracts of over Rs 304 crores in Q3 FY2012-13.

Keeping our focus on provided the best services to the fast paced enterprise customers we introduced a unique solution known as 'Connect Prime' that encompasses our strengths of unmatched Wireless Connectivity and Enterprise customer solutions. With 'Connect Prime' we strive to provide the most cost optimized and efficient connectivity option to our growing SMB and Enterprise customer base.

Our Q-o-Q success in the government vertical continued as we bagged order from National Payments Corporation of India, Steel Authority of India and others. We added several news logos in the Enterprise space across business verticals including financials, IT & ITES, Manufacturing and Media & Electronics.

Going forward we would continue to focus on providing the best service, technology and products to our customers both in the Carrier and Enterprise space. We would leverage our proven expertise in India and outside India to gain more wallet share of existing customer and increased revenue share with new logos.

Rewards and recognition:

I am delighted to share that Reliance is the winner of Aegis Graham Bell Awards 2012 for "Best Broadband Data Network", which reinforce our belief that RCOM is best positioned to capitalize data opportunity with its "Built for Internet" network. During the quarter, RCOM also won the EMC Transformers Award 2012 in being the leading edge IT BIG DATA successes. We won this Award for our initiative in building Next Generation BIG DATA Analytics Platform.

To summarise, let me reiterate:

1. RCOM has now adopted a spectrum based "Go To Market" strategy, clearly focusing on 3G States 900 MHz circles, 3G Metro 1800 MHz circles and 3G dark circles
2. RCOM has taken "Circle as a Country" approach rather than having a Pan India "Fit for All" approach
3. RCOM will leverage its CDMA spectrum for data network and focus on branded smart-phones and dongles.

4. RCOM would consolidate its leadership position in data, backed by 3G & HSD data spectrum in 13 circles and HSD spectrum in 9 circles.

Finally, I would like to emphasize that RCOM will focus on superior execution and gaining incremental Revenue Market Share by mark to market or better performance with sustained profitability.

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. Sachin Salgaonkar from Goldman Sachs. You may go ahead please.

Mr. Sachin Salgaonkar:

Hi, thank you for the call. I have three questions. First, what led to QoQ revenue decline in GEBU business in the current quarter? Secondly, data usage per subscriber has showed a strong growth on a Q-o-Q basis but the equivalent revenues have not grown up that high. Does this imply that there was pressure on 3G tariff during the quarter? And lastly, your thoughts on the demand for CDMA spectrum in the upcoming auction, after the government slashed the reserve price by 50%. Thank you.

Mr. Gurdeep Singh:

Sachin, thank you very much for being on the call. Let me answer your second and third question, before we come back to the GEBU question. You are right, the data growth is not commensurate with an incremental revenue in a linear ratio because of the reduction in the 3G price. However, the good part is that the off-take is very encouraging. This is a temporary blip and going forward as the off-take continues to improve we may see a faster jump in the revenues on account of the data. Coming to the second question on the CDMA auction and the slashing of the prices, would we participate in the auction? I think AUSPI has highlighted to the government about the weak ecosystem of CDMA as compared to GSM because of technical advancement,

inter-operability, roaming, and variety of handsets. Government has slashed CDMA prices by 50% but AUSPI has stated that it is still high and we expect more reduction. However, having said that, we are still evaluating our spectrum strategy and we will take a call closer to the auction.

I will hand it over to Punit for the GEBU question.

Mr. Punit Garg:

Thanks. If you look at GEBU revenues of the last quarter, we have grown by 0.9%. We have a very healthy backlog which needs to be implemented in the coming quarters. When you sign a contract, it typically takes 6 to 9 months for implementation and realizing the full revenue potential out of that. We have over Rs. 300 crores of revenue backlog to be implemented as of 31st December, 2012.

Mr. Gurdeep Singh:

Sachin, does it answer all your three questions?

Mr. Sachin Salgaonkar:

Yes, very much Gurdeep and Punit, thank you. I just have one follow-up question and this is mainly related to the media articles which came in last few days talking about a potential agreement between RIL and RCOM. So, my question on this is, if in future whenever such kind of a deal gets signed out and if indeed it goes through, I was wondering if RCOM is ready to sign the deal at the discounted prices to the market prices for rental. Is this something the management is open for as it leads to a huge increase in tenancy?

Mr. Gurdeep Singh:

Sachin, it is premature for me to discuss any contour of any deal. What I can share with you at this stage is that Reliance Infratel is in advanced stages of discussion for a large infrastructure deal with 3 potential operators, and as and when we are able to consummate this transaction, we will certainly let everyone know.

Mr. Sachin Salgaonkar:

Got it. Thanks a lot and all the very best for future.

Mr. Gurdeep Singh:

Thank you very much Sachin.

Moderator:

Thank you, sir. Next question comes from Mr. Shobhit Khare from Motilal Oswal Securities. You may go ahead please.

Mr. Shobhit Khare:

Good afternoon sir. Thanks very much for the opportunity. My first question is on SG&A expenses. I did not see any savings from the reduced channel commissions. I think last quarter there were some sponsorship expenses, but still this quarter again we have seen growth in SG&A expenses. So I just wanted to understand that.

Mr. Gurdeep Singh:

Shobhit, thanks for being on the call. Shobhit, in the past 6 months we have been doing a furious peddling under water, and we primarily aim at enhancing our distribution reach, quality of our distribution and moving up the value chain of the distribution in terms of our representation and a fair market share coming from A+, A and B+ outlets. So, I would say that in the last 3 to 6 months, we have invested in improving the quality of our channels. Now that phase is nearly over, we see the benefits of reduced channel commissions and alignment of the acquisition cost coming into the profit margin in the future.

Mr. Shobhit Khare:

Okay, and sir my second question is on the tariff hike which we took in September. So, we have seen some RPM improvement here but what kind of impact is already there in the third quarter number and have we also hiked the voucher rates as is being reported by media for our competitors?

Mr. Gurdeep Singh:

Shobhit, as you rightly said, in the month of September, we moved the base tariff rates in per second pulse from 1.2 to 1.5 paise and we are the only operator running across India a 1.5 paise base tariff rates in the telecom sector. We said at that time that we will complete the process for new acquisitions by end of October, which we did, and we said as the customers are in various buckets of tariff validity, as and when their validities expire we will also move them to the same base rate and this process would take few months. We are halfway through that process and I must say that during this period we have not observed any linear inverse relationship between the tariff hike and the usage. Yes, the free minutes on the network has certainly moved out which is a good news. We have reported a 0.5% MOU growth over quarter on quarter. It could have been better had we not eliminated this freebie free minutes and capped some of these low yielding customers, but if you see the impact of that on the RPM, it is a combination of these two things. In early January we have taken another correction in the tariff, more impacting on special tariff vouchers and promotional tariffs across on-net, off-net and STD. So in the first 10 days of January we rationalized these tariffs, again in line with our go-to-market strategy of 3G states, 3G metro and 3G dark circle, circle by circle. All these measures taken and with the alignment of the traffic to these changes we see a good linear equation between the tariff and the revenue increase going forward and even the usage growth.

Mr. Shobhit Khare:

Okay sir.

Mr. Gurdeep Singh:

And just to answer the other question on the margin, we did take a one-time cost in the last quarter on account of ICC sponsorship.

Mr. Shobhit Khare:

Okay. Got it Sir. Thanks a lot and all the best.

Mr. Gurdeep Singh:

Thank You Shobhit.

Moderator:

Thank you Sir. Next question comes from Ms. Reena Verma from Merrill Lynch. You may go ahead, madam.

Ms. Reena Verma:

Hi, thank you for the call. I have two questions. One is on your tariffs, Gurdeep, if you can please give us a big picture view on how much could be the total increase in RPM post the changes in January over one or two years. Basically you know how much is the increase in RPM that we should expect from RCOM over whatever horizon you are comfortable giving us a number for? My second question is with regard to your working capital and the cash flow. In spite of very stable Capex you seem to be having a rise in net debt and there is a big bloating up in your working capital that has been happening now for a few quarters. Please can you help us understand why there is no reduction in net debt in spite of free cash flow generation?

Mr. Gurdeep Singh:

Thank you Reena. I will try to attempt both the questions. First on the RPM, As I said a little while ago, there are two things happening. First is there is a virtual consolidation in the industry. Now we are moving towards a 5 Pan India scale operators. Number two, the hyper competitive phase of the telecom is behind us. Number three, for a couple of years we have been working in inverse direction to the inflationary pressures on the cost. The tariffs have been coming down while the inflationary pressures have been pushing the costs up. I think going forward as the inflationary pressures and the spectrum charges become what they are, they will have a necessary push to increase tariff, and with the virtual consolidation, there is a far more practicality of these tariff hikes getting implemented and remaining sustainable. Over a period of next 12 to 18 months, 12 months I would say rather, we do see another 2 to 3 opportunities of tariff

hikes. In my view it can vary from company to company, but the industry can look forward to anywhere between 6 to 8 paise RPM jump in a period of next 12 to 18 months.

Ms. Reena Verma:

This is including next 2 to 3 opportunities for hike?

Mr. Gurdeep Singh:

Yes, because the current opportunities in my view can yield up to 2 to 3 paise RPM increase over next 3 to 4 months or depending on who the customers are and what buckets and when do they come into the new tariff regime.

Ms. Reena Verma:

Sir, on the improvement in RPM based on measures taken to date already, is there a number, how much do you expect RPM to rise based on whatever you have already done?

Mr. Gurdeep Singh:

There were two phases of our tariff implementation. First was in September-October which we said will take 3 to 6 months. Second, we made some corrections early in the January, which again are on the special tariff vouchers, and the consumer as and when they come back to recharge on those special vouchers, there will be an impact on the tariff. I think over the next two quarters or so we should see anywhere between 2 to 3 paise RPM improvement.

Ms. Reena Verma:

Okay thank you.

Mr. Gurdeep Singh:

Coming to your question on the increase in the net debt and working capital requirements I am going to ask my colleague Arvind to speak.

Mr. Arvind Narang:

Reena, we have done refinancing of a foreign currency loan with a long-term rupee loan and the gross debt has increased by about Rs. 477 crores. Correspondingly there is a marginal increase in net finance charges by around Rs. 12 crores. However, subsequent to our refinancing actually now as in January, we have repaid that and the debt is actually down by around Rs. 1,000 crores.

Ms. Reena Verma:

Okay.

Mr. Arvind Narang:

There is a movement in working capital largely on account of current liabilities which has increased on account of notional provision of exchange fluctuation. Excluding the foreign exchange movement, the current liabilities have reduced by Rs. 600 crores, hence working capital has increased.

Ms. Reena Verma:

What is the loans and advance increase of around Rs. 650 crores this quarter?

Mr. Arvind Narang:

These are basically against the notional increase mainly due to movement in the foreign currency. Also, there is an increase of around Rs. 150 crores due to service tax credits and related TDS and some advance to vendors.

Ms. Reena Verma:

Okay, thank you. I will come back in the queue if I have more questions.

Moderator:

Thank you Madam. Next question comes from Mr. Jitender Tokas from Citi Group. You may go ahead please.

Mr. Jitender Tokas:

Thank you my questions have been answered.

Moderator:

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

Mr. Rajiv Sharma:

Yes, Hi, thanks for the opportunity and congratulations on an operationally good quarter. I have couple of questions. First, if you can help us understand the financial benefits of this network deal with Alcatel-Lucent as to, how will it impact your EBITDA going forward? Second is, did you say that the tariff hikes which you have taken around September will result in 2 to 3 paise improvement in RPM over the next 3 to 6 months as I guess I just missed a little bit on this. And third, there looks to be an encouraging trend that your post-paid base is inching up marginally. So if you can just help us understand what is happening there?

Mr. Gurdeep Singh:

Okay. First I will deal with the network outsourcing deal question. Well, Rajiv, thanks for being on the call. The network outsourcing that we did was India's first of its own kind, an integrated end-to-end managed service outsourcing, including wireline, wireless, fiber and utility. The benefit that we see out of this outsourcing is not only cost reduction but actually the cost effectiveness. What happens is when all the elements in the network clearly talk to each other seamlessly, you can easily transport at a quick speed from the time that you want to go to the site to the time when you land or when you want to download. So I think harmonizing of each of the boxes which have interdependencies when they play on the network device giving it to one vendor makes our life far more comfortable in enhancing customer experience. Now that has got its own impact on the business which is difficult to quantify in terms of better experience but it leads to better revenue opportunities, better stickiness, lower churn, lower

pressure on the costs, hence lower SG&A expenses. So that is one side of the business. The other side is coupled with this and all the efforts that we are making in terms of improving our utilities and lowering the cost on the fuel and the power side. We aim to reduce our network cost anywhere between 8 to 10% lower than what it is. So that is from the network side.

On the RPM side, yes I did say that all the changes that we have done in the September and the changes that we have undertaken in this early January over the next two quarters you should see a RPM increase of 2 to 3 paise is our estimate having taken into account the kind of traffic linearity it has had from our past experience.

Third, yes, the news on the post-paid is a little encouraging, the reason being for the last 3 or 4 months, we have been consistently focusing on the top 25 cities in India to improve our postpaid market share now that our GSM networks are stabilizing. In line with that we had also launched unlimited postpaid plans and the all share plan which is very unique in India and probably third globally. Our objective is to continue to gain disruptive share in the postpaid business, because this market has hitherto been remained with the three incumbent players and we will continue to be a challenger in the postpaid business.

Mr. Rajiv Sharma:

Right Sir. Thanks for the answers, just a couple of follow-up questions, first being on the subscriber acquisition cost. There is some rationality which is coming in. Can you quantify what kind of commissions are there today just an average number, so if it was Rs. 130, what if it is coming down to, which will help us better understand the magnitude of this lower commission. Second is, market is still having players like Uninor, Aircel and Docomo. I agree with you that an increase of 6 to 8 paise will be something which is feasible, but do you think the market structure will prevent a 3 to 4 paise increase and we will see another kind of tariff hike. What are your thoughts around that?

Mr. Gurdeep Singh:

Okay, let me talk about the lower commission. I think the 9/11 (September 2011) DOT cap regulation changes has dramatically brought down the number of acquisitions in the prepaid segments. Prepaid acquisition is now seemingly becoming like a postpaid, number one. Number two, the people who used to convert a recharge opportunity into a SIM card have gone out of the system and hence the dual or triple SIM holders are declining. This is to summarize and say that your really unique users who are coming on the network continue to be the same, however, the customers who are moving between one network to another is sharply declining. What it means is that the gross acquisitions in the market will fall and may settle at somewhere around 50 to 60% of what we were doing earlier, but the cost per acquisition may go up slightly from what we were doing earlier as the quality of acquisition improves dramatically and in turn with that your churn in the month 2 and month 3 of the acquisition drops dramatically and your retention improves significantly. So I think we need to take the entire cost to serve as an end-to-end rather than taking a one-sided view. And secondly, on your question on Uninor, Docomo, etc., well, Uninor is now a 6 circle operation, and Docomo as we know, that they have already given up 3 circles in the CDMA. The intensity on the market today versus a hyper competitive stage is different. Today, even the players who want to remain as regional or semi-regional also have the new spectrum cost to be paid, and they are already out of their 2 to 3 years of the entry strategy. So, I think there will be a greater sense and sensibility across all operators and we believe the price hike story is less likely to be derailed by the small players and by creating skirmishes on the street. Hence we see a good opportunity of sustainability of tariff hikes.

Mr. Rajiv Sharma:

Thank you very much sir and all the best for the coming quarters.

Moderator:

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

Mr. Srinivas Rao:

Yes, hi sir, thank you. I have two questions. The first, your Capex has been lower than the industry both in terms of percentage of sales and the absolute number. Any light on where the Capex spend is going, what is the level of maintenance Capex and where is the rest of the Capex going. And second, when do we expect as we mentioned in terms of the distribution side to start making an impact say potentially on your incremental revenue share?

Mr. Arvind Narang:

Yes, thank you. Srinivas we have given the guidance of Rs. 1,500 crores for the current financial year because RCOM has already pre-invested and future proofed the network, making it's network – 'Ready for the internet'. We have already significantly invested on the transport and backhaul side, which is highly capital intensive. Just to give you a perspective, it is not only fiber and execution issue or timeline issue, it is also the right of way costs which have gone up significantly especially in those cities or urban centers where the data really matters. For a fiber cost of Rs. 5 to Rs. 6 lakhs a kilometer, the right of way can be as high as Rs. 1 crore a kilometer in main cities, so you can imagine the execution and the capex which would be required for any operator to now make those investments. RCOM has done these investments earlier hence does not have to make this capex now, and we are already ahead of others as far as the readiness on the data capability on network is concerned.

Mr. Srinivas Rao:

Fair enough, this is helpful.

Mr. Gurdeep Singh:

Coming to your another question, I think we strongly believe that we are below our fair share and to increase it we have undertaken a lot of activities and one of them prime identified was the go-to-market strategy in-line with our spectrum strength and thereby aligning the quality of distribution and the reach of distribution. I think our objective is

to perform much higher than our share today and gain incremental revenue share which is closer to our fair share. So, yes, it will have an impact on improving our incremental revenue market share as we go forward.

Mr. Srinivas Rao:

Fair enough sir, this is helpful.

Mr. Gurdeep Singh:

Thank you, it is a pleasure.

Moderator:

Thank you Sir. Next question comes from Mr. G.V. Giri from IIFL. You may go ahead please.

Mr. G.V. Giri:

Hi, thanks for the call. I have two questions, One, your access charges remain high for the second consecutive quarter. Last quarter you had said that there was one-off impact, and was there something this quarter also which is one off or are we settling at this level generically? Second question is that your minority interest fell q-o-q from Rs. 30 crores in second quarter to Rs. 10 crores in the third quarter, so why should it fall so sharply?

Mr. Arvind Narang:

Regarding your question on access charges, they have increased by around Rs. 45 crores. This is for two reasons, one, there is a modest increase of around Rs. 12 crores due to increase in the off-net call, and the second is in line with the previous quarter regarding some reconciliation which is pending and being done on IUC with other operators.

Regarding your second question on minority interest which has reduced from Rs. 30 crores to Rs. 10 crores, it is basically because of the reduced profitability in the subsidiary company, Reliance Infratel. Reliance Infratel is now following the industry

practice of booking the costs such as insurance, security, etc. and not getting them reimbursed by the tenants. As a result, profitability of Reliance Infratel was impacted hence the minority interest decreased.

Mr. G.V. Giri:

Okay, understood, thanks a lot.

Moderator:

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

Mr. Piyush Choudhary:

Hi, thanks for the call and opportunity. Two questions from my side. Firstly, on the minutes volume, what proportion of your minutes volume is derived from the special tariff vouchers for the company and is there any estimate for the industry that would be helpful. And secondly on the regulatory side, there has been a demand raised from DOT on one-time fees. So, what is the amount raised on RCOM and has the company paid the same amount or is it contesting?

Mr. Gurdeep Singh:

Okay, thanks Piyush. First of all, the consumers using promotional pack varies from circle to circle and also varies with respect to the stage of the business you are at. I would say for the RCOM it is anywhere between 30-60% across the various type of circles. Number two, regarding the one time spectrum fees, currently we have received the one-time charge DOT demand note for GSM only that too only for Bihar circle where we hold more than 6.2MHz of spectrum. Including us all the industry bodies have consistently maintained that the contractual spectrum obligation is 6.2MHz in GSM and 5MHz in CDMA. So, we will continue to evaluate all our options and we will decide the next step soon.

Mr. Piyush Choudhary:

Okay, sir, so on this issue on one-time fee has the company gone and contested at this point in time?

Mr. Gurdeep Singh:

We are currently evaluating, it is not frozen on our action going forward.

Mr. Piyush Choudhary:

Okay, and just a follow up on that promotion pack, any color on the industry estimate, what would be the industry volume in the promotional packs?

Mr. Gurdeep Singh:

I would say it depends on the stage of the business and the percentage share that you hold in the market. As I said for us it varies anywhere between 30-60%, so may be the others could be on a higher side of the same, may be on a 50-70% bracket. It just depends on your stage of business and the mix of your customer.

Mr. Piyush Choudhary:

Sure, thanks a lot, and good luck.

Mr. Gurdeep Singh:

Thank you.

Moderator:

Thank you Sir. Next question comes from Mr. Samir Tulshan from JM Finance. You may go ahead please.

Mr. Samir Tulshan:

Yes, thanks for the opportunity. I have two questions. Question number one is what percentage of your non-voice revenues would be pure mobile 2G plus 3G data revenues, like the same as being shared by other telcos also. And the second question is a follow-up on the access cost. While you have pointed that increase in access cost has been due

to increase in off-net calls and the settlement going on with other operators, like these were the only reasons due to which the access cost on a q-o-q basis have risen by 6.8% while the traffic is only up by 0.5%?

Mr. Gurdeep Singh:

Thanks, I will attempt to answer both the questions. I think on your question on the access charge, one of the reasons for the access charge improvement is the change in our call pattern. We are seeing an increase in the off net calls and which in a way is a good news because the quality of customer base is improving. So, I think over a period of time as we acquire more and more mid value postpaid customers and a high value customers, the call pattern will align and probably over the next two quarters will settle as we continue to make our efforts to get into these areas where we have been traditionally weaker.

Regarding your other question, all I can say at this moment and which we have been consistent with what we have been sharing is that our non-voice revenue is 20.9%, and considering that we are a late entrant into the GSM pan India business, and hitherto the traditional postpaid and high value customers have been with incumbents which we are now furiously targeting, our large part of the non-voice revenue is coming through data, this is all I can share.

Mr. Samir Tulshan:

Okay. Large part through data would mean that CDMA dongle you are saying?

Mr. Gurdeep Singh:

Yes, CDMA dongles, the data through 3G, through 2G internet, and as I said we have 6.1 million 3G users, which is highest in the industry, so I think, as our networks are 'Built for the Internet' we have a little more disproportionate share of the data revenue. So, our contribution of the non-voice will be little more tilted towards data versus the other players.

Mr. Samir Tulshan:

Okay, thanks.

Mr. Gurdeep Singh:

Thank you.

Moderator:

Thank you Sir. Next question comes from Mr. G.V. Giri from IIFL. You may go ahead please.

Mr. G.V. Giri:

Yes, thanks. Gurdeep you had said that you could expect over the next two years 6 to 8 paise increase in RPM and may be a couple of paise is already in, based on the moves made up to date. Let us say the remaining RPM increase that you spoke about can be just to talk conveniently, 5 paise, will this 5 paise be along with significant reduction in traffic or potential traffic growth or would you say that the subscriber community has sufficient spending capacity to just keep consuming the minutes that they would any way have consumed and still live with the higher RPM.

Mr. Gurdeep Singh:

I will answer this in two parts. First of all, the minutes on the network today are a combination of paid at the base rate and paid at a moderate discount rates plus coming through free minutes and the promotional minutes. So, I think over a period of time what you will see is that the tariff will make sure that the usage on the network is far less discounted or less freebies driven than what it is today. That will necessarily push the RPMs up as we go forward. Now, it is just speculative at this point whether they will go up between 6 to 8 paise but the key point that you should take away is that cost pressures primarily coming because of inflation and the spectrum price rising in the future are now going to be passed on to the consumer. Hence the tariff hikes are inevitable and with the competitive intensity or the hyper phase being over, tariff hike is likely to be more sustainable.

Mr. G.V. Giri:

No, what I meant to say was not whether all the operators would pass it on and whether it is needed to be passed on. I meant to ask if the other constraint which is the propensity of the consumers to spend a certain amount and not more than that will be seen or will they increase their spending but keep consuming the same minutes, whether they are discounted or otherwise?

Mr. Gurdeep Singh:

Our good estimate at this point is that consumers will continue to spend on this because this is a productivity tool and it is a tool for necessity and connectivity and in India where 95% people have gone on talking only through mobile phones. So, we believe as long as you see it as a productivity and socially enhancement tool, consumers will continue to spend, and if they have been spending lesser as a part of their wallet share because of depressed pricing I think going forward they are going to rationalize to continuing to pay and hence make this tool effective for their day to day life.

Mr. G.V. Giri:

But in 3Q itself in your results we have seen that traditionally 3Q versus 2Q has been a particularly strong quarter on quarter jump, and your minutes have not increased, and if it is not a company specific reason, then it should partly be attributable to some of the price hikes that you took impacting the traffic growth. So, if you consider that as a valid data point, then going forward if over the next few months or quarters, we see more number of tariff hikes, then isn't it inevitable that the consumption of minutes will come down a little bit.

Mr. Gurdeep Singh:

Okay, as I said earlier in the call that we do not see a linear inverse relationship between the tariff hike and the traffic drop. What I did say and I want to continue to emphasize that the free minutes, the heavily discounted minutes will, or the abuser from the networks will go out and we see a good possibility of them going out, hence to that

extent if the traffic comes down and the RPM moves up, it is good news. I think going forward minutes of usage or let me put it the other way round, minutes of usage as a barometer of business growth was good in a hyper growth phase, but when you go towards the sensible stable market then going forward I think it is maintenance of RPM and a healthy balance with the MOU that is a better indicator. I think you need to see both in conjunction.

Mr. G.V. Giri:

Right, what I am interested in is will they really spend more because you have hiked the prices more?

Mr. Gurdeep Singh:

Answer is yes, they will. I think they will. I need to put your question very clearly. I think they will, but having said that we will be also sensible enough to see who we are impacting and where we are impacting. I see going forward the pricing is going to be far more cost-to-serve link as long as we find that the customer is below our possible serve, we will raise tariff, and if that leads to a smaller drop in the traffic, to me it is a good news.

Mr. G.V. Giri:

Right, understood, thanks a lot.

Moderator:

Thank you Sir. Next question comes from Mr. Kunal Vora from BNP Paribas. You may go ahead please.

Mr. Kunal Vora:

Yes, thanks for the opportunity Sir. The first question is, you mentioned that your tariffs are now the highest in the industry and you also mentioned that you are targeting subscribers aggressively. Can you help reconcile these two like, how are you targeting to gain market share when your tariffs are higher compared to competitors.

Mr. Gurdeep Singh:

Okay. Thanks Kunal for being on the call and let me clarify that for you. Yes, in prepaid segment in a per second pulse, we are the only ones which have 1.5 paise as the headline tariffs across country, whereas other operators do have it but only for a few circles here and there. So, that is the prepaid segment. On the postpaid segment I said, since this revenue pie in the top 25 cities is hitherto been with the 3 top operators, it is an opportunity now that we will look at attracting to us and hence we are a challenger in that segment while not being a challenger in the prepaid segment anymore.

Mr. Kunal Vora:

Sure, so aggression will be more in the postpaid market compared to the prepaid market?

Mr. Gurdeep Singh:

It will be, because our quality of customers and the mix of revenue between prepaid and postpaid coming from voice and data led rather than only data led is a little bit more skewed towards prepaid which we need to correct and given the fact that our networks are designed for internet we've got a dual technology advantage in 13 of our circles, which fundamentally includes Delhi, Mumbai and Kolkata, and in Delhi, Mumbai, and Kolkata there is no other player than Bharti, Vodafone to have 3G play, hence given 3G and HSD opportunity in Delhi, Mumbai and Kolkata and largest of the postpaid base sitting there, we see a great opportunity to arrest or get back some of the postpaid business into RCOM which will improve our top line and hence improve our margin structure as well.

Mr. Kunal Vora:

Sure, okay thanks. Sir my second question is on the data devices side, what are the trends which you are seeing on smart phone penetration or data enabled devices in terms of pricing as well as adoption scenes in the market?

Mr. Gurdeep Singh:

I am not able to share any data pertaining to RCOM at this stage, but all I can say is that market is now absorbing about 2 million smartphone sales a month which is rising at about 25% CAGR. Going forward we see over the next 2 to 3 years smartphones becoming good about 60-70% of the monthly handset sales and improving our opportunity to bring more customers into the data consumption. Having said that, we see over a period of time, may be 3 to 4 years from now, when the non-smartphones becoming less in the choice and becoming little expensive as compared to the smartphones in the market. We believe that over the next 2 to 3 years we will see a faster adoption of smartphones in this market versus what you have seen in the last 2 years largely coming on the back of sharply dropping prices and number of choices and the models going up from the branded handset manufacturers.

Mr. Kunal Vora:

Sure, thank you sir. And my last question is on the tower side. What will be the number of own towers which RCOM has currently and if you can share some details on tower rentals.

Mr. Arvind Narang:

We have around 50,000 towers. The number of towers remains the same.

Mr. Kunal Vora:

And what would be the average rental which RCOM will be paying if you can share that number?

Mr. Arvind Narang:

It is in line with the market, at the same benchmark which is there for all operators.

Mr. Kunal Vora:

Okay, great. Thank you Sir.

Moderator:

Thank you, sir. Next question comes from Mr. Rohit Dokania from B&K. You may go ahead please.

Mr. Rohit Dokania:

Yes, Hi sir, Good Afternoon. Thank you for the opportunity. I just had one question. I just wanted to know what are RCOM's views on the 900MHz re-farming and the upcoming 900MHz auction?

Mr. Gurdeep Singh:

Well, we have not firmed up any view on the 900MHz re-farming and/or likely participation, I think we will take that call closer to the auction date.

Mr. Rohit Dokania:

Okay, but sir just wanted to know whether RCOM is supportive of it?

Mr. Gurdeep Singh:

If you look at our portfolio we do have 9 circles where we have 900MHz, and that re-farming does have an impact on us, but it is in the outer years, we are not impacted for the next 3-4 years in this area. However, re-farming does have a large impact on the incumbents, I think GSM incumbents have anywhere between 45-70% of their revenue market or the leadership markets are coming under re-farming. So, we believe while others go back to the drawing board for re-engineering their networks, we have a great opportunity to continue to focus on the market to strengthen our execution and improve revenue market share and profitability. We will take that call when it comes closer to our re-farming which is somewhere in the 2015 end.

Mr. Rohit Dokania:

Okay. Sure, thanks a lot and wish you all the best.

Mr. Gurdeep Singh:

Thank you.

Moderator:

Thank you Sir. At this time there are no further questions from the participants. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.

Mr. Gurdeep Singh:

Thank you.