RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended June 30, 2010

Conducted at 5.30 pm IST on August 13, 2010

Operator:

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

This call is hosted by UBS.

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.

Now, I would like to hand the conference over to Mr. Suresh Mahadevan of UBS, over to you sir.

Suresh Mahadevan:

Thank you. Good morning, afternoon or evening, ladies and gentlemen. We at UBS are pleased to host this call for the first quarter FY2011 results of Reliance Communications.

Today, we have the senior management from Reliance Communications led by Mr. Satish Seth along with other colleagues namely Mr. Syed Safawi, Mr. Punit Garg, Mr. George Varghese, Mr. Inder Bajaj, Mr. Sanjay Behl and Mr. Arvind Narang.

The call will begin with some key observations by Mr. Seth 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. Satish Seth. Thank you.

Satish Seth:

Thank you, Suresh.

I welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the first quarter ended June 30th 2010.

The first quarter of financial year 2011 has witnessed some path breaking happenings not only in the industry but also at the Company level. We have taken up some extremely significant initiatives that will lead Reliance Communications to a sustained and positive growth, with enhanced operational and financial capabilities in the coming future.

We shall share more details with you on these developments during the call, but let me first give you a brief update on the Indian telecom sector. India continues to be one of the fastest growing telecom markets globally. The momentum of adding subscribers at breathtaking speed continued with over 50 million wireless subscribers being added during the quarter and total wireless subscriber base standing at 635 million as on 30th June 2010.

While the continued slide in tariffs has subsided, we continue to see unsustainable tariffs from the challengers who are keen to arrest the decline in revenues and also by some incumbents looking to maintain their market positions. We believe that the existing tariffs, which are already lowest in the world, may not be sustainable for smaller players. It is evident that it would be the fully integrated players who would continue to remain stronger. This is because they have been able to successfully sustain this intense competition and have not only stabilized but also grown operating margins.

The 3G and BWA auctions which concluded in the 1st quarter surprised everyone in terms of the auction price and the time it took to conclude the auctions. As the auction progressed, operators with aspirations for a pan-India license had to re-examine their 3G strategy as the pan-India license fees ballooned. While, we would have liked to acquire a pan-India license, we were very pleased with the outcome for Reliance Communications. It is significant to note that Reliance Communications was amongst the only three private telecom operators who won the 3G spectrum in 13 circles, and importantly the most lucrative 3G markets of Mumbai, Delhi, and Kolkata. This was in line with our strategy of tapping into the high-end user segment of GSM customers, who could not avail our services for long either on account of the choice of handsets or the inability to port their mobile number to another operator. The 3 metros are expected to make up for 50 - 60% of the 3G users in the early stages. It also helps in the capex and opex optimization of 3G infrastructure given the high population density and a larger percentage of 3G handset owners in these metros. The 13 circles where we won 3G spectrum for a consideration of Rs. 8,585 crore, also includes all six high growth "C" circles for less than Rs 500 crore. This makes Reliance Communications the only operator that has pan India 3G equivalent capability in CDMA and among the top 3 with highest POP coverage in WCDMA.

Reliance Communications has a strong competitive edge as it would need minimal 3G network capex investment due to its nationwide state-of-the-art 3G ready GSM network. Reliance Communications is uniquely positioned to leverage its media and gaming capabilities to offer its customers a unique “true 3G experience”.

Let me now briefly share with you, some of the strategic initiatives taken by the Company during the quarter.

In a major transformational move, the Boards of Reliance Communications, and its subsidiary, Reliance Infratel and GTL Infrastructure have in-principle approved a Rs. 50,000 crore (US$ 11 billion) deal to create the world’s largest independent telecom infrastructure company, neither owned nor controlled by any telecom operator.

This deal will be implemented through a demerger of the tower business including Reliance Infratel’s tower assets into GTL Infrastructure. However, R-Com shall continue to own India’s largest optic fibre network of over 190,000 Rkms and related assets presently.

The merged entity will have over 80,000 towers and over 1,25,000 tenancies from over 10 telecom operators such as Reliance Communications, Aircel, S Tel, MTS, Tata Teleservices, Vodafone, etc.

This merger will lead to substantial unlocking of value, through:

→ Cash infusion to Reliance Communication, leading to substantial reduction of its consolidated net debt and improved leverage ratios which in turn would, contribute to enhanced financial flexibility; and

→ The receipt of free listed shares of the merged entity, by over 2 million shareholders of Reliance Communication and the minority shareholders of Reliance Infratel. This would enable their continued participation in future prospects of the high growth telecom infrastructure sector.

In another important and game changing strategy, the Board of Directors of Reliance Communications approved a proposal to acquire Digicable, India’s largest Cable TV service provider. Integration of Reliance Communication’s DTH, IPTV, and retail broadband businesses along with Digicable acquisition will catapult Reliance Communication to becoming Asia’s largest and the world’s 5th largest digital TV and ultra high-speed broadband service provider.

This new venture is set to leverage combined strength of Reliance’s fully integrated telecom infrastructure and 10,000 local cable operators to offer world-class digital TV entertainment and ultra-high speed broadband experience in over 100 mn Indian homes.

This acquisition is in line with our ‘4-screen strategy’ to own the mobile, cinema, TV and computer screens, that are rapidly becoming an integral part of consumers’ daily lives. It is aligned with our vision to be an innovative, diversified multi-product company that offers true world-class convergence of information, communication and entertainment solutions.

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

In the last quarter, the new subscriber acquisitions have maintained a steady pace. During the period, Reliance Communications saw modest revenue growth in an extremely low discounted tariffs market with quarterly revenues at Rs. 4,153 crore and EBITDA of Rs. 1,199 crore.

For the last 3 quarters, we have been focusing on the quality of the customers and have been driving growth through segmented circle and cluster level activities. Towards this, we have taken steps to induce discipline in minutes usage by trying to reduce 'free minutes' (also known as 'fat' in the industry) and focusing on building 'paid minutes usage'. The fat reduction is almost 50% in Q1 and as a consequence, it has driven quarterly growth in the "paid MOU". We have succeeded in consolidating the RPM (rate per minute) in Q1 at 44 p / min, despite reduction of RPM for the industry key players in the last 3 quarters. Three quarters back, RCOM's RPM was lower than other industry players by 8-10 p/min. Now we are at par with the industry players through a well executed strategy of focusing on 'quality of the customers' and the usage. This will go a long way in laying the foundation for a sustained profitable revenue growth.

These actions also reinforce the thought behind the launch of "Simply Reliance" with its three variants where we had indicated that Reliance Communication is not creating a downside risk on its RPM through these plans. The above results bear out the strategy that customers love the simplicity in tariffs, as shown in the number of people who have migrated and stayed on the plan.

On the CDMA front, to leverage the expanse of our network, we introduced another ground-breaking "Simply Unlimited CDMA Offer", to attract high-end usage segment. The customer response to the unlimited offerings has been encouraging. We remain bullish on the prospects of CDMA being further leveraged increasingly more for data and voice applications due to its unique capabilities.

Reliance Communication 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. The Global market is also moving in the same direction in terms of the portfolio mix. Both these segments of Data and VAS are growing at a healthy double digits rate. We are the largest Indian player in Data services. We already have nationwide coverage for 1x data services and now we cover more than 65 towns for our High Speed Data services. We will continue this focus and are set to have the largest, widest and deepest footprint of 3G enabled data services in the country in the coming quarters. With 3G services and focus on Mumbai, Delhi and Kolkata like metros, Data and VAS would continue to drive the Company's Wireless business growth going forward.

We are now a service brand already serving over 110 million customers. And, with a significant critical mass of GSM customers now on our network, we will soon start seeing the impact of the scale of the GSM network which was rolled out in early 2009. This year and in the future, with the growing base of GSM customers on our network, we will continue to optimize the cost structure of our GSM network.

We believe that the greatest asset for any consumer brand of our size is the trust from our customers. We are committed to provide the highest standards of customer experience on our dual technology platforms to our mobility, fixed wireless phones, and data customers. It is this customer focus which will increasingly become a differentiator in the ever-evolving Indian wireless market.

Mobile Number Portability, after numerous postponements and much delay, is expected to be implemented on nationwide basis by 31st October. We strongly believe that MNP could be a game-changer in the Indian wireless space, more so in the high ARPU subscriber segments where churn rates remain low. We look forward to MNP as an opportunity to help us deliver greater value to every wireless subscriber in the country and a threat to old GSM players in terms of retaining high ARPU customers.

I will now briefly cover the non-wireless businesses.

During first quarter, the Global business achieved revenue of Rs. 1,814 crore and EBIDTA of Rs. 332 crore. There has been pricing pressure due to the intense competition in the international voice business and continued recession in the Europe and U.S. markets. However, we have successfully stabilized revenue and margin in the business based on combination of ramp up in voice traffic, winning of new contracts in the Data business and tight control on operating expenditure. Going forward, we are confident of the growth prospects in each of our business divisions i.e. NLD, Voice and Data.

In the National Long Distance carriage business, traffic has grown by 48% on a year on year basis led by the growth in our GSM business. This will be complemented by ramp up in the sale of bandwidth and infrastructure services to customers rolling out 3G and BWA services in the coming quarters. The Digitisation program of Government of India presents a tremendous opportunity for us to monetize our unmatched asset base of over 190,000 Kms of ducted fiber optic-cables.

In our International Voice business, traffic has grown 41% year-on-year basis. We have been able to effectively leverage our global switch capacity and relationships with global carriers to ramp up volumes. We continue to have the largest inbound ILD traffic market share in India.

In our Data business, we acquired new business of Rs 140 crore comprising Capacity Sales to carriers and Managed Services to enterprises. We continue to be the preferred supplier for most customers in the Middle East and Asia region to meet bulk of their international capacity requirements. With 3G and BWA services in India, we expect acceleration in demand for international bandwidth from India. With commissioning of our Mediterranean system, we will be the only private multi-terabit system on West of India. Asia and Indian demand growth will fuel our business growth in coming quarters. We are deploying the latest technology on our submarine cable systems to generate at least four times more capacity at fraction of incremental capex. This would help us cater to the impending growth in demand in the coming times.

Last but not the least we continue to add new Brands in our Enterprise segment. We have added more than 20 new Brands in Q1 across diverse industries like Collins Stewart, a leading financial advisory group; Avanz Technologies, a leading technology solutions provider and Attijariwafa Bank, the largest bank in Morocco.

To summarise, we have achieved stability of business and margins in the Global business. There is strong demand for all our products and services and it is reflected in our traffic growth. India and Asia will fuel our growth in coming quarters.

Now let me provide a brief update on the domestic Enterprise business.

The Enterprise market is beginning to open up. The expansion projects of corporate India that were on hold for last few quarters are now getting into implementation mode. IT and automation budgets of Enterprises too have started looking up.

We are ideally placed to exploit this growth in the market. We have a comprehensive product portfolio that is unmatched in Indian market. With a unique blend of vertical specialists who understand customer's business and technical experts who master various technologies, our solution teams create customized solutions to meet specific needs of enterprises.

Enterprise business is reaping benefits from our multi-pronged customer management strategy adopted in previous quarters. We take pride in the fact that our customers have rated us above 8 on a 10-point scale in an independent customer satisfaction survey, Because of our strong engagements with our customers, we are successful in obtaining more than 35% of the fresh sales from our existing customers. During this quarter, the Enterprise business achieved revenue of Rs. 676 crore and EBIDTA of Rs. 248 crore.

Our global subsidiaries, Yipes and Vanco bring us expertise in Network solutions and end-to-end managed services offerings, which help us leverage our capabilities for our Indian clientele.

We are also reaping the benefits of our strategy of focusing on government & PSU verticals. In recent months, we have won major orders from Commercial Tax Department, ERNET, National Informatics Center (NIC), Electronics Corporation of India (ECIL), Rajasthan APDRP, and Manipur SDC. We have made steady progress in this vertical and expect it to contribute even more in the times to come, as Government is expected to spend Rs. 10,000 crore this year for its various e-governance projects. A significant part of this spent shall be on telecom network and data center infrastructure.

In IDC business, we are strengthening our leadership position with our new IDCs operational in Chennai and Hyderabad. Our new offering of value added services like shared hosting; cloud computing and managed services are being very well received by our customers.

As announced earlier, we are partnering with Microsoft to provide the latest technology solutions to enable our customers to run their Businesses more effectively and in a cost efficient manner.

Going forward we are expecting more repeat business from our existing customers, which will increase our share of wallet and higher stickiness from those customers.

Now, let me briefly touch base on couple of security related industry issues, which have generated curiosity in the recent past. The first issue is about introduction of mandatory security clearance requirement for all equipment imported before the placement of orders. However, our main equipment vendors have complied with the revised guidelines. The second security issue is related with subscriber verification mandated by Department of Telecommunications for all operators. We have undertaken this exercise in all earnest which will not only strengthen the security parameters but also improve the quality of subscribers. The re-verified subscriber base would be declared at an appropriate time along with all other industry players once the exercise is complete.

On the financial performance front, during the quarter:

1. Revenues stood at Rs. 5,109 crore.
2. EBITDA at Rs. 1,632 crore with stable EBIDTA margin of 31.9%.
3. Profit After Tax at Rs. 251 crore.

As mentioned in the last quarter, during FY10 Reliance Communications has been free cash-flow positive. With the peak of capex behind us, we would continue to stretch and sweat our assets to produce higher productivity. Our capex guidance for FY11 ex 3G stands at Rs. 3,000 crore.

To conclude my initial comments, I would like to say that with the Board of Directors approving the strategic decisions of unlocking value by demerging the tower assets, stake sale upto 26% by Reliance Communications and the acquisition of Digicable, are important milestones for our long term strategy with a focus on implementation for an all inclusive growth. The first two initiatives will help us substantially in reducing our consolidated net debt and improved leverage ratios. By FY 2012/ 2013, Reliance Communications is expected to be the least leveraged company among Indian telecom operators. Our focus will continue to build quality business through operational excellence leading to higher operational efficiency, productivity and effectiveness.

We also look forward to launching 3G services in the coming quarters and offering world class products and services. We shall be having a renewed focus on product and technology innovations to further our commitment for enhancing the overall Customer Experience.

I now hand over to Arvind to take forward the proceedings on this call. Thank you.

Arvind Narang:

Thank you, Mr. Seth.

We will now open the call for Q&A. We request all of you to focus on key strategic and business issues. We also request each participant not to ask more than two questions and provide an opportunity to all participants to interact with the management.

Moderator, can we take the first question please?

Operator:

Certainly sir.

At this time participants who wish to ask to any questions, kindly press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key.

First in line we have a question from Mr. Sachin Salgaonkar from Goldman Sachs. You may go ahead please.

Mr. Sachin Salgaonkar:

Hi, thank you for the call. I wanted to better understand the trend in your wireless business. I mean should we expect the revenue per minute to stabilize from these levels as majority of the subscribers have migrated to Simply Reliance? And as your free minutes have declined, is the MOU per subscriber also expected to decline or can we see this to be moderating off as there will be an increase in usage on a normalized basis from your existing users? Also, with M&A expected to come in the coming quarters and you in a way trying to target the high end consumers, is there a risk of further tariff decline which is now stable at 44 paise for you?

My second question is, is there any update on the timelines for your tower demerger? Thank you.

Mr. Syed Safawi:

Sachin, I would take the first two questions and hand over the tower question to Mr. Seth. First is on the rate per minute, as Mr. Seth articulated in the opening remarks, we are clearly focused on the quality of operations and quality of business, and hence on quality of minutes. Being especially focused on paid minutes is critical for us going forward as well. As you know in this industry it is easy to get MOU increased, but if your RPMs keep declining then obviously revenues will not follow through over a period of time. So, in this quarter clearly and during the last three quarters we have stabilized our RPM at 44 to 45 paise. About three quarters back, there was a gap of 8 to 10 paise but now we have got it in line with the industry players. Having said that, this quarter we have taken out about 50% of free minutes which used to be on our system, and now we are seeing consistent growth in paid minutes. Going forward, we expect all the paid minutes flowing through into our bottom line. That answers your first question on the RPM.

In terms of tariffing and the way in which it is prevalent in the market we can see that there have been no big moves happening on tariffs at a national level, however, a lot of moves are happening in a segmented manner at a circle / cluster level. We will now take appropriate action as we are better leveraged since our RPMs are now in line with the industry players.

In terms of M&As and consolidation, we can see that there is already an indirect consolidation beginning to happen as lot of new players have not rolled out the required towers in the last 3-4 quarters. Probably it will take about 2-3 years to consolidate into 6-7 key players. I will now hand over the question on the towers to Mr. Seth.

Mr. Satish Seth:

On the tower deal, we had earlier communicated that generally such kind of transaction takes about 4-6 months. The transaction is currently on track and will be completed within this particular time frame.

Mr. Sachin Salgaonkar:

Thank you. Just one followup question, Mr. Syed, you mentioned that your tariffs are actually inline with the industry, but judging by the way the minutes of usage and ARPUs of other players are, it seems your paid minutes is relatively lower as compared to the industry and that is the reason why your ARPUs are relatively lower. Is that a right assessment?

Mr. Syed Safawi:

After last 2-3 quarters, our RPMs are now in line with the industry. We have stabilized them as we are taking out the less profitable minutes out of our system as well as free minutes. So, we have cleaned up that part of free minutes base, and even if you say that our paid minutes are lower, they are actually growing inline with most of the industry players.

Mr. Sachin Salgaonkar:

Okay, so in coming quarters you expect that to catch up with the other players?

Mr. Syed Safawi:

To grow in line and be in line with the industry, yes.

Mr. Sachin Salgaonkar:

Okay, thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Thank you very much sir. Just taking on Sachin’s thoughts, would it be fair to say that going forward we can now expect your broad revenue growth to be in line with the industry? Would that be a fair assessment of Mr. Safawi’s comment?

Mr. Syed Safawi:

Srinivas, we are now in line with the industry players in terms of RPM. Paid minute growth will also continue to be in line with the other industry players because we are now better leveraged and in a position to take on all tariff interventions and marked to market comparatively by cluster / by circle. Therefore our MOU growth and revenue growth will be in line with the industry players.

Mr. Srinivas Rao:

Thanks. Sir, I have two more questions.. On 3G you have highlighted that you are there in the three most sellable markets, but in the same markets the other two players, at least in Mumbai and Delhi happen to be the incumbents. So what is your thought in terms of how you are going to get value out of your 3G investments in terms of first attracting subscribers and then building up traffic? What is the time line for the launch and then after how much period the 3G revenues will become meaningful for you? Say in 3 years time?

Mr. Syed Safawi:

The 3G services will be launched in the next couple of quarters as soon as the spectrum is released and all the equipment have been obtained. We are indeed privileged to be in the key circles of Delhi, Mumbai and Kolkata, and we have two benefits, one is that we are challengers in these circles as you said against the incumbents, and we are a new GSM player, therefore that plays to our advantage. With MNP coming in, there is even more opportunity for us to garner much higher revenue share in these circles. So, going forward we clearly see this as an advantage for us. In terms of future projections of 3G revenue, it is a forward-looking statement, and I don’t think right now we are in a position to share those kinds of numbers.

Mr. Srinivas Rao:

Thank you sir.

Operator:

Thank you sir. Next in line we have a question from Mr. Vinay Jaisingh from Morgan Stanley. You may go ahead please.

Mr. Vinay Jaisingh:

Thank you so much sir. Again taking on my two colleagues questions, you are mentioning that 50% of the free minutes are out, does that mean that the cumulative minutes of usage or the minutes of usage per subscriber has gone down this quarter and also does it mean that in the next quarter we should get the other 50% of the free minutes of usage moving out? That is my first question. I have one more question, but should I hold on?

Mr. Syed Safawi:

As an industry practice, there will always be some kind of free minutes, because you give full talk time on certain vouchers. But that is at a lower level for the industry. Now having reduced 50% of our free minutes, we are now more in line with the industry. .

Mr. Mahesh Prasad:

We have been traditionally a very on-net closed user group community on CDMA in many of the areas, and on-net typically have had what I call lots of minutes given the capacity of CDMA network. What Syed is talking about is the 50% reduction in the free minutes that were a part of these community networks. We are gradually reducing it and last quarter we have reduced by 50% of those minutes.

Mr. Vinay Jaisingh:

Okay, so basically you are saying that much of free minutes which are available in the network would now be maintained and we wouldn't see a quarter wherein we are going to say that the minutes of usage have gone down because there were free minutes which have been knocked off of the network?

Mr. Mahesh Prasad:

We will have to play it with market situation, because the market dynamics from circle to circle changes in terms of the tariff, so we will probably look at each circle and then fine tune it. As Syed already mentioned that in some pockets what I call 'tariff games' are still being played, so it is a little early to comment on that.

Mr. Vinay Jaisingh:

Sure sir. My second question is on your net interest cost which is about Rs. 440 crore and as per notes to account about Rs.780 crore is not being accounted for because of certain high court clearance. So this Rs. 440 crore if it is not related to forex, is it just interest expense for the quarter?

Mr. Satish Seth:

Rs. 440 crore consists of two parts: interest cost and some part of the foreign exchange.

Mr. Arvind Narang:

The notional MTM loss on forex and derivatives, which is included in the P&L, is in the range of around Rs. 200 crore. To that extent the interest cost would be lower from the Rs. 440 crore, which is mentioned in the P&L.

Mr. Vinay Jaisingh:

Okay, thank you sir.

Operator:

Thank you sir. Next in line we have a question from Mr. Sunil Thirumalai from Credit Suisse. You may go ahead please.

Mr. Sunil Thirumalai:

Thank you. I want to ask just a couple of questions. On the global segment, we explained about having price competition in the international space, but I was wondering why the NLD minutes are down quarter on quarter? And the second question is why depreciation seems to have gone down on a quarter on quarter basis? How should we look at it going forward?

Mr. Punit Garg:

Comparing this quarter vis-à-vis last quarter is not a right comparison. In the last quarter, I did mention that we had a high external traffic coming into RCOM which we carried for some carrier. So, our internal traffic which is the RCOM NLD minutes have grown on a quarter on quarter basis and that has been steady. We had a specific contract in the last quarter to do on the NLD minutes from the other than RCOM carrier which was only for a quarter, so what you are seeing is most of the organic minutes plus what we get the usual minutes every quarter. So, last quarter as far as NLD minutes were concerned was an aberration because of certain contracts which we had with some of the carriers.

Mr. Arvind Narang:

Sunil, on your question on the reduction in depreciation, let me give you a background on that. In the 3QFY10, the depreciation was Rs. 833 crore. In 4QFY10, it was Rs. 1,085 crore and we had guided that there was a one time impairment charge of around Rs. 200 crore. In 1QFY11, there is no one time impairment charge and the depreciation amount is Rs. 965 crore. If, you normalize the 4QFY10 depreciation by removing the one time impairment charge of Rs. 200 crore and then include the depreciation on the gross block which has increased by around Rs. 2,500 crore then you get depreciation amount Rs. 965 crore for 1QFY11, which has been mentioned in the quarterly result.

Mr. Sunil Thirumalai:

Okay sir, thank you for the clarification. Thank you very much.

Operator:

Thank you sir. Next in line we have a question from Ms. Reena Varma from Merrill Lynch. You may go ahead please.

Ms. Reena Varma:

Thank you very much for the call. A few questions from me; firstly, can you please share with us your feedback from the regulator on the status on the TRAI recommendations and do you think these will be accepted or will not be accepted? Secondly, Mr. Seth mentioned in his opening remarks that MNP will be a game changer, just wanted to assess what gives you comfort that October 31st onwards we will see this happen and in what way do you see MNP as a game changer? Are we talking about a post paid tariff change or are we looking at a change in the way the marketing is done, if you could shed some light please? Thirdly, what is the update on the status of your 26% strategic stake sale? And finally, on your non wireless business, you mentioned that some exposure to the EU had dragged the growth there. So going forward what is the normalized growth expectation for the non wireless business? Thank you.

Mr. Satish Seth:

On the regulatory recommendations given by TRAI, I think we are all aware that these are under consideration of DOT. Each operator and each association have made their representation to them. In my view, we should wait and watch, how and what is finally decided by the DOT or the government. We believe that there would be appropriate consideration and recognition of the TRAI recommendation by the government.
On your question on MNP, what gives us the confidence that it will be implemented from 31st October is - this is what has been announced that government is keen to implement on 31st October 2010. Second reason of confidence is that most of the operators are now getting ready, including completion of the interconnect testing. Based on these

parameters we are confident that it should be implemented barring any unforeseen circumstances.
On the prospects of the business on account of introduction of MNP, Syed, can you shed some light on that?

Mr. Syed Safawi:

Reena, there are opportunities for a challenger like us as soon as we get MNP. Also combine and read this along with 3G in key metros like Mumbai, Delhi and Kolkota where a lot of the post paid base resides. So to your question on post paid itself, there is a clear opportunity for us. If you also see, there are just three operators who have got 3G spectrum in these circles. So, we clearly see ourselves at an advantage once MNP happens in these markets.

Ms. Reena Varma:

Syed, thanks for that. Just two questions here: one a follow up question, so have I understood Mr. Seth correctly that the interconnect testing for RCOM versus various operators is already completed? And secondly, on 3G and MNP coinciding, are you 3G ready or how much time do you think you will take to be 3G ready in the circles where you have the spectrum?

Mr. Satish Seth:

Let me correct, the interconnect testing is on, and we expect it should be completed well within the time limit of starting of the MNP by 31st October.

Mr. Syed Safawi:

This is a long drawn testing process where you have to test with each operator and each circle and across circles as well. There are multiple computations and each operator has to do testing both ways which is under process for all operators. RCOM will be fully compliant within the timelines laid down which I think is September end. By that time all operators would have to complete it.

On 3G readiness, we will be absolutely ready as soon as spectrum is released hopefully on 1st of September and with equipment coming in, in the next couple of quarters we will be fully ready to launch 3G in all the towns we have planned to.

Ms. Reena Varma:

On this I have a related question. Mr. Seth also mentioned in his opening remarks that your vendors have already received equipment approval, please can you share with us who are your primary vendors?

Mr. Satish Seth:

You would have read in the newspapers today, our primary vendors are Chinese vendors. They have complied with the revised security clearance guidelines and have received the formal permission.

Ms. Reena Varma:

Thank you, Mr. Seth.

Mr. Satish Seth:

Thank you.

Mr. Punit Garg:

Reena, on your query on European Union recession and remark by Mr. Seth in the global business, what we are essentially talking about is that the recession is still going on in Europe. Most of the carriers and enterprises are delaying decisions for moving their outsourcing contract from one company to another company because the change management requires some cost to be incurred. And also the capacity purchase, which is a capital expenditure, is being postponed, which means that the current cycle of decision making which used to be around 3 to 4 months has become now 7 to 8 months, which has a temporary effect on 1 -2 quarters in terms of realizing those revenues. It is a temporary phenomenon which will be for a quarter or so. We believe that now we are getting into regular cycle and with the decisions which should not impact any more of finalizing the new contracts, because it is now part of the regular cycle.

Operator:

Thank you. Next in line we have a question from Mr. Rajiv Sharma from HSBC Securities. You may go ahead please.

Mr. Rajiv Sharma:

Yes thank you very much for the opportunity. I want to ask a couple of questions. First, we have been hearing this for a long time over conference calls and the results that you have been cutting down free minutes. Now, it seems to be a continuous phenomenon. If you can add some color here as to why every quarter you are cutting down free minutes. So, is this the last quarter of cutting down free minutes or we are going to see this more? Separately your network cost has come down. Can you explain this?

Mr. Syed Safawi:

Rajiv, I honestly do not recall in the last couple of quarters we have said that we have taken out free minutes. Taking out free minutes is the elaborate exercise where you re-price your full top up vouchers and many other reconventions are done. Those have been done in the last quarter and that is available in the market to see.

Mr. Mahesh Prasad:

Rajiv, just to add to that, as you may recall that Simply Reliance was launched in October and as per the regulation, you have to maintain certain tariffs for six months. Especially the ones with the one year validity and life time validity, we have to honor the commitments that we have made to the customers and then wean them slowly out of those plans and migrate them to new plans. So, it is not something that you can do it in one quarter, it has to be gradual. We started that process absolutely with Simply Reliance as the key tariff initiative and since then what we have been doing is systematically taking out what I call the free minutes and bulk of that has happened in the previous quarter

Mr. Arvind Narang:

Rajiv, on your question on network costs going down, network cost has decreased by around Rs. 217 crore or around 14% quarter on quarter basis. As a percentage of revenue also it has come down from 30% to approx. 26%, which is in line with the industry. The two main reasons of the network costs coming down are the decrease in the fuel cost as more DGs have been brought under the State Electricity Board and there has been a significant decrease in the network maintenance cost.

Mr. Rajiv Sharma:

Just a small followup question, earlier what has been seen is finance income but this time we have a finance charge. Also, we still see the cash balance remaining in the balance sheet at Rs. 4,735 crore versus Rs. 4,859 crore in 4QFY10. So just I was trying to understand was there any treasury income or any yields on the cash generated?

Mr. Arvind Narang:

No it is very-very minimal. The cash balance largely has remained the same with a reduction by around Rs. 100 crore.

Mr. Rajiv Sharma:

Okay, thank you.

Operator:

Thank you sir. Our next question comes from Mr. Sanjay Chawla from Anand Rathi Securities. You may go ahead please.

Mr. Sanjay Chawla:

Hi, good evening, thank you for the call. My first question is: have you provided for any higher spectrum fee from 1st April as per the DOT order in your wireless segment?

Mr. Arvind Narang:

Yes, Sanjay, we have provided for the higher spectrum fees as per the notification: which is 1% increase in the spectrum charges which is applicable to all the telecom operators.

Mr. Sanjay Chawla:

What has been the impact on your mobile wireless segment EBITDA margin as a result of that?

Mr. Arvind Narang:

It is not very significant. The impact is about Rs.25 to 30 crore, in total for both RCOM and Reliance Telecom.

Mr. Sanjay Chawla:

Okay, thanks for this. My second question is related to the global segment for Punit. The EBITDA is down this quarter again on quarter on quarter basis and in the previous quarter it was mentioned that there was Rs. 100-110 crore of one time operational cost. And that was not supposed to recur. So we were expecting EBITDA to rebound in this quarter, which has not happened. Can you just elaborate on that and point the reason why it has not happened?

Mr. Punit Garg:

Well there are two reasons: one is that the NLD traffic was down in this quarter because the contracts which we had done in the last quarter were not available and that obviously has an impact. Second, we incurred additional marketing costs because we had launched Reliance I-call and Global call in the global markets in the quarter. And we will continue with that for some time. We have seen a good success on that and that is the reason you have seen some margin pressure, but I think I would again call it is aberration, going forward we would see stability.

Mr. Sanjay Chawla:

So, you are saying that the result of these two factors actually more than negated the Rs. 100 crore change because NLD minutes are down only by like 800 million minutes and that should not account for more than I believe Rs. 25 to 30 crore of EBITDA in terms of the impact.

Mr. Punit Garg:

Yes, NLD EBITDA impact is around Rs. 33-34 crore but other is as I told you, is the marketing expense which we incurred in global markets.

Mr. Sanjay Chawla:

So you think that has gone up in this quarter on a quarter on quarter basis?

Mr. Punit Garg:

That is right.

Mr. Sanjay Chawla:

Okay. And on an overall basis if we look at the consolidated numbers, the SG&A costs have increased by 16% on quarter on quarter basis. Other than this marketing cost which was incurred in the global segment, what else has contributed to this overall increase in SG&A costs?

Mr. Arvind Narang:

Another important reason has been the participation in the T20 World Cup championship, which has significantly increased SG&A expenses as a one time cost, and of course there have been some additional brand promotion expenses on Big TV and other trade schemes in the market.

Mr. Satish Seth:

This is in respect of T20 expenses. The T20 payments generally come in bulk and in this quarter the payment was scheduled. Hence we have seen the increase in the SG&A costs this quarter.

Mr. Sanjay Chawla:

Okay, related question is: in the marketing cost you said there had been some brand promotion expenses incurred for DTH as well right?

Mr. Satish Seth:

Yes, right.

Mr. Sanjay Chawla:

If I look at your 'others' segment where I presume you report your DTH segment, the EBITDA loss has actually come down and the expenses are actual flat on quarter on quarter basis.

Mr. Satish Seth:

DTH business has been growing and our efforts have been to ensure that the overall EBITDA negative on the DTH business comes down on a going forward basis and the efforts towards that is yielding this kind of results.

Mr. Sanjay Chawla:

All right. Thank you very much.

Mr. Satish Seth:

Thank you.

Operator:

Thank you sir. Next question comes from Mr. Sachin Gupta from Nomura. You may go ahead please.

Mr. Sachin Gupta:

My questions have been answered, thanks.

Operator:

Thank you, sir. Next in line we have a follow on question from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Sir, thank you so much. This is actually a bit more on the financials. The entire spectrum fee which you have paid for 3G, where has it been accounted in your balance sheet, is it completely in the gross block because neither the change in gross block nor the CWIP gives that number? So, if you could just highlight that?

Mr. Arvind Narang:

The spectrum fee payment is already there in the CWIP. CWIP has gone up from Rs. 11,952 crore to 18,563 crore.

Mr. Satish Seth:

It has currently been included in CWIP.

Mr. Srinivas Rao:

Sir, the change is about Rs. 6,600 crore which I think is lower than what you have paid for 3G spectrum fees.

Mr. Arvind Narang:

Yes, the difference is around Rs. 6,600 crore, the balance is the CWIP converting into the gross block. So, if you look at the gross block, the gross block has actually gone up to the same proportion.

Mr. Srinivas Rao:

Fair enough sir, thank you very much. That is okay, sir.

Operator:

Thank you sir. Next in line we have a question from Mr. Amit Ahire from Ambit Capital. You may go ahead please.

Mr. Amit Ahire:

Yes, thanks for the opportunity. I have two questions. First one is, what tax rate one can assume for FY10-11? Second question is: what would be your EBITDA, if we account for demerger of the tower businesses which is going to happen once the deal with GTIL goes through?

Mr. Satish Seth:

You will appreciate that let us have the demerger deal closure and then only we will be able to disclose the numbers. And secondly on the tax rate, in my view you should take MAT for your purpose.

Mr. Amit Ahire:

Okay thanks.

Operator:

Thank you sir. Next in line we have a question from Mr. Vikash Mantri from ICICI Securities. You may go ahead, please.

Mr. Vikash Mantri:

Good evening sir. I have a question on the free minutes. We have seen the growth in MOUs over the last two quarters close to 6% whereas the industry has grown by 20% and you have said that in the last two quarters itself we have taken this initiative of removing the free minutes and we have achieved close to 50% in that. So, will it be fair to say that another 12 to 15 billion minutes is the free minutes lying in the network which we would like to correct going forward?

Mr. Syed Safawi:

Vikas, the way the industry works you would know that it will never be in a situation probably where there will be no free minutes. There will always be promotions happening in the market on full talk time and so on; so there will be an element of free minutes with any telecom player. It is how you play on quality of minutes. We have already said that we are clearly focused on quality of operations and quality of minutes driven by paid usage and that is going to be focus for us. It is never going to be a zero situation; there will always be a play in the market. We will be competitive marked to market wise and will ensure that we manage our RPM as well as minutes growth in a balanced manner so that it drives into our bottom line.

Mr. Vikash Mantri:

I agree with you sir, but we have been mentioning that we would like to grow our paid minutes similar to the industry level, which still means that there is some free minutes in the network which you are not comfortable with, so if you can quantify that?

Mr. Syed Safawi:

It will not be fair to quantify for competitive reasons, because then you are disclosing a lot of your competitive offering. At the same time you can notice that our RPMs are in line with the market. So, it gives us the leverage to take on any competitive strategy that we wish to in a segment manner, and I think that is the strength that you should look at that we have acquired over the last two quarters.

Mr. Satish Seth:

In addition to what Syed has said, I think one should not be saying that the free minutes are in-built into the overall minutes. As a matter of fact what you should look at is that the RPM is healthy and we are able to now grow the minutes and the overall revenues with this particular base. So you can only look upon a higher revenue traction coming from overall build up of the ARPU and the total traffic.

Mr. Vikash Mantri:

I appreciate this sir. Sir, another question on the DTH business, can you give us some numbers on our subscribers in that business and also what would be our share of net additions in the last one or two quarters?

Mr. Satish Seth:

When you start a new business, let it grow a little bit and at an appropriate time we will publish to you.

Mr. Vikash Mantri:

Okay. Sir, there is another question on the acquisition of the new business which is Digicable. If you can help us with some numbers and what are we paying going forward, we would be better able to value that business.

Mr. Satish Seth:

Once we consummate this transaction we will let you know and it will be accretive to RCOM shareholders.

Mr. Vikash Mantri:

Okay, sir. Thanks.

Mr. Satish Seth:

Thank you.

Operator:

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

Mr. Shobhit Khare:

Good evening and thanks for the opportunity. My question is if we exclude the lower free minutes then what could have been the RPM decline for us because reported RPM is up around 1% or what could have been the traffic growth if we had excluded these lower free minutes? And the second question is on the access costs, which is up around 8.4% on a quarter on quarter basis with flat revenue growth. So, is it driven by more off net or ILD minutes? Can you just add some color on that?

Mr. Syed Safawi:

Shobhit, I will give you two lenses to look at your question. One is that over the last two to three quarters we have bridged the gap in RPM versus the other industry players by 8 to 10 paise. Today all the industry players are in the same RPM band of 44 to 45 paise . I think you should recognize that the quality work is happening on driving paid usage and quality of minutes. Now look through the second lens, which is, going forward we are in a competitive situation where we can take on all competitive intensity marked to market and respond and grow minutes and paid minutes as the market grows. We can now better leverage this position that we have acquired through a lot of strategic intervention over the last two to three quarters. I think those are the two lenses you should look at rather than get into numbers and details.

Mr. Shobhit Khare:

Okay. So, would there be some pressure on RPM going ahead because now we do not have this kind of a question going forward?

Mr. Syed Safawi:

I think look at it from improving the quality of minutes that we are driving and now we driving better paid minutes of usage as a business, and that is what is now helping us in maintaining the EBIDTA. Also, if you see our wireless EBITDAs have been held actually, despite all this tariff cuts in the industry, while a lot of other players have seen a decline. So that is now creating a healthy business for us.

Mr. Satish Seth:

Let me add one more thing to you for better clarity. The gap between RCOM and the other incumbent operator was very large in the RPM. Having bridged that we have brought ourselves to the same level of platform which gives us an adequate and effective opportunity to compete in the market place with the same intensity and therefore continue to grow the business. So, it is a very positive development which gives us lot of confidence and comfort to continue to grow the overall business.

Mr. Shobhit Khare:

Sure sir. On access costs?

Mr. Arvind Narang:

Shobhit, if I understand your question on the access charge, it has gone up from Rs. 629 crore to Rs. 661 crore, which is Rs. 32 crore and 5% on quarter on quarter basis. This has basically gone up due to increase in the off net minutes on the network.

Mr. Shobhit Khare:

Okay, sir. Thanks a lot.

Operator:

Thank you sir. That was our final question. That does conclude our conference for today. Thank you for participating. You may all disconnect now.