



Communications

RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended June 30, 2014

Conducted at 6.30 pm IST on August 14, 2014

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. Vinod Sawhny, Mr. Gurdeep Singh, Mr. Punit Garg, Mr. Rory Cole, Mr. Deepak Khanna, Mr. Arvind Narang and Mr. Manikantan Iyer.

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. Vinod Sawhny. Thank you.

Vinod Sawhny:

Thanks, Mamta. Good evening and welcome to our first quarter 2015 earnings conference call. I have with me the senior management team of Reliance Communications. Thank you for joining us on the call.

Today, our Board of Directors adopted the results for the first quarter of the financial year 2014-15 ending June 30, 2014. 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.

I am delighted to share with you that RCOM has taken a giant leap towards its endeavor to deleverage its balance sheet. In June 2014, RCOM created history by raising Rs 6,100 crore or USD 1 billion in a transformational deal, involving qualified institutional placement (QIP) of Rs 4,800 crore, the largest in India, excluding banks. The promoters also invested Rs 1,300 crore through preferential allotment of warrants alongside QIP taking RCOM's total equity proceeds over Rs 6,100 crore. This shows the confidence of

the Investors in our company. All the proceeds from the QIP are being used to repay debt and reduced interest cost by over Rs 600 crores annually, which will accrue from 2Q FY'15. The net debt has reduced from Rs. 40,178 crores as of 4Q FY14 to Rs. 35,500 crore as on date. Our efforts will continue to further deleverage our balance sheet through various other measures such as securitization of the tower receivables, disposal of non-core assets and monetization of the real estates. We hope to bring down our debt to under Rs. 25,000 crores through these initiatives

Very recently, our subsidiary Global Cloud Xchange successfully debuted in the Global Capital Market by raising USD 350 Mn through fixed rate notes maturing in 2019, extending the maturity of debt from 1 year to 5 years. The notes were priced at 100% and with a coupon and yield of 7%. Of the proceeds USD 250 Mn will be used to refinance the existing bank loan facility and the rest of the proceeds will be used for Capex and general corporate expenses.

Let me now share our views on the sector.

1. “Digital India” is high priority agenda for the new government

In India, the new Central Government has clearly expressed its intention to steer in the next telecom revolution, so we do expect certain policies, which will ensure the healthy profitable growth for sector. One of the focus areas for the government is “Digital India” through Broadband connectivity at village level, improved access to services through IT enabled platforms, and greater transparency in Government processes. National Rural Internet & Technology Mission is being launched to provide internet services in villages & schools and also training in IT skills. e-Kranti aims to transform the e-governance in the country by enabling all government services for electronic delivery to citizens and other stakeholders.

2. Investors reposing their faith in Telecom Sector

The regulator has taken positive steps and provided clarity on progressive policies including, allotment of spectrum in future, spectrum pricing, Mergers & Acquisition guidelines and recently Spectrum Sharing & Trading guidelines. Industry is also

going through virtual consolidation and pricing power is coming back to the operators. The regulator has also confirmed and gone on record stating that tariffs may increase by 8-9% in a year. All these developments are helping investors in reposing their faith on the future of Indian Telecom Sector. This is also evident from the two recently concluded successful QIP programs in the sector including one from RCOM.

3. Voice still remains the bread and butter for the industry

During fiscal years 2011 and 2012, the Indian Wireless industry's revenue had double digit annualized growth rate of 12% and 16% respectively. In the financial years 2013 and 2014, the industry revenue growth tapered down to single digit at 9.1% and 9.5% respectively. This clearly demonstrates that the high growth phase which was fuelled by high voice usage has entered into a maturity phase. However, voice still remains the bread and butter for the industry and contributed over 75% of total revenues in fiscal year 2014. Moreover, despite growth falling to single digit for last two years, growth picked up in FY2014 and increased by 40 basis points. Currently, Industry has approximately 650 Mn. unique users after accounting for dual SIM holders. With VLR penetration of 86.9% and rural India penetration at 44%, the industry has the potential to add over 200 Mn new subscribers during the next 3-4 years.

4. Mobile broadband is going to be the next frontier of growth for the industry

Indian mobile broadband market in FY' 2015 will continue to have stronger growth compared to mobile broadband market in developed geographies. According to the research firm IDC, India's mobile broadband service is expected to reach USD 7 billion (~ Rs. 42,000 crore) by 2017 from USD 4 Billion in 2014 with a CAGR 19.3%. 3G subs will grow faster than any other mobile technology, at five-year CAGR of 68%. This is mainly due to more 3G services coverage across the country, especially beyond the big cities. IDC attributes the growth of data revenue to three key areas

i.e. smart-phones penetration with affordable prices, rollout of 3G and 4G licenses; and favorable consumer behavior towards 'Over-The-Top-Players' (OTTP) services.

5. The lines between telcos and IT companies are blurring

Many telcos across the world are moving beyond basic voice and data to offer services that were traditionally offered by IT companies, like Cloud services and Big Data Analytics. We believe this is not just experimental "border crossing" but signals a watershed moment for the Telecom Industry. Service providers that are able to make this shift successfully will see significant B2B growth.

I am happy to inform that RCOM has achieved a PAT of Rs 132 crores, a growth of 21.4% YoY, led by both India and Global Operations.

Let me first share the financial and operational performance of our India Operations:

- The first quarter India Operations' revenue stands at Rs. 4,718 crore as against Rs. 4,649 crore in 4Q FY14, a growth of 1.5% sequentially
- The EBIDTA for the quarter is Rs. 1,693 as against Rs. 1,659 crore last quarter, a sequential growth of 2.1%
- Voice revenue grew sequentially by 1.5% and stands at Rs. 3,429 crore
- Non-voice revenue grew sequentially by 4.7% and was Rs. 1,088 crore, driven by growth in data usage.
- RPM has increased to 43.8 paisa from 43.2 paisa in 4Q FY14, ARPU has moved up to Rs. 136 from Rs. 128 in 4Q FY14.
- Voice ARPU and RPM was Rs. 103 and 33.3 paisa respectively.
- Currently we serve 28.6 Million data customers. This quarter onwards, we have revised the definition of data customer to include only those who use at least 1 Mb of data in a month. Our 3G customer base has grown by 80.6% Y-o-Y basis to 13 Million.

- Total data usage on our network is 55,276 Million Megabytes, a growth of 78% Y-o-Y and data usage per sub is 666 MB, which remains the highest in the industry.

Let's look at some of the key developments in our India Operations:

During the quarter, we have pro-actively aligned our tower as well as sites portfolio for profitable growth and cost optimization. We have re-aligned low usage cell sites to achieve base station level profitability for improved business performance. For such geographies we are using the ICR arrangements for ramping up the subscriber base and usage on our partner networks. This re-alignment is done in our 1800 MHz circles. This has a temporary impact on active subs and usage for a short duration but eventually both show an upward trajectory. This will have a positive impact on the revenue growth and in optimizing Opex to further improve EBIDTA margin. Our data traffic and Reliance Telecom's 900 MHz circles have continued to be mark to market performance.

1. India wireless initiatives

a. Thrust on data through 3G, 2G and CDMA

RCOM's strategy is to play across both small screen and large screen devices through its balanced portfolio of spectrums in 800, 900, 1800 & 2100 MHz band with a mix of 3G, 2G and CDMA technology. We are continuously innovating in order to make wireless broadband services affordable through initiatives such as 3G speed @ 2G rates and smart-phone bundles. We are also aggressively driving High Speed Data (HSD) in the non-3G circles. All these initiatives will help us garner disproportionate share of smart-phones and tablets on our network.

b. Introduction of "One India, One Rate" plan

During the quarter, RCOM launched "One India, One Rate" plan, a first-of-its-kind free National Roaming offer. Under this innovative plan, there will be no difference between Local, STD and Roaming charges and customers will be charged only their Home Plan tariffs, even while roaming anywhere in India. We are committed to improving the quality of our customer mix, and the One India, One Rate Plan is

helping us attract customers in the high-value Corporate and SME roaming segments.

c. De-growth of CDMA voice revenue arrested

We have almost arrested de-growth of CDMA voice revenue through introduction of GSM + CDMA dual band smart-phones in the market, renewed focus through a dedicated CDMA team within the mobility business and up gradation of our EVDO network to Rev B in non-3G circles. We are very confident that CDMA will add to RCOM's growth on the back of improved universal chipset and the handset ecosystem.

2. Initiatives in India Enterprise and Carrier Segment

a. Leading performance in India Enterprise

Our India Enterprise business that serves large, medium and small Enterprises across the country, registered a healthy growth during the quarter. We added many marquee corporate clients such as HSBC, HDFC Bank, Rediff, Maruti Suzuki, WIPRO, AXIS Bank and a total of 121 new logos/customers were added demonstrating robust go-to-market practices.

The strategic focus was on moving up the B2B product value chain, going beyond the business of plain connectivity. In the last quarter, we have been aggressive in launching a slew of products in the B2B value added services space. Some of these are an extension of our existing services around Voice or Video conferencing, while some, like Cloud based Infrastructure as a Service (IaaS), Software as a Service (SaaS), Cloud Video Surveillance, Wirefree Business Internet, Intelligent Telephony Platform, and Big Data Analytics mark our foray into new territories. RCOM is aspiring to become leading Cloud services provider in India leveraging on its Data Center capacity. Besides building new revenue streams for RCOM, these services further monetize our network and help us move up the product value chain.

RCOM's strengths across CDMA, 2G, 3G, national & international fiber backbone and Data Center services, place us in a uniquely advantageous position to herald the B2B Industry transformation to an integrated ICT ecosystem.

b. Carrier Business Continues value accretive performance

- RCOM Signed an Intracity Fiber supply agreement with the second largest mobile operator of India. This agreement gives us a revenue potential of Rs 250 Cr.
- RCOM also signed a prestigious multiyear agreement to supply 100 Giga Bytes bandwidth in intracity and intercity space to a search engine giant, valued over Rs. 200 Cr.
- RCOM continues to have positive traction with foreign ILD operators to supply bandwidth.
- RCOM has entered into three agreements with Reliance Jio for sharing of passive infrastructure, which includes towers, inter-city OFC and intra-city OFC. RCOM will also have reciprocal access to passive infrastructure built by Reliance Jio on similar terms. These agreements will help RCOM in significant Capex & Opex saving and will be Revenue & EBIDTA accretive.

3. Regulatory upside:

RCOM has minimal regulatory cash outflow

RCOM has only 7 circles, in 900 MHz band, coming up for renewal in FY 2016. These are circles in the B and C category where the spectrum cost will be less. Most of the other circles will come up for renewal in FY 2021. Hence, RCOM will be least impacted by upcoming renewals and all incremental revenues will be EBIDTA accretive.

With these initiatives, RCOM India will strengthen its competitive position in the market place to further augment its financial performance.

Now, let me share developments in our Global Operations (GCX)

Our Global Operations delivered revenue of Rs 1,073 crores and EBITDA of Rs 170 crores in the first quarter. Owing to seasonality, large IRU revenues are booked in fourth quarter of a financial year, and if we exclude this, our performance in the first quarter has been positive.

During the quarter, we completed the operational merger of 3 key global assets: Flag, Vanco and Yipes into one company. During the quarter, we booked USD 37 Mn. in IRU for activation during FY15 and our sales orders increased by approximately 31% from the previous quarter as a result of restructuring the Sales organization for improved productivity.

We also announced plans to expand the GCX global network to strengthen our market position. This will be implemented through addition of ICX, which will provide transport from east of India to the rest of Asia, and PCX, from east of Asia to the west coast of the United States. The completion of these two systems will allow us to span the globe with our own subsea cable systems. This will further enable us to realize further economies of scale and savings in network costs. It will also enhance our ability to serve our customers on key routes impacting the fastest growing economies in the world.

GCX also established network interconnection with China Mobile in Shanghai to offer customers seamless and cost-effective MPLS VPN connectivity across 340 cities in mainland China. GCX increased its Capacity on IP/MPLS and Transmission networks on major routes in line with increase in demand especially in the high growth Middle East and Asia.

We expect GCX to maintain sustained growth in the succeeding quarters as we broaden our suite of existing products and services to align with new opportunities across our new Cloud platform.

To conclude, let me reiterate:

- Industry is expecting renewed thrust on telecom sector in the backdrop of new government's emphasis on "Digital India" initiative
- RCOM continues to drive wireless broadband services affordability on its 3G, 2G and CDMA networks
- RCOM continues to innovate through differentiated product and services to provide customer delight across segmented value propositions
- RCOM has minimal regulatory cash outflow and hence least impacted by upcoming renewals and all incremental revenues shall be EBIDTA accretive

Finally, I would like to re-emphasize that RCOM will continue to improve its market position across its India and Global Operations, across its consumer and enterprise segments and further bolster its Balance Sheet through various deleveraging initiative to deliver enhanced shareholders returns.

Thank you. And I would now like to hand you back for the question and answers.

Operator:

Sure sir. First in line we have Ms. Reena Verma from DSP Merrill Lynch. You may go ahead ma'am.

Reena Verma:

Yeah. Hi, good evening. Thank you for the call and congratulations on your successful equity issuance.

Vinod Sawhny:

Thank you.

Reena Verma:

I have a few questions, firstly, on your 900 MHz renewal. You mentioned in your opening remarks that this will be a low cost renewal. Please, can you clarify what gives this confidence, because as per TRAI's paper, I thought there was only one contiguous

block available in your circles which made it extremely risky, that you might see some of your larger competitors bid for the block. My second question is on your, One India Plan. It implies almost 10% dilution from your blended RPM where it stands today. How should we read this vis-à-vis Gurdeep's comments in earlier quarters that tariffs can only go up? And my final request is, if you could share with us any numbers on how the various contracts with Reliance Jio are contributing to your P&L as of 1Q. Thank you.

Vinod Sawhny:

Let me take the first question and then I'll give to my colleagues for the other questions. The seven Reliance Telecom circles would come up for renewal in 2015. Now, most of the RCOM circles will come up for renewal in 2021. We do not want to speculate on the cost of renewal of these licenses based on the February '14 auction. But the figures can be arrived once the DoT comes up with a Reserve pricing of the 900 MHz spectrum for these circles. What I'd like to mention is that the cost of renewal would be minimal because most of our circles which are coming up for renewal are in category B and C circles.

Reena Verma:

Sorry, may I just interject there and please clarify, so, is this expectation based on the fact that you expect to administratively extend the holding of this spectrum or is it because you are not expecting anybody else to be interested in 900MHz if it is priced low. Why is there no risk to your business, can't somebody else take that spectrum if it is priced low?

Gurdeep Singh:

Reena Gurdeep here.

Reena just to answer this question and strangely this has also been raised in the media, let me just reiterate the following facts.

So I'll just refer to your questions. In these circles we have the following spectrum. We have 900 MHz, we have 800 MHz and we have the 3G spectrum. So first of all, we have

variety of spectrum to see and meet the consumer interest and the requirement as we go forward. Second, like any other telco, and a responsible telco, our endeavor will be to continue to provide a robust and a superior experience, including the new generation of technology experience to our customers.

Why do we say that the cost will be minimal because, they are B and C category circles, which has, if you look at from the last auction, a lower reserve price in relation to Metro A and B. So it's a relative answer to the question that you asked. Having said that, comparative bidding intensity can only be decided once the complete NIA is out, availability of the entire spectrum is known and that throws open opportunity for us to look at various bands and opportunities, to optimize our spectrum portfolio.

So I would say that we will continue to be at the front foot to keep our consumers interest in mind and continue to provide them excellent services that they've enjoyed so far. Now coming to your second question on One India One Roaming plan.

If you look at it historically, we have done three things. We did 3G@2G with the purpose that we wanted to democratize the use of new technologies for any customer who was upgrading handset. And it started with the belief that half the people don't even use 3G despite owning a 3G handset. That could open up a fresh set of a market for us, particularly the upgraders market; one. That was the first one that we launched. And second, we came with a unique contract plan, which we started with Apple and then extended it to HTC and Nokia and we continue to expand that catalogue.

Third in the series is now a One India One Roaming Plan. If you look at it, being a young GSM player we entered into the Metro A and B. We have been in C circles for long. We certainly have a revenue mix and a customer mix, which is not like the other top telcos. It's our endeavor to correct that consumer mix not only for revenue enhancement but also for profitability enhancement and we will continue to pick consumer segments that we believe are least likely to be retaliated by the competition.

So this is targeted at roamers, this is targeted at improving a portfolio of roamers and it's targeted at enhancing the consumer segment of a particular ARPU, which is relatively at a lower weightage with us versus competition.

Reena Verma:

Gurdeep that is, very, very interesting, but may I just ask, by having this target segment at a price which is lower than your own blended Voice RPM, how will you know, it's not about the competition retaliating, my worry is just whether you will hurt your own self.

Gurdeep Singh:

We did that calculations before we announced the plan and it was very clearly seen as a value plus plan for us. We did see marginal number of our customers moving down to this plan, but the whole idea was not as an absolute value per customer. It was issue of penetration. So now our penetration levels have increased dramatically. We also dug into a larger pool of those ARPU segment customers between us and the industry, and it's completely and clearly aimed at churn and plan.

Reena Verma:

Okay, sure. And my final question was on the contribution from the Reliance Jio to the P&L.

Gurdeep Singh:

So just to answer, the first one being the intercity fiber, you know that has already been done, accrued and been reflected in our balance sheet. The second is on tower delivery. As we have said that we continue to deliver towers to them, making ready for their electronic deployment in the future. And starting March, we did have some tower proceeds come into our quarterly results and they continue to come this quarter. And due to confidentiality reasons, because exact number and status would lead to kind of opening up the launch dates for the Jio and pre-telling the market hence, we will not be able to share the exact details. But having said that, we continue to deliver towers and I

think over the next few months we should be able to come closer to the entire hand over.

And third is the intra-city fiber deal, which is a master service agreement. So as they will proceed towards their deployment and launch of the cities depending on the market and the areas that they take up, they will continue to take the intra-city fiber from us.

Reena Verma:

I'm sorry to persist. I'm going to take just a minute more on Reliance Jio. Last time you had told us that 50% of your towers have been delivered. Is it possible that you update that number for us? And on the intra-city fiber, can you confirm whether any deliveries have started?

Arvind Narang:

Under the confidentiality clause, it is unfair that we disclose anything about their competitive positioning in the market. The number has gone up for sure, but to give a specific number due to confidentiality, we are barred by sharing any specific information.

Reena Verma:

Yes.

Punit Garg:

On the intra-city fiber, we have started delivery to them, beginning this quarter which is under acceptance, and the moment they accept, the billing and payment will start.

Reena Verma:

Thank you very, very much all of you and wish you all the best.

Punit Garg:

Thank you Reena.

Operator:

Thank you. Next in the line we have Mr. Aryn Pirani from Deutsche Bank. You may go ahead, Sir.

Aryn Pirani:

Yes, hi, thanks for taking my question. Sir my first question is on the minutes growth. So obviously you have been mentioning for the last few quarters that you're trying to cull out the free minutes and free users on the network, but just wanted to get a sense as to when can we see the gap between the industry minutes growth and your minutes growth narrow, when can we see positive minutes growth coming from your end?

Gurdeep Singh:

Thanks for your question. If you look at it this quarter we have a 0.8% growth in the minutes, quarter-on-quarter, which was 0.4% in the previous quarter. Relative to our own performance it's getting better. Also look into the fact that, 70% of our traffic growth comes from GSM and the balance 30% from CDMA voice. And the voice was on a decline till the early part of the quarter, it started stabilizing only from May. And as we said earlier, we're happy to state that we have nearly stopped bleeding on CDMA voice. And going forward it's only going to get better. Yes, the process of culling out subscribers who are not accruing revenues or the minutes on the network is a continuous one, but the major part of that has already been done and we will continue to do that as we go forward because, we need to retain customers whom we can continue to deliver good services above the cost to serve. Traditionally, this is a lean season quarter, but I'm sure, if you put as a relative to industry then maybe, starting this quarter, you should be able to see a positive and a buoyancy in the minutes growth as we go forward.

Aryn Pirani:

Fair enough, thanks Sir. On your non-voice revenues, I know that you don't provide the breakup between data and the non-data, but is it possible to give some color as to how

it is progressing because as of now your non-voice revenue seems to be growing almost in-line with your voice revenue. So can we see that changing over the next few quarters?

Gurdeep Singh:

If you look at our non-voice revenue, the growth is about 4.7% quarter-on-quarter, significantly ahead of the voice growth. And there has been a certain VAS revenue realignment because of the OTT players, which is shifting partially to the data. And our data contribution out of the overall non-voice revenue is very significant and is way above the industry because of the quality of data customers that we have, thanks to our 3G and CDMA dual data platform that we have including near leadership in our dongle business. So, going forward the data will continue to grow, we are very bullish about it, because we are measuring the success through our percentage of smartphones and the new tablet coming on our network, which is significantly higher than our base share of the consumers. And one of the proof-of-the-pudding is that in our 13 3G circles we continue to be relatively MNP positive by value, which continues to show that our data strategy and some of the plans that I said, 3G is equal to 2G, contract plans, and the India One roaming plans are working, which is helping us set the revenue mix table and getting more data oriented customers on the network.

Vinod Sawhny:

Amy, I'm glad you asked this question because this also gives us an opportunity to share with you, like what Gurdeep just mentioned to you about the data growth that we are seeing in our consumer business. It also give us an opportunity to share with you what the huge data growth that we are seeing in our enterprise business, and I'm going to request our enterprise leader Deepak to share the details with you.

Deepak Khanna:

Yes, sure. Thanks Gurdeep, thanks Vinod. So I think clearly the Enterprise business is a data hungry business, the first quarter has been very healthy, I think they are really extending our leadership position in this space. During this quarter very large marquee

customers came on board and bought significant amount of data from us. Customers like HDFC Bank, HSBC, Wipro, Axis, etc. And Vinod also mentioned close to 120, 130 new logos which came on board. So these are really all data customers. They both continue to add significant value in the data stream.

Amyr Pirani:

Fair enough, thank you. And Sir just lastly on your Global operations, I understand that this is not a segment where we can look at sequential numbers. But even on a YoY basis the growth seems to have slipped into negative territories for the last two, three quarters. I don't know but directionally can you give a sense as to on a full year on year basis what kind of growth can we expect maybe this year and next year very broadly.

Punit Garg:

I think you're talking about the global data revenue drop, which in this quarter has dropped around Rs. 230 crore vis-à-vis Q4, which is because of Rs. 240 crore of IRU revenue in Q4. Although in Q1 we have sold new IRU contract of Rs. 225 crore i.e. worth USD 37 million which Vinod mentioned in his opening comments. These would be activated in the following quarters.

Under Indian GAAP, the revenue of IRU is recognized upon activation. We expect to catch up the IRU revenue during this fiscal. In addition, we have implemented new sales compensation policy in Q1 to compensate the sales staff on incremental revenue growth by selling international private leased circuits and IP services. This new structure will yield sustained increase in revenue over the coming quarters and instead of seeing a lumpy quarter you would see going forward sequentially a growth in every quarter.

Amyr Pirani:

Fair enough, thanks a lot for taking my question.

Vinod Sawhny:

Thank you Amyr.

Operator:

Thank you, Sir. Next in the line we have Mr. Saurav Anand from Standard Chartered. You may go ahead, sir.

Saurav Anand:

Hello Sir, thanks for the opportunity, just wanted to know about your thoughts on the data realization trends, and also on the voice realization trends. Voice realization I am asking because we have taken several hikes last year, but in September we had this realization that was around 33.4 paisa, which is totally flat in this quarter. And also just wanted to know what the current cost of debt is and what should be the run rate in terms of financial expenses for the remaining year. And lastly, a bit of update on the intra-circle roaming agreements, which you had, what's the update?

Gurdeep Singh:

Okay. Thanks for the question. First one on the hardening of tariffs and its impact on RPM both for voice and data, I've stated earlier and I continue to maintain that the tariffs will only move northward be it voice or be it data. There is no room for us to adjust inflation as the cost of input materials continues to rise. As you're aware recently even TRAI Chairman was on the media saying that consumers should look forward to at least 8% to 9% tariff rise in a fiscal year or in a year. I'm saying that tariff changes, when you implement them, are cyclical in nature. There are consumers who are casual users, they don't buy packs. There are consumers who buy packs and they are under certain validity. As per TRAI it is mandatory to keep a customer in a tariff plan for six months.

So whenever you implement a tariff change you will have to go through a process of six months to bring all your customers under that tariff change. So once you complete that exercise then you find no shift in the rates for minutes till you take the next level of the tariff change. So please view the tariff changes in light of what I stated as inclusion of customers month-on-month as their validities keep expiring you keep on meeting the mandatory TRAI guidelines and then you start migrating them to the new tariff plan. So you will always feel that change over a period of time.

Secondly having said that, we see in the coming quarters the tariff continue to harden because of our taking out the freebies and the free minutes from the network and also going to upgrade certain consumers which are below cost to serve by changing and modulating the tariffs especially in the pack penetration and the pack prices. I said last time, that our endeavor is to bridge the gap between the headline tariff and the pack tariff. Today they are at about 20% to 25% of discount as the pack prices because consumers gives an upfront ARPU, but going forward we would love to bridge the gap to be below 15%, and that's the direction we are heading.

Second question on the ICR, we have several types of ICR arrangements. We had said earlier that as a company we are following a Capex light business approach, under which we will first make good use of any available capacity in the market, test the ground and the waters on the market, build the revenues ahead of Capex investments and hence deliver superior returns on your investment once you to decide to put an investment in the market. In that aspect much of our 2G expansion as it is taking place its coming on the ICR as industry has spare capacity, especially in the tier 2 and tier 3 towns.

We have over 12,000 to 13,000 base stations today which are under ICR arrangement. Secondly, we further extended the ICR arrangement to 3G backed by the TDSAT judgment. We have also entered into an alliance with other partners and today we are in 18 circles out of 22 on the 3G footprint. Going forward we wish to complete within this quarter the national footprint. I hope that answers your question.

Saurav Anand:

How you are seeing the trends in the data tariff realization, is there any pressure out there or you are seeing flat or increasing trend; how is the trend in the data?

Gurdeep Singh:

We are at a stage where our penetration is way below what it should be. There are only 10% consumers that use 3G, there is only 1/4th population on mobile phones that use any internet and I think in basic internet penetration, there is more to come than what we saw today. So I think our endeavor will currently continue to bring more adoption

and penetration and hence I don't see any hardening of the tariff dramatically as compared to that of voice. But yes we should carefully be looking and watching how are we penetrating, how are we bringing more customers, knowing that smartphone prices are falling every month. So I think over a period of time our endeavor is to make good use of our capacity, increase the capacity utilization, continue to democratize the internet. We are very glad that all our customers in our 3G circles use 3G as a default internet platform. I think that will be our endeavor.

Saurav Anand:

And lastly on the cost of debt currently?

Arvind Narang:

The cost of net is around 7.4%. It has come down in this quarter, as last time there was one time cost related to security creation which got normalized in this quarter. And going forward in any case our net debt is going to come down. We should be having an interest saving close to Rs. 600 crore annually starting from Q2 and that obviously gives more flexibility of cash flows in the company.

Saurav Anand:

Okay. Thanks a lot.

Operator:

Thank you Sir. Next in line we have Mr. Rajiv Sharma from HSBC. You may go ahead.

Rajiv Sharma:

Yes, hi, thanks for the opportunity. Just a few questions. First if you then help me with your Capex guidance for this year excluding spectrum auctions and how you want to allocate this Capex guidance?. And second, if you can provide some color on your real estate monetization. I understand that you'll not be comfortable sharing details, but some color as to how over the next two, three years and what's the time plan for deleveraging your balance sheet with the real estate. Third, you mentioned about some optimization of towers, so are these USOF towers, CDMA towers and what is the

average revenue per tower for these towers? How much in net will be shut down? So some color there will be very helpful. That's it from my side.

Gurdeep Singh:

Rajiv, Gurdeep here. Capex guidance we will continue to maintain what we had given last time in the range of Rs. 1,500 to Rs. 2,000 crore. But you will have to view the Capex in-line with what I just said as a Capex light strategy where part of the expansion will be ICR and a part of our reciprocal arrangement with Reliance Jio. So any future expansion that RCOM will do on the wireless side will be tower and fiber being availed from Jio as a reciprocal arrangement or if we see any other more economical or viable model to expand in those markets such being the ICR as a case.

In times to come you will continue to see a lower Capex to sales ratio. But in fact the effective deployment on the ground is much of the multiples of what we are investing. So that is the first point. Second, how is this Capex allocated? Certainly Capex goes for capacity upgrade, enhancement of quality and expansion of the 3G footprint in the future.

Second question on how we have done the realignment of the markets and the towers etc. Well, particularly in the 1,800 MHz circle where our market shares are below 5%, 6% or 7%, we brought in this concept of BTS based profitability and we clearly looked at the size, which do not impact the community but are the size that are delivering revenues, there we have a difficulty matching up to the network cost. There are areas which need capacity augmentation, there are areas where there is more data opportunity, so it is a realignment of the network within the same circle moving the BTS' from low profitability and high cost to high revenue and high profitability areas. So you will have to view the alignment in that context.

Rajiv Sharma:

Gurdeep can we have some number there in terms of net how many you plan to shutdown, and what will be the number if you have; just give it a net number that's also sufficient.

Gurdeep Singh:

Let me maintain this with you there is no shutdown, we have moved to ICR in an area and taken the BTS and moved to a profitable area. Therefore we temporarily have a blip, and a small hick-up, and a consumer experience issue, but there is no geography that we would have left forever. That's for clear.

Rajiv Sharma:

Are these towers the revenue per tower on an average on this portfolio of towers, which you plan to realign? Is it less than the cost incurred net that is opex of energy and diesel.

Gurdeep Singh:

That's exactly what I said Rajiv. Let me clarify, this is not a site movement, this is a BTS movement by technology whether GSM or a CDMA and taking them to a profitable area, and yes, they were not able to or were barely able to meet the network cost, and hence we had an impact on the EBITDA, right or the betterment of the EBITDA. On the other side we had an opportunity to pick them to areas which are highly profitable and had the opportunity for us to deliver better margin. So, it is a high value, high margin quadrant versus low value and a low margin quadrant shift.

Secondly, coming to the deleveraging issue which was already explained in the opening address that, it's about Rs. 35,500 crore which in annualized terms means about Rs. 600 crore of interest savings. As we've stated earlier and as is evident on the road show document, which is on the website we have clearly three blocks to focus to deleverage our balance sheet. 1) QIP we've done it, we've demonstrated it, it's been a drag on us for very long and as we have taken our front foot forward, and as we've said in the opening that, we have taken a giant leap forward.

Second, Globalcom is an asset, where we are currently engaged in the strategic discussion and we hope to conclude that transaction in next few months.

Third, particularly on the real estate, that's an asset we are very closely looking at monetizing and currently on our top priority list is the DAKC property, which is a 135 acre campus, and, our marquee property in Delhi, which is the Reliance Center. Both of these put together today, valued by private valuers, is over Rs. 5,000 crore.

The third, as I mentioned last time as our tower deliveries are in progress, and once we complete that tower handover to Reliance Jio we will take the proceeds of the annuity income of the rentals of the 15 year USD 2 billion transaction to our bankers, securitize it, and reduce the overall debt.

Rajiv Sharma:

Yeah, okay.

Gurdeep Singh:

Does it answer your question.

Rajiv Sharma:

Yeah, that's very good. Thanks so very much.

Operator:

Thank you sir. Next in the line we have Mr. Piyush Choudhary from CIMB. You may go ahead, please.

Piyush Choudhary:

Yeah, thanks for opportunity. Just a few questions, because most of them have been answered. Just on the cost line item, the SG&A expenses have been coming down, it's down now 14% year-on-year, so if you can help us understand, what's driving this cost efficiency over here? And is this number sustainable? Is there more discretionary item over here, which you may bounce back again?

Gurdeep Singh:

Hi, Piyush, Gurdeep here, thanks for your question. Piyush if you recollect at the last earnings call, I have also mentioned that our emphasis is to do quality acquisitions and quality sales. We have done certain realignment to our margins on acquisitions and linked it to the retention and customer being on the network for a certain period of time.

Second, we have realigned our retailer portfolio between high quality, high retention retailers, to a low quality, low retention retailers, we've undertaken massive education-cum-training program both for employees and for the retailers, to bring about a better awareness on delivering a quality acquisition, what does it take to do, and for a employee what does it take to get a quality customer. So, I think this is an optimization of the spending and this is now a way of life, and we should continue to see the SG&A expenses is now far more productive then what they were earlier. To say that, will they keep coming down quarter-on-quarter from here forward, the answer is No. I think we've done that optimization already and you're seeing the impact and benefit of it in the current quarterly results.

Piyush Choudhary:

Okay, okay. This is helpful. Thanks a lot and all the best.

Operator:

Thank you, sir. Next in line we have Mr. Kunal Vora from BNP Paribas. You may go ahead.

Kunal Vora:

Yeah, thanks for the opportunity, Sir. I have just two questions; first is, can you share your thoughts on the recent spectrum sharing guidelines, do you see it as an opportunity or it is too early to comment. Second is on the DTH business, can you provide an update on how the business is growing and what are the plans? Thank you.

Vinod Sawhny:

Yes, first of all thanks a lot for the question.

TRAI has accepted industry's suggestion that TSPs holding administratively allocated spectrum may share their spectrum with their counterparts without paying any additional charge for liberalization. This will allow such operators to benefit from additional spectrum for offering their current tranche of services without bearing an additional financial burden.

Industry has suggested that MVNO concept should be introduced in the Indian Telecom. MVNO contributes towards the increase in efficiency of spectrum utilization by contracting bulk purchase of a Mobile Operators access. Given the current maturity levels and dynamics of Indian market and its revenue share, spectrum utilization efficiencies and the general financial health of the telecom sector, introduction of MVNO, with a strong retail chain, shall enhance the competition while 'contributing to the efficient use of existing telecommunication infrastructure'.

On the DTH business as you probably know that we continue to add subscribers and we continue to add value to the business. It's a cash positive business for us and we will look at opportunities at any time, whichever is the right time to wherever we need to look at some structured realignment of that business. We will be seeking the right partnerships, but it's a profitable business for us and we have good number of customers on board.

Kunal Vora:

Did you mention it's profitable, because it's not profitable even for the industry leaders so is the DTH profitable really?

Gurdeep Singh:

Yes, DTH is a cash positive business, and as you are aware that transition from cable to DTH there has been a lot more opportunities in the market in the previous, but in the recent past. Our clear focus in the DTH business is to do quality business, to focus more on the retention of customers as all of you know that DTH is a subsidy led business, so

you got to be very prudent in making investment in that business and I am going to share that we continue to preserve value in our DTH business, while being a cash positive and we'll continue to do so.

Kunal Vora:

Okay, great. Thank you, sir.

Operator:

Thank you, sir. Next in line we have Amruta Pabalkar from Morgan Stanley. You may go ahead.

Amruta Pabalkar:

Thanks for the opportunity. I have two questions, one on EBITDA margin; at India level and global level we have seen them edging up, how do you see them to shape up by the year end? And secondly, when you said that the deduction in the interest cost to Rs. 600 crore in annual impact, do you mean that, this is on account of the debt reduction, which has already happened or would you consider the future debt reductions, which you aim to bring down to Rs. 25000 crore by the year end?

Gurdeep Singh:

Thank for your question. Let me take up the first one on the EBITA margin. As you would have noticed from our last couple of quarterly calls that we have made several attempts to structurally shift the gears of the business by realigning our cost, by network outsourcing, manpower rationalization, be it deleveraging of the organization, be it outsourcing our BPO business and be it making our cost more central to productivity in any and every year, starting with the cost of acquisition. Secondly, there is a continuous rate hardening which we see continuing in the future. Thirdly, the data contribution is on the rise to the overall business and all of these actions are EBITDA and margin accretive. As we go forward we are very confident about delivering superior EBITDA quarter-on-quarter.

Second on the debt question, I will ask Arvind to tell this to you.

Arvind Narang:

In the last quarter we had the interest charges of Rs. 907 crore which has come down to Rs. 768 crore. This is because of one time charge which was there in the previous quarter of security creation on the debt lead by State Bank of India consortium. Normalizing that the interest cost has gone down to Rs. 768 crore which is based on the current debt number, and is around 7.4% of debt.

However the debt reduction which is going to happen, which is being done post QIP , will reduce the interest cost further as we move forward in Q2. It is going to be in the range of around Rs. 150 crore or close to that for the quarter and Rs. 600 crore a year.

Gurdeep Singh:

Well does that answer to your question?

Amruta Pabalkar:

Yes Sir, thank you very much. I just have one follow-up question about the margins that you mentioned that, data being accretive to the margins, would you have any specific number to say or any ball park figure to mention as to how, and at what margin incrementally data is contributing to?

Gurdeep Singh:

Well, I will not be able to share the exact details but all I can say is that data does not have any interconnect cost quite like Voice hence, they deliver superior margin. Based on our interest to get more smart phones and tablet on the network we want to make our customers more internet savvy and help improve our EBIDTA margin.

Amruta Pabalkar:

Sure, thank you very much sir.

Operator:

Thank you madam. Next in line we have follow-up question from Ms. Reena Verma from DSP Merrill Lynch you can go ahead.

Reena Verma:

Yeah, hi, thank you for allowing me to come back in to the call. I just have two questions. One is on your Global business, and I may have missed the commentary around margin, is 15% or there about the new normal because we seen your revenue numbers normalized back to what it was two three quarters ago but your margins are still low in line with 4Q. And my second question is on your mobile data revenues or India data revenues as you report them, the growth is completely missing, what's the reason vis-a-via your peers, your data pie is not growing at all, is there some explanation for it? Thank you.

Punit Garg:

Reena, on the global part, I just want to say that though our revenues have dropped in Q1 vis-a-via Q4 by Rs. 240 crore and as I said that we signed new contract in Q1 of Rs. 225 crore which is worth USD 37 million, these would be activated in the following quarter. As you know in the Indian GAAP the IRU revenue is recognized upon activation and we will catch up with the IRU revenue in the fiscal but what we have made a difference at the beginning of this year is, as we have implemented a new sales compensation policy for our sales staff and as a whole organization, the sales staff is getting compensated on incremental revenue by selling some of the recurring products which is ICLC, IP services, etc and this new structure will certainly yield the sustained increase in revenue over the coming quarter.

Also you would have noticed in the KPI that the voice has grown overall 13% in revenue and with a higher margin, in the quarter one we had better realization of rate, by that the contribution to EBITDA has been much higher and that is why you see correspondingly the EBITDA has not gone down but the second thing is, what you are not seeing is because the IRU revenues were not there so the depreciation what we deduct as part of the IRU has also not been deducted and that is why you see the enhancement in EBIT in the first quarter in the global business which I am sure is a welcoming step.

Reena Verma:

I just wanted to check with Punit, thank you very much for that commentary but, you were running at roughly 21.5% to 22% margin in quarters other than 4Q of last year, so is the 15%, 16% number that we have seen for the last two quarters, that's 1Q and the previous quarter, the new normal? My question is on margin it's not so much on top line.

Punit Garg:

I think it would go up and you would see a growth in the following quarters for sure. The IRU revenue was not there and that is why overall there is depression because the data revenue which is 23.9% lower this particular quarter is actually depressing it but, as it goes up you would see that margin will go back where we were.

Reena Verma:

Okay thank you.

Gurdeep Singh:

Reena to answer your second question on data let me handle it in two parts. First is, what clearly is a measurable item is how are you doing on the non-voice revenue to the overall revenue. So, if you look at our non-voice revenue it is now 24.1% versus 23.5% on the previous quarter.

That means increasingly you are getting customers who are delivering you disproportionate non-voice revenue than the base customer that delivers, that's the first one. Second, Y-o-Y our total traffic on the network is up by 78% and quarter-on-quarter it is up by 10%. Thirdly, we continue to get customers on of 3G@2G tariff plan because we believe as a strategy of penetration it is working for us. So there could be a certain minor adjustment to the revenue growth in data quarter-on-quarter as the ARPU of that customer is to a certain extent lower than that of the competition because they have 3G@2G price but we have to see it more in line with the penetration part.

Reena Verma:

Okay that's very useful. Thank you very much.

Gurdeep Singh:

Thanks Reena.

Operator:

At this time there are no further questions from the participants. I hand over the call back to Mr. Vinod Sawhny for final remarks, over to you Sir.

Vinod Sawhny:

Well ladies and gentlemen I think thank you very much for taking time off to be here at the call today. I will only say that we in RCOM are continuously boosted by all the efforts that we are putting in and with your continued support we are sure that we will continue to build a more robust and more profitable RCOM. And I would also like to take this opportunity to wish all of you Happy Independence. Thank you very much.

Operator:

Thank you, sir. That does conclude our conference for today. Thanks for participating on Reliance audio conference event. You may all disconnect now.