



RELIANCE COMMUNICATIONS LIMITED

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Registered office: H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai - 400710

Transcript of Earnings Conference Call for the Quarter ended June 30, 2015

Conducted at 2.30 pm IST on August 17, 2015

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 (RCom) namely Mr. Vinod Sawhny (CEO – Reliance Communications), Mr. Gurdeep Singh (CEO – Consumer business), Mr. Bill Barney (CEO – GCX, India Enterprise and Carrier Business), Mr. Deepak Khanna (CEO – India Enterprise), Mr. Punit Garg (President – Corporate Strategy and Regulatory Affairs), Mr. Manikantan Iyer (CFO – Reliance Communications), Mr. Rory Cole (CFO – GCX) and Mr. Anil Ladha (Head – Investor Relations).

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 Afternoon and welcome to our first quarter 2016 earnings conference call. I have with me the senior management team of Reliance Communications. On behalf of us all, Thank you for joining the call.

On 14 August, 2015, our Board of Directors adopted the results for the first quarter of the financial year 2015-16 ending June 30, 2015. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I trust you have had a chance to go through the same.

To begin with, let me take you through the key financial & operational highlights for the quarter:

- **PAT:** Profit After Tax for the quarter stands at Rs. 177 Cr, a very healthy Y-o-Y increase of 34%.
- **Revenue & EBITDA:** Overall, Q1 revenues are at Rs. 5,541 Cr, an increase of 0.3% YoY. Q1 EBITDA is at Rs. 1,875 Cr, a YoY increase of 0.7%. India operations revenues are 4,791 Cr, an increase of 1.5% YoY with Indian telecom operations revenues up by 3.4% Y-o-Y. Global operations revenues are 1,117 Cr, an increase of 4.1% YoY.
- **EBITDA margin:** In Q1, we improved our EBITDA margin to 33.8%, an increase of 10 bps on a Y-o-Y basis.
- **Free Cash Flow:** RCom generated operational cash flow (EBITDA) of Rs. 1,875 Cr in Q1, paid net finance charges of Rs. 704 Cr and invested Rs. 580 Cr on capex during the quarter.
- **RPM & ARPU:** In Q1, overall RPM has increased to 44.5 paisa; a YoY growth of 1.6%. ARPU for the quarter is Rs. 140 up by 2.9 % YoY. We have improved RPM with tariff hikes, strong focus on paid & profitable minutes, and increase in data usage.
- **Data Subs & Traffic:** Total data traffic was 92.8 Billion MB in Q1, up 68% Y-o-Y. Our data growth has been robust – overall data customer base has grown by 24% YoY to 35.4 million.

These numbers flow from our sustained initiatives around consumer data business expansion, innovation in next generation enterprise services, and our focus on profitable operations.

Before we move on to industry and business highlights, I would want to take this opportunity to brief you about the ongoing process for a stake sale in our tower infrastructure business.

The formal process for sale of a controlling 51% stake in Reliance Infratel was launched a few weeks back, and has got a very positive response.

We received indicative non-binding bids from a number of interested buyers, and have short-listed a smaller number of very credible interested parties to progress to the next round of the process. Some of the short-listed bidders have expressed interest to acquire upto 100% of RCOM's stake in Infratel.

The due diligence process has now commenced. Further announcements will be made, as and when appropriate. The sale proceeds from the proposed transaction are expected to substantially reduce RCOM's overall gross debt during the current financial year.

I would now want to share our viewpoints on key regulatory & industry developments in this quarter.

Spectrum sharing & trading

The regulator gave its recommendations on guidelines for spectrum trading on Jan 28, 2014 and spectrum sharing on July 21, 2014. Spectrum trading and sharing would help operators augment their spectrum holdings without participating in spectrum auctions. The enhanced spectrum availability will positively impact service quality, especially in the context of 3G and 4G services wherein users would benefit from enhanced experience resulting from higher speeds for data. The cabinet has approved the spectrum sharing guidelines on Aug 12, 2015 and the guidelines on spectrum trading are expected to be released in the second half of Aug 2015. **From a financial standpoint, it will enable operators to monetize unutilized spectrum in their portfolios which is a big plus for the overall industry.** RCOM is exploring opportunities to optimize the value of its spectrum holdings through the spectrum trading & sharing route.

Recommendations for faster penetration of Broadband

In Apr 2015, TRAI gave its recommendations on the key requirements to quicken the delivery of Broadband services. The regulator has given its recommendations encompassing an array of issues like (a) revamping of institutions (Conversion of WPC into an independent body), (b) infrastructure projects and their

management (NOFN to be implemented as EPC contracts to private parties), (c) policy promulgation and implementation (easier and faster ROW and tower installation clearances, need for enhanced availability of spectrum, LF exemption on fixed line broadband revenues, permitting Cable TV operators to be resellers of ISPs, separation of licensor, regulator and operator functions of satellite communications, content hosting in India and measures for central and state governments to proliferate their e-services). **The early approval and implementation of these recommendations shall bear positive tidings for operator revenues.**

I will now spend some time on our consumer business story led by growth in data against the backdrop of the data revolution in the country.

India is in the midst of an unprecedented data driven surge which is leading the resurgence of the overall telecommunications industry. The past few quarters have seen internet adoption gallop at a scorching pace. Mobile internet connections are projected to grow to over 270 Mn by the end of this year; almost doubling in a mere 2 years and this is still early days. Indian internet penetration is comparable to that of China in 2009 and the US in 1997. Therefore, India has the potential to conservatively double internet users in the next 3-4 years driven by device pricing and affordability, network availability & explosive growth of the new economy.

Smartphone shipments have grown to 26.5Mn in Q1FY16 accounting for 45% of overall shipments compared to 37% in the last quarter. By some estimates, India will overtake the US to become the 2nd largest smartphone market in the world in the next 2 years. Over 50% of all smartphones shipped were in the sub \$100 price bracket underscoring the affordability impetus to data growth.

The growth of mobile enabled services like M-commerce in India are bolstering the adoption of mobile led data with over 41% of total E-commerce sales attributable to mobile. Mobile constitutes over 65% of the total Indian internet traffic already and this is only expected to zoom further with High Speed Mobile

Broadband all poised to gain significant commercial traction in the coming quarters.

And all this is great news for the telecom industry. With a major chunk of incremental industry revenues stemming from data, operators stand to gain in terms of both improved growth and margins. And this will lead to increased investments in network expansion leading to a virtuous cycle of data growth for the foreseeable future, a future which is digital and very bright.

RCOM is extremely well placed to participate and lead in this exciting growth story with all key enabling elements in place –high quality spectrum portfolio, excellent data network, compelling consumer propositions & very strong ongoing traction in the data ecosystem.

Strong Future Ready Assets

The future data growth will be spearheaded by 3G & 4G technologies and they are projected to account for over 80% of all Indian data subscribers in the next 4-5 years marking a dramatic shift from just under 35% today, growing over 6X times in terms of subscriptions.

RCOM is well entrenched in terms of both its network & spectrum holdings to cater to this growth in mobile broadband. As you are aware, our 2100 MHz 3G footprint has now been extended to 18 circles. We have the best sub GHz spectrum portfolio in the 850 MHz band with its inherently superior propagation characteristics and the only operator with a national footprint in this band.

Globally, this band has been found to be one of the best if not the best suited for commercial 4G deployments with a very healthy supporting ecosystem that is developing rapidly. It accounts for 23% of all global LTE deployments with over 1000 compatible devices.

This enviable spectrum bank is supported by our best in class fiberised 100 Mbps backhaul ensuring the lowest latency and superior customer experience. This clearly is a significant edge as we usher in next phase of high speed data growth. **Your company is very well placed in terms of both 3G & future 4G**

services. And I'm pleased to say that we are in the process of completing our plans for a potential LTE launch in the next few quarters.

Strengthening of our customer proposition

It was another great quarter of innovations in the consumer segment with compelling, relevant and value accretive propositions which helped us both uplift usage & get new data users into the fold with an emphasis on enhancing smartphone customer penetration.

I would like to touch upon some key consumer highlights for the quarter.

- **Focus on Expanding the Data Pie** - With a view to increasing data and data enabled device penetration amongst new prepaid customers; RCom launched the "Double Data Delight" offer with 2X the data benefit of pack recharges for new Mobile SIM activations. This helped ensure data seeding at the very outset and brought customers into the habitual paid data fold.
- RCOM also brought about a change in prepaid data pricing in a segmented manner targeted at simultaneously fulfilling specific segment requirements and ensuring data ARPU uplift.
- **Event Specific Targeting** - RCOM catered to the festive mood in the country amongst cricket enthusiasts during the IPL season with data recharge propositions including free MBs tied into on-field team performances on strategically selected ARPU-calibrated Data MRPs.
- **Stoking Incremental Paid Data Usage** - Average data usage for active customers is slated to grow nearly 4X from current levels in the next few years. Much of the incremental usage is being and will continue to be driven by Video. Video presently accounts for over 36% of overall data traffic and this will rise to over 66% in the next 4-5 years.

RCom is positioning itself as a service provider of choice for mobile video content users with its video specific platform "Reliance Popkorn" being executed in content partnerships with BigFlix and Eros. RCOM premiered

the movie “Holiday” on GSM Mobile which saw superb consumer uptake of close to 85K in a matter of just 15 days.

- **Innovative device launches** – We launched the Wi-Pod Mini, a portable WiFi device that can be used to create a hotspot to connect multiple devices to the internet anytime anywhere. The device can connect upto 6 users simultaneously, offering speeds upto 14.7 Mbps. Its inbuilt rechargeable battery helps stay connected for a minimum of 8 hours even while on the move.
- **Enhancing Consumer Experience** - RCOM continued on its path of customer delight innovation with the launch of the ‘My Store’/’Mera Number Mera deal’ portal which brings individual mobile number tailored surprise offers across both voice & data along with a Rs.9 store for daily sachets & ‘flavor of the month’ offerings curated from the wide range of plans available in the RCOM universe.
- **Improving Consumer Convenience & Stickiness** - We launched an innovative first-in-class ‘FreePaid’ plan— offering unlimited local, STD to Reliance & Landline numbers and free incoming while roaming. This is coupled with a free daily entitlement of 30 Min for all off net calls to create an unparalleled proposition with multi-dimensional benefits packed into a single recharge. This ensures improved customer stickiness while helping us realize ARPU upgrade benefits at the same time.

Our concerted data focused consumer strategy execution across segments continues to show impressive results with 3G data subs having grown 37.7% YoY to touch 17.9 Million subscribers. Additionally, our data usage per customer, already the highest in the industry, has further grown to touch 895 Mb/Sub.

Moving on to the Enterprise, Carrier & GCX segments

Our India Enterprise business caters to over 39,000 large, medium and small businesses across the country, including 850 of India’s top 1,000 enterprises. RCom enjoys clear leadership in the enterprise space across voice & data

solutions and is one of the largest IDC players in the country with 10 data centers having a space of 1.1 Mn square feet.

Our Carrier business is one of the largest NLD & ILD operators in the country with ownership of over 190,000 km of fiber backbone connecting over 21,000 cities and towns and 400,000 villages. We are one of the leading managed Ethernet service providers in the United States and have an established position in the global enterprise data market.

In essence, we are the largest owner of the building blocks of cloud in the country.

Our GCX business has one of the largest and highest capacity subsea cable with a total length of 68,698 Km. We also have a well established data center footprint with 9 world class operational data centers.

This quarter we combined the complementary strengths of each of our B2B businesses to create an operational entity that is unparalleled in terms of the sheer strength of assets, scale of operations and market traction. More importantly, from a strategic perspective, we seek to combine a global fiber network with an emerging markets corridor presence and new product delivery networks to build a technology company that sits at the cross roads of where the future “Clouds” will migrate.

Our vision is based on the key themes that are and will increasingly continue to drive the enterprise.

1. Digitization of the Enterprise

Economic pressures, demographic shifts and new technologies are re-shaping the way enterprises work in profound ways. Irrespective of the sector, the path is increasingly clear: Winning means applying social, mobile, cloud and analytic technologies to re-align work processes with emerging digital value chains. Enterprises in India and the emerging markets are embarking on comprehensive ‘Digital Transformation’ journeys. Against this backdrop, ICT technologies are at the core of critical business decisions. Thanks to a wide

bouquet of end-to-end solutions including Network connectivity, Voice Services, Enterprise Mobility, Collaboration, Data Center, Cloud & Managed services, we are in a uniquely advantageous position to partner Enterprises in their digitization initiatives.

2. Asset Light Expansion & Increasing Migration to the Cloud

The digitization of the enterprise is increasingly about Capex light growth. Enterprises in emerging markets are making a significant move into the cloud. Asset light expansion into the cloud is essentially about both computing and the bandwidth to support that computing, all on demand. Enterprises need a Cloud platform that is strong, smart, intuitive and responsive to constantly evolving needs and this is exactly our vision for Cloud X – the Next generation Enterprise cloud ecosystem which combines IT scalability with Network orchestration, the first of its kind in the world.

Now, I will touch upon some key developments this quarter towards the creation of our comprehensive Cloud play:

- We recently launched Cloud Xchange nodes in Delhi, Mumbai, Chennai, Bangalore and Hyderabad marking another milestone for the company as we continue to strategically realign our key capabilities to support Cloud networking requirements within India and globally. Our unique strength in Cloud orchestration stems from unrivalled national and global network reach, enabling customers to have seamless access to the fast growing global Cloud ecosystem.
- Over the quarter, we also enhanced our Cloud X Fusion ecosystem with new interconnect deals with Google, Equinix and Amazon Web Services to bolster Cloud connectivity globally. These collaboration initiatives enable our enterprise customers to further simplify and seamlessly accelerate their deployment of Cloud services with added flexibility and security.
- We further bolstered our partnerships with leading world players IBM & Hitachi for high performance state-of-the-art cloud platforms to leverage

technical strengths in our journey to transform the data center business model with optimal investment exposure.

- We continued the development of our ICX and PCX networks which will enable “glass connectivity” from India to the Silicon Valley.
- In addition, we began re-engineering our data centers and MCN to enable a stronger play in the IT and OTT space. We also executed an RFP to upgrade our global subsea network by over 500G. All in all, GCX expects sustained growth in the coming quarters as we broaden our suite of existing products and services to align with new opportunities across our new Cloud ecosystem.

Looking ahead, we will continue to focus on enhancing our market share in MPLS, and Internet through product & service innovation, geography expansion & ecosystem collaboration, and drive our metamorphosis in the cloud space.

Here, I would like to touch upon the Government’s Digital India vision and how RCOM’s Cloud Play shall be a key enabler in realizing that.

Government’s Digital India Initiative

The Government’s ‘Digital India’ vision is centered on three key areas: Digital infrastructure as a utility to every citizen, Governance & services on demand and digital empowerment of citizens. These translate into the expansion of Broadband connectivity at village level, improved access to services through IT & Mobile enabled platforms, and greater transparency in Government processes.

As opined by our Honorable Chairman, Shri Anil Dhirubhai Ambani, a crucial pre-condition for the success of the Digital India vision is the availability of “unlimited cloud computing power”. **The combination of expansion of our data center capacity to 1.1 million SqFt coupled with the full scale deployment of our Next generation Content & Cloud delivery network by the end of this year can potentially help the government departments access 240X the amount of computing power currently available in government data centers and over 6X the high speed storage currently available in India.** This network will

have the ability to scale up by 100% every 90 days thus ensuring that as the Digital India initiative gathers momentum impacting millions of lives, the requisite ICT infrastructure availability keeps pace.

Other Key Developments

1. RCom entered into a discussion for a potential merger of MTS (SSTL)

RCom and AFK Sistema entered into exclusive discussions on a potential merger of the Indian telecom business of Sistema Shyam TeleServices Ltd. (SSTL) in RCom through a stock swap. We are in an advanced stage of due diligence.

2. RCom is pursuing significant deleveraging initiatives across a spectrum of core and non- core assets

RCOM's consistent efforts towards deleveraging its balance sheet persisted during the course of the quarter. RCom's targeted initiatives around deleveraging revolve around monetization of both core and non-core assets specifically pertaining to our tower infrastructure as briefed earlier, the DTH business, the Global business and significant real estate holdings. We are at various stages in each of these endeavors with significant positive momentum.

The process of the strengthening of our balance sheet is underway and we can expect significant improvements to flow from these initiatives being pursued.

In conclusion, let me reiterate the following:

- We continue to witness positive regulatory movement on key issues such as spectrum sharing & trading which are forward looking developments for the overall industry.
- In addition to the above, the regulator has taken cognizance of key bottlenecks in broadband growth including RoW, backbone spectrum and seeks swifter policy making on these issues. This bodes well for unleashing the next level of data growth in the country.

- RCom is well positioned as the only operator in India with national footprint of efficient and valuable sub GHz spectrum in the 800/850 MHz band which is eminently valuable for High Speed Data including 4G in the future. RCom is presently conducting due diligence for a potential LTE launch during the course of this FY.
- RCom is progressively innovating in the consumer segment through differentiated products and services with a focus on expanding data revenue base and enhancing user experience with compelling segmented value propositions for both voice & data customers.
- RCom is taking significant strides in creating a formidable cloud play targeted at the emerging market corridor with India as the pivotal geography combining the complementary strengths of its India Enterprise, GCX and Carrier businesses.
- Our recent launch of Cloud Xchange nodes in Delhi, Mumbai, Chennai, Bangalore and Hyderabad marks another milestone for the company as we continue to strategically realign our key capabilities to support Cloud networking requirements within India and globally. Our unique strength in Cloud orchestration stems from unrivalled national and global network reach, enabling customers to have seamless access to the fast growing global Cloud ecosystem.
- RCom continues to invest in partnerships & infrastructure growth in its global operations to emerge as a leading global cloud infrastructure player. These collaboration initiatives enable our enterprise customers to further simplify and seamlessly accelerate their deployment of Cloud services with added flexibility and security.
- RCom continues to actively pursue a slew of initiatives around improvement in operating metrics & de-leveraging the balance sheet to achieve enhancement of shareholders' value.

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

Operator:

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

Kunal Vora

Thanks for the opportunity sir, I have three questions. First is, you mentioned that you are looking to deploy LTE network. There was a press report that you have already applied to liberalize your 850 MHz spectrum and may look to share it with Reliance Jio. Earlier you have been talking about EVDO and Rev B strategy. Can you share your thoughts what are you looking to do with 850 MHz spectrum? That's one.

Second is, Reliance Jio will be launching its services shortly, would it be possible to provide some insights on how you've been booking Jio revenue? And can we expect some acceleration in the revenue booking from Jio as they launch? And finally, you mentioned that you are looking to sell towers. Can you share the number of towers and maybe some other numbers like the tenancy, EBITDA and debt for the tower company? That's it, thank you.

Gurdeep Singh

Thank you, Kunal, Gurdeep here. On the question number one on LTE rollout, as we have stated earlier that during the last auctions held, nearly 55% of our spend was towards fortifying our future in acquiring Pan-India capability to launch LTE on 850 Mhz. We've spoken enough about how potent this spectrum is and how sub-1 GHz is the most popular band worldwide.

We are currently exploring all our options to launch LTE, and as you would appreciate the fact that it's a go-to-market strategy which involves timing, quantum of launch and the cities of the circles where we want to launch. Hence, at this moment, it is certainly confidential but we will be happy to share as and when we are ready to make a public announcement in that respect.

Secondly, the question of sharing with Jio, we are currently exploring our multiple options for the spectrum or the spectrum sharing, especially now that the

government has made the announcement about the spectrum sharing. RCOM is exploring all the opportunities to optimize the value of its spectrum holdings through spectrum sharing and trading route. As and when we have something important to contribute or make an announcement, we'll be happy to share it with you.

In terms of Jio's contribution towards the tower and the tower revenue the question that you asked, we cannot comment at this moment because of confidentiality reasons as the company has not commercially launched their services. The tower deliveries are at an advance stage and should get substantially completed in the next few months. It is fair to assume that some of the rentals have started to flow in, but Q4 this year should be the first quarter to reflect full impact of the revenues and tenancies is what we expect and anticipate.

Does that answer your questions, Kunal?

Kunal Vora

Yes, that's helpful.

Gurdeep Singh

Thank you.

Operator

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

Rajiv Sharma

Yes, thanks for the opportunity. I have two questions; one is on your KPIs on the tower business, number of towers, tenancies and EBITDA. Second question is, if you can elaborate as what are the possible options you have on spectrum sharing, because the way I see it is that sharing would be possible only on 850 MHz band. Also I wanted to get clarity about the possibility of 3G spectrum sharing. Can it be shared where it is contiguous or even otherwise? And on the

850 MHz band you may have to shell out some Rs. 7,100 crore as onetime fee if I am correct, or you may correct me with the right number. And again you may hit a renewal in this band in five years. What are your thoughts on this overall process please?

Gurdeep Singh

Rajiv, thank you very much for your three questions and let me take the first one, which is on the tower KPIs. RITL, Reliance Infratel is a subsidiary of the Reliance Communications, so we've never been reporting the figures separately. So I'm afraid at this moment we'll not be able to share the key KPIs of the tower company, particularly because we are undergoing a process as you know.

Secondly, on the strategy on sharing, these spectrum sharing guidelines are just out and we understand some nuances of the sharing that, it has to be in the similar band, and so on and so forth. But nothing stops us from looking at it in a holistic manner on what you have that can be shared versus what you can create that can be shared in the future. So I would say that in order to optimize the stakeholders' value and to fortify our future business, we are currently evaluating the guidelines. We do not have any concrete answer to all the questions that you're asking, but probably during the course of this year we will certainly have these key shareholder value maximization questions to be answered.

Coming to the third question on 850 MHz, as you said some of the liberalization cost may be for five to six years, in some cases they could be in the ballpark range that you said, but we do reserve our right to liberalize circle by circle in-line with the development of device ecosystem and prioritization of the markets which would be ready to seemingly accept the LTE in the future.

Rajiv, does that answer your questions.

Rajiv Sharma

Yes, I'll come back for the follow-up questions.

Gurdeep Singh

Thank you very much.

Operator

Thank you Mr. Rajiv. Next in line we have Mr. Srinivas Rao from Deutsche Bank. You may go ahead Sir.

Srinivas Rao

Thank you very much. Just two, three questions. First, your total number of sites on the network as well the 3G sites have not increased for almost two years. Given that your data usage is growing quite dramatically, how long can this particular dynamics continue? Moreover, if your number of sites are not increasing then, operating leverage should generally be higher given that your network cost is not increasing dramatically.

Second, can I seek some clarification on the CapEx number in the cash flow, which has jumped quite significantly; does that include some of the upfront payment for the spectrum or something like that?

And the third question which is in context of Enterprise business in India, which has been talked about based on your disclosures and from what we can calculate looking at mobile revenues and the revenues for the India operations; the difference would probably, or largely be, the Enterprise revenues. That number has not grown for the last four to five quarters. So if you can throw light as to how we should think about that, it will be helpful. Thanks.

Gurdeep Singh

Well, thank you very much, Gurdeep here. I'll deal with the question number one and I'll leave the question number two on the CapEx, whether it has spectrum into it to my colleague and later the Enterprise business question.

If you look at our 3G spectrum portfolio then, we have the three metros in it, Delhi, Mumbai and Kolkata. And a large part of our spectrum portfolio is in the C circles. When you go down the waterfall chart of the smartphone penetration, there's a dramatic shift the moment we move out from Mumbai, Delhi, Kolkata down to West Bengal and Orissa. So I would say, as I've been saying in the past that, when we launched we did make a lot of upfront investment both in fiber and

the spectrum, and the rollout of 3G sites. And we are probably now reaching a level where some of the markets would need an augmentation, but this may not be in this fiscal year but in the early part of next fiscal year.

Having said that, your question around higher operating leverage, it's fundamentally Yes, but at this moment we are focused about improving our subscriber shares. We want a disproportionate share of smartphone, Wi-Fi router and devices to come in the network. That's why we haven't shied away from doing innovative stuff like 3G@2G, and doing a large prepaid and postpaid bundle programs for our consumers. And I think all of that went well for the company as 50% of subscribers are now mobile internet users and we continue to have the highest data consumption per subscriber.

I would say that we will continue to work on this strategy to have a disproportionate share because the future belongs to device led ARPU, rather than a subscriber led ARPU. And I think we are well on course in executing a well thought-out strategy which is beginning to yield some results.

I leave it for my colleagues to answer the question on the CapEx and then the Enterprise.

Manikantan Iyer

Yes. Thanks Gurdeep, this is Manikantan Iyer. On the CapEx side, if you look at the cash flow, the amount is Rs. 2,979 crore whereas if you look at the balance sheet, it is Rs. 580 crore. This is mainly on account of the capital advance for spectrum and the utility upgrades. Please note that spectrum has not been allocated yet by the government. Also refer to point number five on the notes to the stock exchange results. This is a capital advance, one of the commitments. Hence there is a variation between the CapEx as per balance sheet and as per the cash flow. I hope it's clear.

Srinivas Rao

Yes, that's helpful. So how much is the capital advance on spectrum?

Manikantan Iyer

Capital advance for spectrum is Rs. 1,104 crore.

Srinivas Rao

Okay. Thank you.

Operator

Thank you, Mr. Srinivas. Next in line we have Mr. Aditya Soman from Goldman Sachs. You may go ahead please.

Aditya Soman

Hi, good afternoon. I had a couple of questions. Firstly, can you explain why the prepaid share has been going up? If you look at it in the same quarter last year it was about 95.1%, it's gone up to about 96.5% in this quarter. So is this a trend that we can expect to continue?

And secondly, can you throw any more color on the MTS deal, rational for the MTS deal. What is being worked out here because, you've talked about it being a share swap deal, but in terms of spectrum liberalisation for MTS, I think, based on the new spectrum sharing guidelines, even for MTS spectrum, I think, one needs to pay incremental sum on the latest spectrum price to make it sharable. Any more color on that also would be helpful.

Gurdeep Singh

Thanks, Aditya. On your first question regarding the prepaid share, if you look at the market construct today, most of the new acquisitions are largely around prepaid. We are also consciously moving some of the low ARPU, postpaid customers, who exhibit some kind of a default behavior on the payment cycle, to prepaid. So you'll have to see it as a combination of the two. So, going forward do you expect to see significant shift in this? My answer would be, No. But I think we have made some conscious efforts in the last three or four months to align the cost-to-serve ARPU and EBITDA margin by the segment of the consumers. So it's a reflection of that, that's number one.

Number two, answering your question on the MTS, we have stated earlier in the previous earnings call that, MTS is a stock swap deal. We don't take on any of the liabilities. First of all it's a business merger, of the telecom business, of Sistema Shyam in India. We do not take on any liabilities whatsoever, but we take on the assets, we take the revenue and the customers and we also take the spectrum with us, which has got a residual life of little over 18 years, and it's a liberalized spectrum. Given the fact that in the last auction we went and completed a pan India capability footprint for 850 MHz band, this is another step in the similar direction, which reiterates our strength, belief and seriousness about, continuing to lead the data space as we enter the 4G footprint of the future.

Aditya Soman

Okay, thanks. Just one more question. Have you changed your CapEx guidance for the year or does it remain the same?

Gurdeep Singh

No, our CapEx guidance remains to be in the range of Rs. 1,800 crore to Rs. 2,000 crore for this year.

Aditya Soman

Okay. Thank you.

Gurdeep Singh

Yes, thank you.

Operator

Thank you Mr. Aditya. Next in line we have Mr. Vinay Jaising from Morgan Stanley. You may go ahead please.

Vinay Jaising

Thank you so much. Sir, part of my question is already addressed earlier, but I'm going to try asking the question again. You did mention that large part of the towers have been given to R-Jio, and we'll hear more about it in the future but,

some amount of revenues have already been clocked-in. Where are these revenues clocked-in currently because I'm seeing revenues have come down everywhere, be it in Others or be it in Non-voice or Voice, for India operations. So if you could tell me where that is clocked, that's my first question.

Second question of mine is, assuming you are planning to hive-off the tower division, would it be an arrangement with you as the mobile operator, the new tower company, as well as R-Jio? I understand there's another arrangement with you and R-Jio, wherein if you use their towers, they have to give it to you at the same rate. So I'm just trying to understand how complicated it would get? Thank you, sir.

Gurdeep Singh

Vinay, I'll try and answer your couple of questions and then my colleagues can talk about the reflection of the Reliance Jio into the books of accounts. Coming to the first question, over a period of time we've been progressively giving the tenancies to them, but as we have discussed that due to confidentiality reason, we can't exactly share, how much, when and how. But surely, once the operations become commercial from their side, when it is known at the point of launch of their footprint, we will be happy to share that. We expect that to happen within this fiscal year, as far as we're concerned.

Coming to your other question regarding revenues, the first quarter you would have to see in two lights. One, this quarter has been impacted by the regulatory intervention of interconnect charges coming down, and there has been a cap on the roaming tariffs. Nearly 200 basis points is the impact only because of the regulatory intervention. So that is one.

Secondly, over a period of time we've consciously build some kind of dominant, or a near dominant position in the migrant and the youth customer base. As high as 30% to 55%, depending on the circle, and an average of about 37% of our base is now youth and migrants, who move out of their current locations, some of them but not all of them, and go to their original home locations and they only come back in July, or in early August. So there are two kinds of impact that it has

on our business: a) for us the seasonality strikes a little earlier than the other telecom operators; b) we are by design urban and semi-urban centric by our footprint, because we are following a revenue corridor than a population corridor. So we have much lesser elasticity on a rural consumption impact than the migrant and the youth impact. So I would say it's only a time shift issue and may not be perhaps a fair comparison with any other peer's performance. I will leave it to for my colleagues to answer on the Jio proceeds.

Manikantan Iyer

Hi, this is Manikantan Iyer. Let me first clarify that the revenues are not down across all the segments. Please refer the voice and non-voice segment that we have published. In non-voice segment you will see an improvement on a quarter-on-quarter basis. And as mentioned by Gurdeep for Jio, right now the revenue booked is smaller, and it is part of Non-voice India operations. Is that clear?

Vinay Jaising

Sure, sir.

Manikantan Iyer

Thank you.

Gurdeep Singh

Well, all I can say at this moment is, even though a lot of work is going around the Infratel's stake sale, there are terms and conditions associated with the tower business that remain with the tower business. So I don't think that you need to have any fears about or any concern regarding, whether there is a reciprocity that will continue or not, reciprocity clause applies more to RCOM because that is to our benefit. And it allows us to expand footprint at a lower CapEx because it's a CapEx-light model. And it also allows the OpEx benefits to us. So as a combination of the two some part of the benefits that is already written and accrued are a part of the tower portfolio and will continue to be with the tower portfolio.

Vinay Jaising

Thank you, sir.

Operator

Thank you, sir. Next in line we have Pranav Kshatriya from Edelweiss. You may go ahead please.

Pranav Kshatriya

Thanks for the opportunity. Sir, most of my questions have been answered. I just have one question. You have spent Rs. 580 crore in this quarter towards CapEx. Where is most of the CapEx going into?

Gurdeep Singh

Thanks for the question. The CapEx goes into two things. One is a routine operations and maintenance. Second we have been augmenting the data capacity. So this is largely on these two accounts.

Pranav Kshatriya

The data capacity, I mean, the number of 3G towers is not growing drastically and I assume that since you will be looking at LTE rollout on the 850 MHz, you will not be expanding your Rev B footprint as well. So is the CapEx more into backhaul?

Gurdeep Singh

Yes. Your question is right, this is not a *suo motu* expansion of 3G. This goes into your consumer business district areas, central business district areas, areas where you could possibly have radio congestion, and certain areas where you could have a transport or a backhaul or a packet core expansion.

Pranav Kshatriya

Okay. Thank you so much, Sir.

Gurdeep Singh

Yes, pleasure.

Operator

Thank you, Sir. Next in line we have Mr. Sanjay Chawla from JM Financial. You may go ahead, Sir.

Sanjay Chawla

Hi, good afternoon, thank you for the call. I just have a couple of questions. One is the issue of CapEx that you've reported, an almost Rs. 600 crore versus Rs. 3,000 crore in the cash flow. You partially addressed it but, is that Rs. 1,100 crore on account of spectrum, capital advance payment and Rs. 600 crore being the fixed CapEx that you've reported? So what is the reason for the balance Rs. 1,300 crore? Secondly, can you also explain the surge in the loans and advances number in the balance sheet, both on a Q-o-Q basis as well as on a Y-o-Y basis?

Manikantan Iyer

The cash flow capex is Rs 2,979 crore comprising Rs. 580 crore of CapEx that we have reported, Rs. 310 crore of realised foreign exchange variation, and rest Rs. 2,089 crore of capital advance on spectrum and utility upgrades. As Gurdeep was mentioning that backhaul and utilities was getting upgraded throughout this quarter, the capital advances have been spent in this quarter for that.

Sanjay Chawla

Okay, so that's not part of the fixed CapEx?

Manikantan Iyer

This can't be fixed, it's just an advance, once the asset is put to use, it will be capitalised, till then it will be a capital advance.

Sanjay Chawla

Okay. And the loans and advances number in the balance sheet which has grown significantly on a sequential as well as Y-o-Y basis?

Anil Ladha

Sanjay, loans and advances also include spectrum payments of Rs. 1,104 crore and balance amount on account of advances to capital vendors.

Sanjay Chawla

Okay, so you're saying this spectrum advance and the other advances are not in the capital work in progress but included in loans and advances?

Anil Ladha

Till the time spectrum is allotted, this will continue to reflect as advance.

Sanjay Chawla

Okay, fine. Thank you.

Operator

Thank you, Sir. Next in line we have Priya Rohira from Axis Capital. You may go ahead.

Priya Rohira

Yeah. Hi, good afternoon to the management team. I just wanted to understand a little bit more about segmentation on the data usage. While the average of the data is around 895 MB, is it possible for you to share the top 10, given that, we have the highest data usage per subscriber. I was just trying to understand that when will the top 10 cross about 5GB or 6GB? That is first. Second thing, I just wanted to understand the increase in the network cost. Is it primarily on account of 3G or would it include even the fibre optic in the P&L account?

Gurdeep Singh

Priya, thanks for the question. I'll take up the first one and leave it for my colleague to answer the second. The average consumption is 800 plus MB per customer. Currently we are witnessing around 187 MB on the 2G consumption per customer and 3G is now close to 1.1 GB. However we have customers in the

Wi-Fi router area as well, who are huge consumers of this and current consumption varies from, as low as 80 MB in a month to 8-10 GB in a month.

Priya Rohira

Sure. Is it possible for you to share the traffic which gets migrated from the pure wireless to Wi-Fi because that share can only keep on increasing and you may benefit from it at one point of time or over a period of time, so I'm just trying to understand a bit more over there.

Gurdeep Singh

Is your question particular to the radio-traffic shifting to VoIP?

Priya Rohira

To Wi-Fi actually.

Gurdeep Singh

To Wi-Fi, well it is not significant at this moment to share. But surely I'll keep your suggestion in mind.

Priya Rohira

Sure.

Gurdeep Singh

Yeah.

Manikantan Iyer

Basically, the network cost in a consolidated P&L will include everything. But in the current quarter the increase in network cost is on account of power and fuel cost variations.

Priya Rohira

Sure. And just wanted to re-clarify for Global operations, Q1 is seasonally the worst, right? Can you let us know on the order pipeline or how the discussions have been which give a little more better guideline for the coming quarters?

Rory Cole

This is Rory Cole. I'd say that the Q1 is usually our traditionally weakest quarter in the IRU pipeline and we expect it roughly similar to last year, and we expect the entire year to be roughly in line with same IRU results from the previous year.

Priya Rohira

Okay, thanks. That's helpful. And wish you all the best.

Rory Cole

Thanks.

Operator

Thank you, ma'am. Next in line we have Mr. Rajiv Sharma from HSBC. You may go ahead please.

Rajiv Sharma

Yeah. Thanks for the opportunity once again. Just a couple of follow-ups, in the initial opening remarks it was mentioned that spectrum trading guidelines will be published by the Government in second half of August, but the current norm says leasing is not allowed. My understanding was that spectrum trading will not be allowed at all. So is there some progress on that side? Second is minutes are down this quarter, but when we see Bharti or Idea, the minutes had significantly increased for them, so why this aberration? And lastly on the tower business, you are looking for financial investors or strategic investors like Reliance Jio. So some color you can provide on that?

Gurdeep Singh

Rajiv, let me take up the first question on the spectrum trading. I think Government is being very forthright in declaring the spectrum sharing guidelines, which we welcome and since sharing and trading have been spoken in the similar light in the past, we are very hopeful that this spectrum trading guidelines would also be announced soon. And both as a combination will give us a lot of opportunity to put CapEx to productivity, share this scarce resource optimally,

optimize the holding of spectrum for enhancing the shareholder value. So it's got multiple benefits on the financial side, and enhancing the shareholder value side.

Rajiv Sharma

But Gurdeep, do you see some action like there is some paper being discussed with operators on the spectrum trading side or it's just your belief?

Gurdeep Singh

It's our belief at this moment, because Government has been very focused about putting both the guidelines out to help industry move towards some kind of a consolidation and better utilization of resources, where we believe that we are taking a right step in the right direction. So we stay positive on that note. Secondly, on the minutes side, Q1 for us is a seasonal quarter. And as I said that we have a far more youth and migrant domination in our portfolio impacting the usage, as much as for some of the other telcos the rural customer base has an impact. So I think if you view this in the same light, it's just a time shift issue. But the issues will be the same, the drop in the minutes and the drop in the consumption.

On your third question regarding the type of investor, I will not be able to comment since the process is on and we've just released notification in stock exchange and a press release. I think that gives you and summarizes anything and everything to do with the tower portfolio, which was also kind of shared with you in the very opening remarks of the today's earnings call.

Rajiv Sharma

But this process, Gurdeep would take three month minimum or you can come to investors with some clarity in next three months time or six months time?

Gurdeep Singh

We are very hopeful to have this concluded in the next three to four months.

Rajiv Sharma

Okay, and lastly on the real estate. It's one of your deleveraging tools. So is there any step which you have taken, which you can quantify that this has been done or everything is still work in progress there?

Gurdeep Singh

Well, it's a work in progress, but we've put some of the apartments and the marquee buildings in Delhi on the block, including to be quickly followed with other properties. We have appointed a prominent real estate marketing company to market some of these assets. I would say that we have made a fair bit of progress. But it's not really at a stage where it's worthwhile for us to share the quantum of deleveraging done. But we are very hopeful that in some couple of next few weeks or at the best a quarter we will have something important to share with the real estate.

Rajiv Sharma

And lastly on the MTS thing, you think you will be done by due diligence this quarter or it could take another quarter before you go to Government on some issues, the approval issues?

Gurdeep Singh

No, we should be done with due diligence within this quarter or may be earlier than this quarter finishes.

Rajiv Sharma

Okay. Thank you so much. Thanks a lot.

Gurdeep Singh

Yes, pleasure.

Operator

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

Srinivas Rao

Yeah. Thank you, very much. I have two questions. First, I want to reiterate and ask the question again on the Enterprise business which I had asked in my first round. We have not seen the Enterprise business' revenues grow and I'm using the proxy as your reported mobile revenue minus the India operations revenues, which has been in the Rs. 1,300 crore kind of a range. So that's my first question? Also, the Global operations over the last six quarters have not seen any material improvement in the revenue base. So where do we stand on the Enterprise business which has been talked about a lot in the opening remarks. That's my first question. And second question is on your potential deal with MTS, am I correct to understand that due diligence is being done by Reliance Communication on MTS because you would like to pay for the assets through share swap.

Gurdeep Singh

Okay. I'll just answer the second one first. Yes, RCOM is doing a due diligence on MTS, because we will be taking those assets in a share swap deal. I will leave for my colleague to answer your first question.

Bill Barney

Let me answer your first question. First of all on the Global business, it is showing growth. We did have a foreign exchange impact in last year which affected us. There was a Euro devaluation roughly around 18% due to which our Europe business declined but if you look at it on a flat currency basis, we are actually growing and have arrested that decline, and we are actually showing positive growth in that business which we'll announce in our upcoming earnings announcement for GCX.

On your second point, on the Enterprise business, we are continuing to see very, very strong traction on that business and we are seeing sequential quarter-on-quarter growth but our largest challenge in the Global business has been regulatory, which is a challenge to our voice business where there was a decline

in the voice business due to a regulatory change. We are seeing that has impacted our global voice business, but we are fairly optimistic that we have now hit a bottom on that point and we'll actually see growth in that business going forward. So I think we are bullish about the future and I think we've had a very, very strong quarter for us both in the enterprise business and on GCX business.

Srinivas Rao

Yeah, thanks. The regulatory issue which you mentioned would that be the changes in the termination rates?

Bill Barney

Yes.

Srinivas Rao

When I look at the net revenues, they have not gone up actually over four to five quarters and that of course I am looking at INR terms at this stage. Do you expect acceleration on that line going forward?

Bill Barney

We should, Yes.

Srinivas Rao

Okay. Thank you.

Rory Cole

I would like to add that the growth in EBITDA was 5-6%, year-on-year in the Global operations.

Srinivas Rao

Right, thank you.

Operator

Thank you, Mr. Srinivas. Next in line we have Anshul Mishra from IDBI Asset Management. You may go ahead.

Anshul Mishra

First of all, good afternoon. I have two questions. First is regarding the spectrum sharing which is announced by the cabinet. Can you give estimate of how much the company would save due to spectrum sharing? And the second thing is about the cloud networking which the company has recently launched, the Cloud X. So what's the overall growth as compared to the overall earning and how much CapEx is the company infusing into the Cloud X? Lastly, the company's overall earnings have increased just by 0.3%, the data customers have grown by 23% so, in the overall revenue which component has made the decrease? Thank you.

Gurdeep Singh

Thanks for the questions, I'll answer two of them. On the spectrum sharing as we've said, we welcome the guidelines, and we are currently exploring and reviewing the guidelines in order for us to optimize our spectrum holding and optimize the shareholder value. As and when we have some concrete information to share we will come back and share with you but, we are currently deeply studying because, it has a dramatic impact as we go through.

Secondly, on the mobile data subscribers or the revenue, data traffic has grown but not the revenue, as you can see that we have been intensifying our campaign around pushing 3G@2G rate. We have pushed in a lot of social networking into the basic data packs. So we have been calibrating between the consumption, tariffs and our strategy to acquire subscribers. So as I said, we are mainly focused about improving our subscriber share, we want to have a disproportionate share than our base voice share, in the data, and we believe device ARPU is very critical to drive the company.

Anshul Mishra

I just wanted to know that as compared to voice the data business is definitely growing, the customers and data volume in MB, but what about voice business growth year-on-year and quarter-on-quarter?

Gurdeep Singh

If you dissect the voice into GSM and CDMA, we have had this problem till about previous quarter where CDMA was declining in voice, and then I had said that in the back of the improved device ecosystem now, we have arrested the decline. I am happy to say that once again, this quarter our CDMA business has remained stable due to our effort on the device ecosystem development. GSM had an impact on the voice minute because of the migrant and youth movement, bit from a current location to home location which is only going to come back in the Q2, quite likely the rural subscriber will shift.

Anshul Mishra

And the last question, I just wanted to ask that, what's the churn rate quarter-on-quarter as compared to others, it's hardly 4% or something for others, so what is the company's churn rate of prepaid customers?

Anil Ladha

It is around 3.5%.

Anshul Mishra

Okay, thank you, Sir. All the best wishes.

Operator

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

Piyush Choudhary

Good afternoon and thanks for the opportunity. One question Gurdeep, in the circles where we have to give up 900 MHz in December this year, what's the 3G handset penetration, because we do have 2.1 GHz in those circles? Thank you.

Gurdeep Singh

The current 3G or the smartphone penetration for the industry in the Assam, Bihar and West Bengal area is close to 19% and its rising at a rate of 2% a month.

Piyush Choudhary

All right, thanks a lot.

Gurdeep Singh

I mean the similar figure for Bombay will be very high 37%, 38%.

Piyush Choudhary

Yes, that's why I was asking, Sir.

Gurdeep Singh

Yeah, absolutely right, absolutely.

Piyush Choudhary

Nice, okay, thanks a lot.

Gurdeep Singh

Thank you.

Operator

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

Kunal Vora

Yes. Thanks Sir. Thanks for the opportunity again. Just two last questions. How is the response been to your facebook.org initiative, is it a meaningful contributor to your data usage that's one. And would it possible to share your data realization or at least how it's been trending over the last one year, and your thoughts on data realization going forward. Thank you.

Gurdeep Singh

Well our partnership with Facebook on internet.org was to bring internet to those who primarily use WhatsApp but don't use internet. I'm sure you will be shocked to know this that, there is a huge gap between WhatsApp users and actual internet users. So our objective was to bring a bouquet of sites to them, so that

they can begin to experience it without paying any data charge. This was also aimed at continuing to consolidate our data position, improve our subscriber acquisition through the route of data, given the fact that it's a highly confidential relationship between us and Facebook, though I can't share any numbers, but all I can say is that we have been overjoyed with the success of internet.org and we will continue to strengthen that platform and try and expand it as much as we can in the coming quarters.

Kunal Vora

And second question on data realization?

Gurdeep Singh

From our standpoint of view, we are already giving 3G at 2G rates. We have already got optimized rates, and we have social networking bundled into some of most of the basic data packs. We have internet.org which consumes minor data because those sites are not bandwidth hungry. I think from here on as we go forward, we look at sustaining or hardening of the data tariff.

Kunal Vora

Even with the potential LTE launch and threats in data tariff, are you still optimistic about data price hardening?

Gurdeep Singh

I may not be able to comment on what competitive play-out is going to be in the future, but it is something we deal with when it comes to but, given the competition on the floor with some of the LTEs that we are going to see, my statement holds true for that.

Kunal Vora

Thank you, sir.

Operator

Thank you, Mr. Kunal.

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

Vinod Sawhny

Well. Friends thank you very much for being there and let me assure you that RCOM will continue to be focused on further developing both our consumers and B2B businesses as well as on the deleveraging plans as we have detailed. Thank you very much.

Operator

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