# RELIANCE COMMUNICATIONS LIMITED

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

**Conducted at 5.30 pm IST on May 30, 2011**

**Operator:**

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 from Reliance Communications led by Mr. Syed Safawi along with other colleagues namely Mr. Mahesh Prasad, Mr. Punit Garg, Mr. Sanjay Behl, Mr. Hasit Shukla and Mr. Arvind Narang.

The call will begin with some key observations by Mr. Safawi 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. Syed Safawi. Thank you.

**Syed Safawi:**

Thank you, Mamta.

Ladies & Gentlemen, a very good morning or evening, depending on where you are right now.

It is a pleasure to once again welcome you all to this earnings call to discuss Reliance Communications' financial performance for the quarter ended March 31st, 2011.

We are enthused to inform you that RCOM has had a robust revenue growth of 6.9% on like to like sequential quarter basis, driven by growth across segments. :

a. **Realigned 'profitable' portfolio:** Our focus on driving a realigned, profitable portfolio is beginning to bear dividends.

   1. Today, we have the largest, widest 'wireless broadband data' network in the country amongst private operators, with 3G or CDMA High Speed Data coverage in over 850 towns.

   2. Post the launch of 3G, we today have 1.7 Mn 3G customers.

3. As a % of Gross Revenue, our non-voice revenue is well ahead of all other Telcos in the country.

4. The focus on 'paid minutes' is paying off and helping drive consumption led growth, while retaining RPM at a solid 44 p/min for a year now.

b. **Highest revenue growth in past 7 quarters:** The above portfolio focus and operational execution has resulted in the highest revenue growth for RCOM and Wireless business in the past 7 quarters.

c. **FCF and Debt:** RCOM is now FCF positive for second year in a row, net of the one-time 3G spectrum fee. 3G spectrum is valid for 20 years. Peak capex is behind us and our capex guidance for 2011-12 is Rs 1,500 Cr, which is well managed through internal accruals. Our Net Debt/EBIDTA is 3.5 as of March'11. We are targeting to directionally bring it further down to sub 3 level in line with industry.

Let me share with you some industry and more importantly RCOM specific key developments, which happened during the quarter.

**1. Customer acquisition:** In the last quarter of FY 2011, the industry witnessed a slight dip in the subscriber addition growth. The telecom industry added 59 Mn. (vs 65 Mn) wireless subscribers and total wireless subscriber base stands at 812 Mn. as on 31st March 2011.

I am happy to share with you, that despite slowdown in growth of industry subscriber additions, RCOM has been able to maintain its share of customers and our net additions have gone up on quarter on quarter basis. RCOM during the quarter has added over 10 Mn. new customers, taking the total customer base to 135.7 Mn as on 31st March, 2011, the second highest in India. We maintain our Customer Share at 16.8% at the end of the quarter.

**2. Wire Free India:** We continue to rapidly execute our 'Wire-free India' vision, which was unveiled by our Chairman at the last AGM about 9 months ago. We have remained committed to put accelerated efforts in enabling wireless broadband across India.

During the quarter, most of the operators launched their 3G services. I am pleased to inform that RCOM was the 1st private operator to launch the 3G services in key metros (Delhi, Kolkata & Mumbai).

As on date our nationwide count of 3G sites stands at almost 9,000, which is far ahead of competition and a witness of our commitment to enable 'Wire-Free' India. As we speak, we are offering 3G services in 330 towns, and have over 1.7 Mn. 3G customers within a few months of the 3G launch.

On CDMA High Speed Data, a high growth area for the business, from barely 65 towns at the time of the 'Wire Free India' vision announcement 9 months back, we stand today in well over 500 towns of quality HSD coverage.

The presence of 3G in 13 circles (including key metros of Delhi, Mumbai and Kolkata) , along with the rapidly expanding High-speed CDMA data network, RCOM is the only nationwide private operator to offer seamless Wireless Broadband experience in over 850 towns across the country. This number will go well beyond 1,000 towns in the next few months.

Combine this with our extensive 1X Data presence in CDMA, offering high quality internet connectivity in almost 20,000 towns; it positions RCOM extremely well to take advantage of the rapid increase in data consumption across the country, including new services on M-commerce platform etc.

**3.Innovation:** As an integral part of our 3G strategy, we have established a '3G Innovation Lab' with the objective of facilitating the development of mobile service innovations by offering real-time product development capabilities to 3rd party developers. The Innovation Lab involves a community of content developers, product innovators, technology platforms enablers, device manufactures and OEMs. This unique set-up will drive all 3G innovations for mobile as well as other platforms, enabling our customers to enjoy a futuristic mobile experience and explore a world of unlimited possibilities.

Launch of 3G services would open new opportunities for telcos in the areas of data, multimedia & other VAS and RCOM is well poised to leverage these opportunities. To strengthen our positioning in this emerging domain, we entered into several partnerships/alliances during the quarter. Some key alliances were:

- Exclusive tie-up with Nokia-Ovi

- Partnership with the social networking pioneer "Facebook" to extend its service to feature mobile phones on our network

- Tie up with NAVTEQ (a wholly owned subsidiary of Nokia) to launch R-pilot service – to enable LBS (location based services)

Let me now talk about Quality of Service.

**4. QOS:** We believe that the greatest asset for any consumer brand is the trust of its customers. We are committed to provide the highest standards of customer and network experience across all our platforms. It is this customer focus which will increasingly become a differentiator in the ever-evolving Indian wireless market. The recent Best Quality of Service award at the Economic Times 2011 Telecom Awards to

Reliance Communications is just another evidence of our commitment to provide the highest customer experience.

RCOM , 'India's No.1 network' has been recognized by the apex industry body (TRAI) on 'Quality of Service (QoS)' . As per QoS Report for Quarter ending Dec'2010 published on 12 May 2011, RCOM has NOT only met TRAI's QoS criteria in ALL the 23 circles , but it has also been:

- Rated No.1 in 12 of 23 circles for 'Lowest Call Drop Rate' across operators. This includes Delhi & Mumbai.

- Rated amongst Top 3 in 16 out of 23 circles for 'Highest Call Connectivity Success Rate'

These are key to delivery & quality network experience.

**5. MNP:** Mobile Number Portability was launched Pan India in Jan'11. After almost 4 months of the national MNP launch, we find that MNP is neither a significant driver for gross adds or churn. Incremental churn from MNP on prepaid and postpaid base of RCOM is negligible, for eg. 0.08% in postpaid.

RCOM however, continues to drive MNP with a clearly 'Value focused' approach and not purely on 'Subscriber count'. Our focus would remain on Postpaid and high-end prepaid segments.

As a strategy, we decided to NOT only to focus on Value through MNP but also wanted to observe initial trends. Once we had understood the pattern and value drivers in MNP , we are driving our port-ins and are now 'net positive ' on MNP value churn for the past several weeks and are confident, that with the value focus, combined with 3G presence in key markets , RCOM would be a net gainer in the MNP value equation.

**6. Quality of Operations:** Over the last few quarters, we have stressed, that our focus has been to build quality of operations through initiatives focused on segmentation and site level profitability. As shared with you during the last quarter, we continue to drive 'paid minutes'. The focus on building a quality portfolio driven by increase in non-voice services continued. RPM has been stable now for over a year and today, RCOM holds the highest RPM in the industry. With clarity on building a profitable business, we have been delivering consistent high EBITDA margins.

Our continued focus on quality of operations, driven by 'quality of customers', the 'quality of the minutes' and the 'quality of portfolio', will go a long way in laying the foundation for a sustained profitable revenue growth. Our alignment of portfolio has been underway and should get realigned in the next 2 quarters.

I am happy to share with you that through this sharper focus on DATA and other profitable non-voice areas of growth, our non-voice revenue as a % of total revenue is the highest in the industry at about 20% level.

**7. Brand:** As you may be aware, RCOM was one of the sponsors of the ICC World Cup, 2011 both on the field and on air, and we fully leveraged the Cricket World Cup fever to enhance our brand imagery. During the World Cup, RCOM was rated among the Top 10 'On screen' brand ahead of any other Telco.

**8. Debt:** There are several initiatives, which are underway in the area of debt management.

You may recall, during the quarter, we have signed the final documentation with China Development Bank (CDB) for a Rs. 6,000 crore (US$ 1.33 Billion) loan facility. This represents the first and largest ever Syndicated Loan for refinancing Spectrum Fees. RCOM has also signed an additional Agreement for Rs. 2,700 crore (US$ 600 million) with CDB, for financing imports / domestic expenditure of telecom equipment from Chinese vendors (namely, Huawei and ZTE).

The aggregate financing of Rs. 8,700 crore (US$ 1.93 billion) has a maturity period of 10 years, contributing to significant extension of RCOM's debt maturity profile, apart from substantial savings in interest costs. As of today, RCOM has already drawn Rs. 6,000 crore (US$ 1.33 Billion) towards refinancing of 3G spectrum fees. The drawn down amount will be used to refinance RCOM's short term rupee borrowings.

Other strategic initiatives are underway to de-leverage the balance sheet, which shall be shared at a later date.

**9. On Regulation:** The consultation paper on IUC is underway, led by TRAI. In order for the new MTC regime to be pro-consumer and pro-choice, RCOM strongly supports a 'bill & keep' regime in India, in-line with Global Best Practices. We believe that a 'bill & keep' regime (sender keeps all), if implemented in Q2 will go in a long way in further enabling telecom contribution to India's growth trajectory through a second wave of subscribers and services growth.

In the area of spectrum & licensing related payouts, we would like to reiterate that RCOM neither has any excess spectrum payout costs (except 1.8 MHz in Bihar) nor does it have any major licensing renewal payment obligations over the next 10 years, unlike other incumbent operators.

I would now like to share some of the key highlights of the financial performance during the quarter.

- Consolidated Revenue at Rs. 7,876 crore, up 57.4% against Rs. 5,004 crore in the sequential quarter

- Consolidated Revenue grew at 6.9% on a sequential quarter basis (like to like) excluding first time IRU License income impact

- EBIDTA at Rs. 4,122 crore against Rs. 1,668 crore – increase by 147.1% sequentially

- EBIDTA margin has improved from 33.3% to 52.3% sequentially and is one of the highest in the industry

- Net profit of Rs. 169 crore, down against Rs. 480 crore in the sequential quarter

On the financial performance of Wireless Business during the quarter, we achieved revenue of Rs. 4,198 crores, an increase by 3.3% QoQ basis and EBITDA of Rs. 1,149 crores. Our EBITDA margin stood at a healthy 27.4%. Revenue growth is consumption driven through "paid minute" growth of 3.2%. Revenue growth normalized for 2 days less in the quarter translates into a growth of over 5.5% for Q4, 2011.

Let me now discuss the operational performance of our non wireless business.

During the quarter, in the Global Enterprise Business, we continued to acquire new contracts and win repeat business from our existing customers in India and around the globe.

In Enterprise business, we have achieved revenue of Rs. 691 crores, an increase of 11.7% QoQ basis and EBITDA of Rs. 226 crores with a marginal decrease of 0.3%.

In Globalcom business, we have achieved revenue of Rs. 4,476 crores, an increase by 132.7% QoQ basis and EBITDA of Rs. 2,912 crores, with EBIDTA margin of 65.1%. Revenue and EBITDA includes IRU license income of Rs 2,545 crores and Rs. 2,530 Crore respectively, arising from change in accounting policy effective from fiscal 2010-11 onwards to recognize income upfront from exclusive and non cancelable IRU contracts.

Globalcom revenue growth excluding the 1st time recognition of IRU license income is 3.8% on QoQ basis.

**A word on the IRU license income:**

In India, we are significantly ramping up sales of Fiber and Duct on IRU basis driven by demand from telco-customers to rapidly expand their network coverage as well as increase capacity of network to meet end consumer data requirements and reduce TCO (total cost of ownership) for them.

License Revenue is required to be booked in the year of accrual in accordance with Indian GAAP. The change in accounting policy has to be uniform across RCOM group for consolidation under Indian GAAP Accounting Standards effective from fiscal 2010-11 to recognize income from IRU contracts which are non cancelable and non refundable. We have implemented this change in accounting policy uniformly across the RCOM Group including our companies outside India which sell bandwidth capacity and infrastructure on IRU license.

**Enterprise Business Highlights**

I am pleased to share with you that our Enterprise business continues to experience robust demand and the Company's strategy and positioning is paying off as demonstrated by higher wallet share and higher revenue market share in the Enterprise space. RCOM continues to the undisputed leader in Enterprise space including Data Centre. First let me quickly walk you through the broad trends in the Enterprise segment:

1. Data and internet requirement continues to grow exponentially;

2. Enterprise connectivity requirement is increasingly becoming multi-point

3. Enterprises want bandwidth-on-demand: Global Ethernet and MPLS VPN are preferred means of connectivity;

4. CIOs are looking to outsource their telecommunication requirements with stringent performance SLAs and we are well-positioned in the space

5. All of above trends are leading to strong demand for Data Centers in top metros and Managed Security Services;

We remain at the forefront of data center business in India with the largest data center span with over 450,000 square feet across 9 data centers in India. We also have 9 data centers outside India. We are leading the consumerization of IDC through "Cloud" computing services. In doing so we are building global alliances with partners like Microsoft for Virtual Hosting and Hosted Exchange; IMAIL for mail on demand; Anti-Virus and Anti-Spam using CISCO Ironport Platform. We are building a positive virtuous cycle where partners and customers both gain from our ever growing cloud services stack.

RCOM is among the Top 2 NLD operators in India, with deepest metro fiber network in India with over 1 million buildings connected, metro network in 26 metros outside India with over 28,000 kms and the largest subsea global network connecting around 40 countries. In India, we are the only service provider with capability to provide high speed connectivity to widest coverage of almost 20,000 cities and towns using multiple modes of connectivity.

We are able to extend our proven Global Ethernet leadership in the US, where we are among the Top 10 providers and in Managed Services capability in the US and Europe where we compete with Verizon, BT Global Services to win global multi-year deals to consistently win enterprise contracts around the world.

In India, we have received orders of over Rs 260 crores in Q4 FY2010-11. Our continued focus on the government vertical has borne results as we bagged various esteemed projects from National Payment Corporation of India Ltd, Tamil Nadu Electricity Board and MAHARASHTRA STATE ELECTRICITY DISTRIBUTION COMPANY.

We expect the India Enterprise data market to double in the next 3 years with IDC and Managed Services accounting for 50% of total data market revenue from around 30% at present.

In the US and Europe we continue to win deals in competitive bids. In Q4, we signed contracts to provide managed services to the third largest French sporting goods retailer and multi-year Rs 57 Cr deal with US-based leader in the office furniture.

**Carrier business Highlights**

In the Carrier business, we booked orders of Rs 300 crores in Q4 FY 2010-11. This is double the value of contracts signed in Q3 FY 2010-11. RCOM remains the largest ILD provider.

I am pleased to share that our Hawk cable system will be operational this quarter.

Our FA1 system across Atlantic is upgraded on 100G platform, lit currently using 40G wave. In the current quarter, we expect to upgrade capacity on our FNAL, FALCON and FEA cable systems on 100 G per wave platform to meet the exponential demand for internet bandwidth from India, China and the Middle East. With 40 G system, capacity will go up by 2.5 times and introduction of 100 G capacity will go up by 5 times from current capacity.

The International Voice business continued robust growth. It has grown 71% in Q4 on YoY basis. Reliance has consistently been in the top 15 Voice Traffic Carriers in the world. We are # 1 International voice carrier in India and have grown 11% on QoQ basis, higher than the average market growth. We have added several first time customers and expanded our relationships with existing carrier partners.

**On the Way Forward for this segment:**

As broadband penetration increases in the country, Enterprises are finding new ways to utilize this capability in delivering different types of services to their customers and manage their operations. We see continued surge in Internet based applications. This fuels demand for data center and network infrastructure and the service layer. We are well positioned to meet this demand with products and services designed to meet the requirement of specific industry verticals like Financial, Healthcare and Government. We are effectively leveraging our proven expertise to gain more wallet share from existing customers and increase revenue share with new logos.

**On to Capex:**

On the overall capex for RCOM, we have spent in line with our guidance of Rs.3,000 crores (ex 3G) for FY11. The total capex spent was about Rs.4,300 crores including the incremental capex spent on account of 3G launch, which was not provided for in the initial guidance.

Similar to FY2010, our FY2011 capex (excl 3G) has been funded through internal accruals. With the peak capex behind us, we would continue to stretch and sweat our assets to produce higher productivity and invest optimally in high growth areas like DATA, to enhance value for our shareholders. We are expecting to spend Rs. 1,500 crore on capital expenditure during FY12 and shall continue to generate free cash flows in order to meet our capex requirement through internal accruals.

To conclude my initial comments, let me reiterate:

1. This has been the strongest revenue growth quarter for RCOM as well as for Wireless in the past 7 quarters delivering, a sequential QoQ growth of 6.9% (excluding the 1st time, IRU license income impact).

2. Our focus on driving a realigned, 'profitable portfolio' is beginning to bear dividends and DATA led non-voice growth as well as paid minute growth is driving revenue.

3. RCOM is FCF positive for second year in a row on an operational basis and the capex guidance for FY'12 is Rs.1,500 crores only, to be funded through internal accruals

4. RCOM is the 2nd largest telco in the India with 136 Million customers in the Wireless segment, No. 1 in the Enterprise including Data Centres, and No. 1 in ILD (International long distance) and among the Top 2 in NLD (National long distance) operations

We are confident that we have laid the foundation for a sustained profitable revenue growth and with peak investments and projects behind us; we look forward to enhance further shareholder value in the coming quarters.

I now hand over to the Moderator to open the floor for Q&A. Thank you.

**Operator:**

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

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

First in line we have a question from Mr. Vinay Jaysing from Morgan Stanley. You can go ahead sir.

**Mr. Vinay Jaysing:**

Thank you so much. Sir, with regard to the change in accounting in the IRUs in the global business, you have given the figures for the revenue, EBITDA and the depreciation, which obviously is also much higher. My first question is, what will be the impact if I had not taken the IRU into account in the depreciation? Also, the revenue and EBITDA figures which you mentioned, are they only for this quarter or for historic quarters as well?

**Mr. Punit Garg:**

Hi, Vinay. As mentioned by Mr. Syed in the opening speech, the amount which has been taken in the revenue is Rs. 2,545 crore and in EBITDA is Rs. 2,530 crore. And whatever you are seeing in EBITDA, the depreciation has also increased by almost the same amount. If this change wouldn't have been done then the profits would have been higher by approximately Rs. 47 crore.

**Mr. Vinay Jaysing:**

Sir, if this is the case, then what happens in the incremental quarters, because this is a one time change you have made? Does it mean that whatever you get incrementally in terms of IRUs would become a normalized business? Can you give us some guidance there, and what would be the figures just for this quarter?

**Mr. Punit Garg:**

Vinay, I think you would have read in our notes to accounts that there is a change in the accounting policy. What led to this change? Earlier, in India and especially in our national long distance business, we were doing the bandwidth sale on lease basis. Mr. Syed mentioned in his opening speech, that there was sale of IRUs for fiber, duct and bandwidth, which had been accrued in last fiscal year i.e. 2010-11. License Revenue is required to be booked in the year of accrual in accordance with Indian GAAP. The change in accounting policy has to be uniform across RCOM group for consolidation under Indian GAAP Accounting Standards effective from fiscal 2010-11 to recognize income from IRU contracts which are non-cancelable and non-refundable. We have implemented this change in accounting policy uniformly across the RCOM Group including our companies outside India which sell bandwidth capacity and infrastructure on IRU license. I hope this answers your question Vinay?

**Mr. Vinay Jaysing:**

Yes sir, it does. It just throws one small question on depreciation. If I knock off the EBITDA as you mentioned, out of the depreciation, the depreciation for the year actually reduces marginally to about Rs. 1,020 crores. With 3G coming-in in this quarter, I would have assumed the company's depreciation would have been higher.

**Mr. Punit Garg:**

If you compare March 2010 and March 2011 numbers on depreciation, actually the overall depreciation has increased on a like-to-like basis. Also, the 3G license fees and capex have not been amortized. Syed, may be you can throw more light on the 3G capitalization.

**Mr. Syed Safawi:**

Yes, that is a fact. We will start amortizing during the course of this year.

**Mr. Vinay Jaysing:**

Sure. Just one last question on the wireless business. You did mention the revenues have increased, which we can see. The EBITDA margin or the absolute EBITDA was a bit lower. Any light of what is going to happen to that in the quarters to come once you know obviously 3G is coming on now?

**Mr. Syed Safawi:**

Vinay, the impact on the EBITDA margins by about 30 crores on the wireless segment is on account of the higher SG&A expenses, which is driven by about 1.7 million higher customer acquisition as you can see. So, it is related to higher acquisition during the quarter. We expect with higher contribution coming from data/3G/non-voice business, and RPM sustaining now for four quarters, I think we are in a good position to be able to sustain this.

**Mr. Vinay Jaysing:**

Thank you so much Sir.

**Mr. Syed Safawi:**

Thank you Vinay.

**Operator:**

Thank you Mr. Vinay. Next question comes from Mr. Shobit Khare from Motilal Oswal. You may go ahead Sir.

**Mr. Shobit Khare:**

Good evening Sir. Thanks for the opportunity. First I wanted to clarify on the notes to account, point 3, which mentions about Rs. 159 crores of bad debts and about Rs. 77 crores of fuel cost being adjusted in the balance sheet. I just wanted to check what this is pertaining to? Second is, the CWIP still remains quite high even if we exclude the 3G spectrum fees and associated Capex. So, what is the CWIP related to?

**Mr. Arvind Narang:**

Shobit, CWIP, has actually reduced significantly in this quarter. It has come down by around Rs. 1,770 crores and this is excluding the effect of 3G spectrum fees and the related electronics. If you take the effect of related electronics and other expenditure of 3G then the net reduction is over Rs. 3,000 crores. So, there has been a significant reduction in this quarter in CWIP. Also, when we will launch 3G services commercially, we will amortize all the related assets over a period of 20 years which is the spectrum license period. So, that will significantly reduce the CWIP in the coming quarters.

**Mr. Shobit Khare:**

Okay. And on the RITL?

**Mr. Arvind Narang:**

For the scheme of merger which is allowed on the RITL, it is already mentioned in the annual report, and it is consistent to that disclosure.

**Mr. Shobit Khare:**

If I could ask one more question, what would be our average cost of debt and any repayments that are due in the next two years?

**Mr. Arvind Narang:**

The main repayment is the FCCB tranche, which is due in March 2012.Other than that, there are regular debt payments which are on equated installment basis. But that does not put any significant amount of outflow pressure on the cash flows. So, FCCB is the main repayment which is relatively large and which is still about 8 to 9 months away.

**Mr. Shobit Khare:**

Sir, any number you can give on average cost of debt currently?

**Mr. Arvind Narang:**

The average cost of debt has been coming down consistently and even now we have further reduced the average cost significantly by replacing the high cost rupee loans with the China Development Bank loan of Rs. 6,000 crores which we have already fully with-drawn as on today. This will further bring the cost down, and net savings would be around Rs. 500 crores. So, overall cost of debt is coming down.

**Mr. Shobit Khare:**

Okay, Sir. Thanks, that is all.

**Operator:**

Thank you Mr. Shobit. Next question comes from Mr. Rahul Singh from Standard Chartered. You may go ahead Sir.

**Mr. Rahul Singh:**

Yes, hi, good evening. I have two questions. One is on network opex; it has gone up for the entire company as a whole from Rs. 1,249 crores in 3rd quarter to Rs. 1,533 crores in this 4th quarter. I just wanted to understand, especially because you have not capitalized the 3G capex, what is leading to that increase in network opex assuming that the number of sites might have remained the same? And the other thing is on the wireless business and this question is specifically to Mr. Safawi. What is your sense on the competitive stability in the market? Are we seeing just a lull before another round of cuts as telecom players become frustrated with the low revenue growths and try to capture market share again, which is what happened earlier, or do we think this is for real?

**Mr. Syed Safawi:**

Rahul, we will take both of your questions. One is on the network cost. So, Arvind can revert on that. I will come back to the second one.

**Mr. Arvind Narang:**

Yes. Rahul, the network cost which has increased by about Rs. 284 crores is largely due to the expansion of our 2G network and also the significant expansion of high speed data services or the EVDO services. As mentioned in the speech, we have now expanded this service to over 500 towns. This has basically led to a significant increase in the power and fuel charges along with the stores and spares, and others. Also, there is some cost increase on the content side in the DTH business.

**Mr. Syed Safawi:**

Rahul, on your question on the outlook and what do we have as a sense, and what is going to happen in the industry, I think, the days when the industry saw rapid declines in tariffs for example, we think at least at a national level, that is behind us. And we are definitely witnessing four quarters now or almost a fifth quarter now of sustained RPM levels. So I think that is good news at a national level that no big moves are happening as they happened a year before or six quarters before. And we see that consistency remaining, especially because data and non-voice services will start having a larger share of the total revenue. Therefore, in blended RPMs you should see healthy numbers and not much dilution. There would be tactical stuff happening at a circle level. In the space of number of operators, I think in an indirect way you are already seeing consolidation happening. Many of the new operators are not even rolling out their networks even as per the rollout obligation. So in an indirect way consolidation is beginning to happen. We do feel in a space of next 18 to 24 months, we should see the industry down to logical 5 to 6 odd players who may then sustain and be able to drive the business.

**Mr. Rahul Singh:**

Okay thanks. Arvind, one follow-up question on the network operating cost. How many cell sites you have and what is the tenancy level on Reliance Infratel right now, if you can give both the numbers?

**Mr. Arvind Narang:**

The total towers are in the range of around 50,000 which we have said earlier also and the total tenancy which has been going up is around 1.8.

**Mr. Syed Safawi:**

With our tenancies of around 78,000.

**Mr. Rahul Singh:**

Okay, thanks.

**Operator:**

Thank you Sir. Next question comes from Ms. Malvika Gupta from J.P. Morgan. You may go ahead please.

**Ms. Malvika Gupta:**

Hi there. Thank you for taking my question. I had a question on the Capex side. I was just wondering which segment specifically is driving the Capex down, if you look at it on a year-on-year basis. Whether we are mostly done with the global capex which sometimes tends to be lumpy or whether there is more to come there, and whether it is the wireless that is truly driving it down?

And my second question is more on the wireless usage side of the business. I am just trying to get my head around whether we should be thinking about volume, as in minutes growth, where we see ARPM stability being favored over possible MOUs. Thank you very much.

**Mr. Syed Safawi:**

Malvika, on your first question on Capex being driven down in terms of at least the outlook or the guidance, definitely it is the wireless segment because, if you see, for over the last three years we have been investing heavily in rolling out our 2G GSM services and that has been the reason for high Capex levels. Before that it was CDMA, and then 2G GSM, and then recently we went on to invest behind 3G as well. Those huge projects are behind us now, and right now the Capex would be focused on driving quality, capacity congestion and lot of it would be focused on data growth. As we mentioned, we are likely to move up from 850 towns of high speed data and 3G to well beyond 1,000. So, that will remain the focus. Therefore mass rollout of sites and huge projects are well behind us and that is leading to the drop in terms of Capex guidance.

Moving on to you wireless usage question, I think, just sheer MOU growth which used to be a key indicator earlier is not going to be good enough and we have said this for the last couple of quarters. MOU growth along with RPM is critical now to drive profitability of the telecom segment. At 44 paisa or less than one cent a minute, we really need to focus on rates as well and paid minutes especially, and I think therefore seeing only high MOU growth is not going to be good enough. And therefore we have consciously reduced our dependence on PCO, for example, which used to be the non-profitable minutes as we have stated before and that is beginning to bear dividend. So, Yes, MOU growth would be important but, it is extremely important to read it along with the rate per minute.

**Ms. Malvika Gupta:**

And Sir, if I could just ask a quick follow-up, we talked earlier probably in the previous conference call about cleanup of free minutes on the network which include wholesale and PCO. Are we done with that process, if we are not, how much longer will the process continue?

**Mr. Syed Safawi:**

Yes, Malvika, we have absolutely said that for the last couple of quarters. We said it will take three-four quarters. Two quarters are behind us. We have just said on the call in fact, that another two quarters and the whole realigned portfolio should be in a very good shape. The increase in data as you are seeing now and the non-voice revenue is helping rebalance the portfolio and therefore reducing our dependence on non-paid minutes. So another couple of quarters and I think we should be completely realigned on the portfolio.

**Ms. Malvika Gupta:**

Okay, thank you very much.

**Mr. Syed Safawi:**

Thank you.

**Operator:**

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

**Mr. Rajiv Sharma:**

Yes, thanks for the opportunity. I have a couple of questions. First being, could you share the number of data cards which are being sold today and what is the average ARPU or if you could just share the amount of impact it has post you have increased your Capex on the data card side especially the EVDO which is also visible in the network opex, as to how is that impacting the top line today? Second, is there a push from your end as a strategy to vacate more and more space on the CDMA side from voice to data and are you churning subscribers from CDMA to GSM or shifting them, is anything around this you are doing? And lastly, on the accounting policy, how much of this entire impact is just pertaining to this particular quarter and not for the full year? That is it.

**Mr. Syed Safawi:**

Rajiv, I will take the first two questions and hand over the third one to Punit. One is on data cards. Obviously for competitive reasons, we will not be able to share with you the exact numbers we are doing month-on-month but, as you can see from a contribution of non-voice revenue, and the fact that RPMs are holding, and while we are driving blended minutes growth also, I think this is evidence that now we are in 850 towns with high speed data or 3G versus 65 towns as of September end last year. In a space of three quarters we have expanded almost 12 to 15 times in terms of our high speed presence. That should give you an indication of the number of data cards and data consumption that is happening; obviously we cannot divulge the specific details.

There is no intended or planned churn from one technology to another. It is the consumers' choice. If they want to do it then they are absolutely welcome. But both networks are high quality networks. You have just seen the report on the quality of service. So, we are very comfortable in having customers on both sides and absolutely have no intentional plans which churn them either way.

**Mr. Punit Garg:**

Rajiv, as we said initially, the onetime income which has been added on account of IRU license in this quarter in revenue is Rs.2,545 crores and in EBITDA it is Rs.2,530 crores. With the new accounting policy in place, from next quarter onwards it would be all normalized and the same accounting treatment will continue.

**Mr. Rajiv Sharma:**

Okay, thank you very much.

**Operator:**

Thank you Mr. Rajiv. Next question comes from Ms. Reena Verma from Merrill Lynch. You can go ahead please.

**Ms. Reena Verma:**

Hi, thank you for the call. Just firstly on the housekeeping side on your IRU accounting change. What happens going forward; is there any visibility in terms of the seasonality to IRU sales?

**Mr. Punit Garg:**

Reena, what you are seeing here is a change in accounting policy which has been led by our Indian operations. So, it is not a seasonal sale but, it is normal business for us as far as our carrier business is concerned. As there is high demand across our fiber and duct assets in India, there is high demand across bandwidth which we call capacity services, as well as fiber across our global submarine network. We keep making those sales week after week. So, you would see this not as a lumpy sale coming end of the year or in a quarter but you would see that on an ongoing basis as a recurring regular revenue and profitability as part of our accounts. Thank you.

**Ms. Reena Verma:**

Punit, thank you for that and sorry for being slow on this one but, if I were to then assume a no-growth business, every month the IRU sales would be about Rs. 200 odd crores going forward?

**Mr. Punit Garg:**

I am not saying that would be Rs. 200 odd crores. All I want to say is that this is just a change in accounting policy and the business remains the same.

**Ms. Reena Verma:**

Okay, thank you. And then on 3G, can we please understand what percentage of your network is 3G enabled and what is the current network utilization both for your CDMA and for your GSM networks? And could you give us a broad flavor of where your VAS revenues are as a percentage of overall mobile revenue?

**Mr. Syed Safawi:**

Reena, in terms of 3G rollout we are now available in all the 13 circles where we won the 3G spectrum, and we are present in about 9,000 towers and in 330 towns. So, that is the extent of our footprint on the 3G network.

**Ms. Reena Verma:**

Sure, okay. So, for the coming year Syed, would it be fair to assume that you are content to stay at about 20% enablement of your network for 3G?

**Mr. Syed Safawi:**

Reena, we have a dual strategy on data as you know, both 3G and CDMA. For 3G lit circles as well as 3G dark circles, as we call them, we will continue to drive both depending on the requirements of the market. So, it is a little premature to say that how many numbers of towns we will rollout further in 3G. We are just in the process of completing that rollout actually, and we will take an assessment in the next couple of quarters on how the uptake is in the smaller markets where we have rolled out. And then may be in a couple of quarters we can recalibrate our foot print on 3G.

**Ms. Reena Verma:**

The reason I am asking is that your Capex guidance for FY12 looks so low. I am wondering, how or what is it that you will compromise in order to achieve such a low Capex guidance? Do you think that you are not focused on subscriber additions anymore, because even if I take 78,000 tenancies you still have very high number of subs per BTS? Even if I adjust it for a level of inactive subs on your network, you are still fairly utilized. So, what allows you to have such a low Capex intensity?

**Mr. Syed Safawi:**

Because, as I mentioned, the mass rollout and the big projects are behind us, Reena and therefore this will now be focused on value where we see, for example, data growth or network quality investments need to be made or obviously new towns which are paying back. Just to your 3G question, look, the 3G handset ecosystem also has to evolve parallelly. So just being available in terms of 3G is not enough; the 3G handsets have to be available at an affordable price in the rural markets for you to go and put out a network and get the 3G consumption going. So, I think you will have to watch the space as we go along as an industry and therefore investments will follow. But we do not have any worries because this is just incremental Capex that you have by putting on the electronics. This is not a new tower that you are deploying, and therefore to compare a 2G GSM rollout with a 3G incremental Capex is not correct. Therefore the capex guidance I think is in line with that.

**Ms. Reena Verma:**

Okay, just final two questions from me. One is on your broadband margins. Can you please throw some color on what is the pressure factor there?

**Mr. Punit Garg:**

Reena, when you are looking at our enterprise business, the CIOs are becoming demanding. They are basically demanding more services for the same price. And also we are expanding the network, which is more demand led. Initially, our network opex will increase as we are expanding this network, but within a quarter or two it comes to normalization as we rollout our VPN and internet bandwidth and then the revenue starts coming in. This has been largely because of the government tenders that we have won, as also Mr. Syed was telling on the APDRP and data centers, etc. So the opex starts before the revenue starts coming in and hence you see a marginal dip in margins. So, one should see that getting normalized in the following quarters.

**Ms. Reena Verma:**

Sure, thank you. And my last question is on your revenue growth for wireless going forward. Could you share with us any color on how much of it you think will be driven by traffic growth and how much by data in terms of some kind of trend which you are seeing. Is it traffic which is making you feel buoyant or is it data or are both growing strongly?

**Mr. Syed Safawi:**

Reena, we see growth in both areas clearly. I do not think this is an either or situation in India. When you have 800 million customers in India, i.e. wireless customers, and taking out the dual SIMS, you barely have 500 million unique customers in India for wireless. Therefore, we have another 500 million to go in India in terms of just our sheer wireless space, and therefore the MOU consumption coming from there. So that part will continue in semi urban and rural much more than urban of course, but data will start getting driven starting from urban and going down to the top 1000 towns, 2000 towns, as we evolve. And therefore as smart phones, PCs and laptops become widely available and 3G phones become available, you will see both streams paying off. But definitely we are bullish on both. We do not see any material slowdown in either of the areas. But as is the case across the world, data will definitely continue to be a growth driver and we see therefore a lot of focus from our side on non-voice as well at the same time driving voice.

**Ms. Reena Verma:**

Okay. Thank you very much.

**Mr. Syed Safawi:**

Thanks Reena.

**Operator:**

Thank you madam. Next question comes from Mr. Varun Ahuja from UBS. You can go ahead please.

**Mr. Varun Ahuja:**

Yes, Hi Sir, Thanks for the opportunity. I have two questions. You just mentioned that you started focusing on the government segment for the enterprise or Globalcom business. I just wanted to make sure what kind of Capex you are looking there? And in terms of your tax, can you just give us some kind of indication what tax rate should we expect in next fiscal year?  Thanks.

**Mr. Punit Garg:**

Thanks Varun. Three things are involved when you are looking at our demand led expansion and the Capex. First is that, we are today already present in almost 2,000 towns and wherever our BTS is connected on fiber, we can reach a customer over there using either of the wireless technologies. And there we can use WiMAX or take advantage of VPN connectivity up to 512 kilobits using EVDO or 3G for that matter. So, I think the capex is really dependent upon what kind of connectivity is required. Second thing is that when we talk about some of the data center builds, etc., then that again is dependent upon what kind of opportunities we have. You will be surprised that there isn't any business town or there isn't any industrialized town where we do not have today the wireless connectivity or BTS in terms of reaching the last mile over there using especially one of the wireless technologies or if required a high bandwidth connectivity fiber itself.

**Mr. Arvind Narang:**

Varun, we will not be able to give you any tax guidance. You have the data points historically available with you. It is your judgment what you can use, but we don't provide any tax guidance.

**Mr. Varun Ahuja:**

Okay, thanks sir.

**Operator:**

Thank you Mr. Varun. Due to time constraint, this was the final question.

That does conclude our conference for today. Thank you for participating, you may all disconnect now.