RELIANCE COMMUNICATIONS LIMITED

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

Transcript of Earnings Conference Call for the Quarter ended March 31, 2014

Conducted at 1.30 pm IST on May 5, 2014

Moderator:

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

This is Mamta, the moderator for this conference.

At this time, all the participants are in listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised, this conference is being recorded today.

Today, we have the senior management team from Reliance Communications namely Mr. Vinod Sawhny, who has recently joined as RCOM CEO, Mr. Gurdeep Singh, Mr. Punit Garg, Mr. Bill Barney, Mr. Deepak Khanna, Mr. Arvind Narang and Mr. Manikantan Iyer.

The call will begin with some key observations by the management followed by a question and answer session. I must remind you that the overview and discussions today may include some forward-looking statements that must be viewed in conjunction with the risks that the company faces.

I hand over the call now to Mr. Vinod Sawhny. Thank you.

Vinod Sawhny:

Thanks, Mamta. Greetings and welcome to our fourth quarter 2014 earnings conference call. I have with me the senior management team of Reliance Communications. Thank you for joining us on the call.

On Friday, May 2nd, 2014, our Board of Directors adopted the results for the fourth quarter of the financial year 2013-14 ending March 31st, 2014. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I hope you have had a chance to go through the same.

I will start with the key financial highlights for this quarter:

- **Revenue:** Total revenue for the quarter stands at Rs. 5,671 crore, up 5.0% Q-o-Q from Rs. 5,403 crore in 3Q FY'14.

- **EBIDTA:** EBIDTA for the quarter stands at Rs. 1,852 Crore, up 0.4% Q-o-Q.

- **PAT:** PAT has increased to Rs. 156 crore from Rs. 108 crore in 3Q FY14, an increase of 43.9% Q-o-Q basis.

- **RPM & ARPU:** RPM is stable at 43.2 and ARPU for the quarter is Rs. 128, up by 2.4% Q-o-Q basis. Over the last year, we have improved RPM by 7.2% with tariff hikes and strong focus on paid and profitable minutes.

- **Free Cash Flow:** RCOM continues to be Free Cash Flow positive in this quarter. RCOM generated EBIDTA of Rs. 1,852 crore, paid net finance charges of Rs. 907 crore and invested Rs. 467 crore on CAPEX during the quarter.

There is an increase in depreciation on account of recognition of IRU and impairment of certain assets in India Operations, but the same is offset by a net tax credit of Rs. 1,026 crore in the P&L Account.

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

- The fourth quarter India Operations' revenue and EBIDTA stands at Rs. 4,649 crore and Rs. 1,659 crore respectively.

- Voice ARPU has increased to Rs. 98 from Rs. 96 in 3Q FY14, an increase of 2.1% Q-o-Q. Voice RPM for the quarter stands at 33.0 paisa, marginally down by 1.5% Q-o-Q.

- We currently serve 37.4 Million wireless data customers. Our 3G customer base has grown 16.2% Q-o-Q basis and stands at 12.9 Million. 34% of mobile Internet users on the RCOM network are 3G users, enjoying high-speed data services.

- Total data usage on our network is 50,251 Million MBs, a growth of 20.5% Q-o-Q and data usage per sub is 455 MB, which remains the highest in the industry.

Let me now share our views on the sector:

1. **Regulatory clarity has emerged and is positive for future growth of the industry:**

   During the year, the regulator has taken positive steps and provided clarity on most of the regulatory issues including, allotment of spectrum in future, spectrum pricing, Mergers & Acquisition guidelines and Spectrum Trading.

2. **Pricing power back with operators:**

   The open market auction has made spectrum a very expensive input for the telecom industry. The industry is also facing inflationary input cost pressure in terms of power & fuel, manpower, etc. In parallel, there is virtual consolidation in the industry, which is stabilizing the competitive intensity.

   Because of these developments it is very important that pricing power comes back to the operators. The industry is expected to see RPM hardening either through firming-up of headline tariffs or by removing free and discounted minutes. The industry is now focused on profitable and paid minutes. This will certainly help operators to increase their realization and improve financial performance.

3. **Voice market still has room to grow:**

   Currently, Industry has 500 – 550 Mn. unique users after accounting for dual SIM holders. With VLR penetration of 86.4% and rural India penetration at 40%, the industry can add approximately 200 Mn new subscribers.

4. **Data is going to be the next growth driver:**

   The hardening of RPMs will be further supported by increasing contribution from data revenue. India currently has 220 Mn wireless data users and only 43.2 Mn wireless broadband users, with a penetration of less than 25% for 2G data and just 5% for wireless broadband. This shows that data has the potential to grow exponentially in the coming years.

   Industry estimates indicate that data revenues to grow from Rs. 12,000 Crore/Annum to Rs. 36,000 Crore/Annum by FY 2016, with an estimated CAGR of 85%.

I will now share the key initiatives in Indian Operations:

1. **Proactively improve realized rates:**

   RCOM is taking proactive steps in improving the realized rate per minute. We were the first operator to increase the headline tariffs and initiated the process of removal of free and promotional minutes. Very recently, in another pragmatic step, we further increased tariffs up to 20 per cent for pre-paid customers across the country.

   This is to ensure that we maintain profitability under the current high spectrum cost framework and also to offset other inflationary costs pressures. We expect RPMs to improve over the next few quarters and this will positively impact our performance.

2. **GSM + Data "Growth Engine":**

   RCOM's GSM + Data business continue to be the growth engine for India operations. It has been growing mark to market or outperforming the market. We expect the contribution from GSM + Data to settle around 80% in next 18-24 months from current level of 72% of Wireless Revenue.

3. **Rejuvenate CDMA business:**

   I would like to share a few big ticket initiatives we have taken to revitalize growth and combat the headwinds we were facing in the last few quarters:

   a) introduction of GSM + CDMA smart-phones in the market

   b) dedicated CDMA team within mobility business and

   c) up gradation of EVDO network to Rev B in non-3G circles.

   CDMA shall add to growth of RCOM on the back of improved universal chipset and handset ecosystem.

4. **Acquire disproportionate share of "Smartphones" on our network:**

   We are taking multiple initiatives to increase the data penetration by making data plans more affordable, offering bundled product & services and entering into exclusive tie-ups with social networking sites.

   RCOM started a true internet revolution by offering 3G speeds @ 2G rates for Smartphone and Tablet users, to upgrade them to 3G experience. In addition, we have launched "Zero Plan" as a category, with tie-ups with some marquee brands including Apple, HTC and Nokia.

   These initiatives will increase the acquisition of high value post-paid smartphone users to RCOM customer base and continue to consolidate our position as India's leading data services provider.

5. **"Capex Lite" expansion:**

   We continue to follow our "Smart Capex" strategy by entering into 2G GSM ICR agreements with multiple operators in order to expand our network significantly.

   By end of 4Q FY'14, we have added 10,000 sites under these ICR agreements to enhance coverage and improve the quality of service. These ICR arrangements, which are based on "Pay as you use" model having tenure of about 24 months, will help us to accrue revenue without investments. Once we build sufficient traffic on the site, we can convert "Bridge ICR" to our own network by either incurring capex or using reciprocal arrangement with R Jio to have access to their sites.

   This will improve our time to market with minimal capital investment and result in higher operational efficiency, improved cash flows and most importantly it would benefit the customer as it will allow you to go where the demand is at a cost which is affordable.

6. **No significant regulatory payout:**

   For RCOM, the spectrum renewal for most of the circles is approximately 8 years away except for few “C” circles. RCOM has low payout on regulatory front and all incremental revenue growth is likely to be value accretive to RCOM.

7. **Infrastructure sharing with Reliance Jio:**

   In line with our focus on asset monetization and to avoid duplication of infrastructure, RCOM has entered into a strategic partnership and comprehensive framework of business co-operation with Reliance Jio Infocomm. It is still early days but we are confident to benefit from monetization of our assets on ground. Under this framework, we have now signed three agreements with Reliance Jio; (1) An inter-city optic fiber sharing agreement in April 2013, (2) A nationwide telecom towers infrastructure sharing agreement in August 2013 and (3) Very recently, RCOM extended this framework by signing a Master Services Agreement with Reliance Jio for sharing of RCOM’s extensive intra-city optic fiber infrastructure. Reliance Jio will utilize RCOM’s nationwide intra-city fiber network for accelerated roll-out of its 4G services across the country.

   The deliveries of towers and fiber infrastructure are progressing well. We have already delivered around 30,000 towers and we believe that we shall be able to deliver most of the required infrastructure in next 3 – 4 months.

Collectively these moves further strengthened the business and improved our competitive position in key areas of growth. Underlining these strategic imperatives has been consistently strong operational and financial performance driven by firm execution and a disciplined focus on meeting our financial objectives.

Now, let me share developments in Global Operations.

The fourth quarter Global Operations’ revenue and EBIDTA stands at Rs. 1,261 crore and Rs. 193 crore respectively.

During Q4, we re-engineered our global operations to focus squarely on the infrastructure sectors that are the core of all customers Cloud deployments. The launch of our new "go to market" capabilities establishes a new era for the company as we are now shifting from a traditional connectivity/infrastructure play to uniquely utilizing our subsea cable network, data center and managed services capabilities to create a uniquely integrated cloud ecosystem. As Global Cloud Xchange, we have operationally merged our 3 key global assets Flag, Vanco and Yipes into one company

As we survey the near horizon of this new technology era -- it is evident that innovation will continue in the software layer and big data will get even bigger. As business requirements become more sophisticated, our focus will be on further integrating our global assets to serve existing and future requirements of new media companies, carriers and enterprises. To achieve this, we are completing the enhancement of our global fiber architecture; deploying cloud nodes across strategic markets; and re-embracing the emerging markets where substantial growth is evident.

We are already seeing success in the deployment of our new strategy and were able to grow top-line in the last quarter. We expect sustained steady growth in the coming quarters as we continue to expand network infrastructure and enhance our product portfolio to deliver value added services across our new cloud platform.

To summarise, let me reiterate:

- RCOM continues to lead the industry in taking steps to improve RPM by increasing the headline tariffs, which shall positively impact performance.

- RCOM to build upon the foundation and strength of our network assets as the platforms for the future growth and innovation. To achieve that we are extremely well-positioned in the center of the trends that are driving growth in our industry

- Continue our focus on strong growth in data usage and position ourselves as India's leading data service provider

- RCOM continues to focus on monetizing its assets, generating incremental cash flows and improving shareholders returns.

- In Global Operations, we accelerate growth in the infrastructure, data center and managed services space, and deliver the world's first truly integrated cloud ecosystem.

Finally, I would like to say that RCOM will continue to strive for innovation in order to offer unique value proposition to our customers in terms of product portfolio, bundled tariff plans, network experience and customer service.

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

Operator:

Certainly Sir.

At this time participants who wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

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

Mr. Sachin Salgaonkar:

Hi! Thank you for the opportunity. I have three questions. Question #1, in this quarter we did see a huge increase in D&A. It would be helpful if you could help us break it off, or what was the reason for the increase in D&A. Second question is on Reliance Jio, now obviously we have talked a lot about incremental revenue opportunity from them, can you help us quantify the overall opportunity and in which quarter we could see revenues coming into your P&L? And the last question is on tariffs, while on the ground we did see RCOM raising tariffs, it is not getting fully reflected into your this quarter numbers. So, just was wondering what is going on, when could we see a headline increase in RPM on your reported numbers? Thanks.

Mr. Arvind Narang:

The increase in depreciation is on account of recognition of IRU and due to impairment of assets in our India operations, which includes the battery banks, ACs, DGs and some other old electronics of earlier generation category. So it is basically a one-time impairment which is creating this spike of depreciation, but our depreciation on quarter-on-quarter basis shall be in the range of Rs. 950-1,000 crore. Last quarter it was Rs. 948 crore, so ball park it is going to remain in that range.

Mr. Sachin Salgaonkar:

Okay, and Arvind could you help us quantify how much of that is one-off in this quarter.

Mr. Arvind Narang:

As I said around Rs. 975 crore is typically our depreciation rate per quarter, and the total depreciation which we have is Rs. 1,768 crore. So, Rs. 950-1,000 crore ball park you should see on a quarter-on-quarter basis as the depreciation going forward.

Mr. Sachin Salgaonkar:

Okay, got it, thanks.

Mr. Arvind Narang:

On your question on Reliance Jio on our various contracts and agreements, the first was Reliance Jio inter-city fiber deal and as we had said last time, we have already done the securitization of that transaction and we have already received the cash, and that has already been there in the balance sheet in Q2, and it has been largely utilized in reducing the debt.. Fiber delivery process and the acceptance process is already underway. As we keep delivering and the deliveries getting accepted obviously we will start booking that, and that has already started now, so that will continue to happen.

Mr. Sachin Salgaonkar:

So, what you are saying is, in this P&L we have a part of the RJio revenues?

Mr. Arvind Narang:

Yes, some have started happening, but as we keep delivering and it gets accepted we will continue to get that.

Mr. Sachin Salgaonkar:

Is this a part of India revenues or Global revenues? Where could we see that?

Mr. Arvind Narang:

These would be part of the India Operations.

Mr. Sachin Salgaonkar:

Okay. And anything you could quantify how big that opportunity will be going forward in terms of contribution? Because you know your overall numbers are up 5% QoQ or 5% YoY, and if this includes RJio numbers then you know I don't know how to look about it?

Mr. Arvind Narang:

The broad contours of our contracts and agreements are known, but specifically by customer in terms of giving the details of revenues it would be difficult as we are bound by confidentiality and hence we wouldn't be able to give the specifics on that, because we don't share customer specific numbers, but broad contours are available.

The second was you mentioned on the Reliance Jio tower deal, the tower deliveries are already being executed and delivered. We have already handed over close to 30,000 towers. Installation of equipment in these has also already started, first started with ancillary equipment infrastructure. Once the installation is completed from their side including the active equipments and the acceptance is done, then the revenue recognition will start. So, this is a three step process on that front, but as you know we are acting more as one of the suppliers in this whole value chain, so I won't be able to give you very specific time line for that, but we have given you the indication that how many towers out of 45,000 are already handed over.

The third is about the intra-city deal which has recently been announced. RJio will utilize RCom inter-city fiber network. We have around 500,000 fiber pairs across 300 cities. RJio is currently finalizing their plans in terms of the specific backhauls and the ring mesh structure and so on, which they are going to be finalizing in due course or in next few months. Depending upon the city, area, etc. you may be knowing that the rates are very different. It can vary from thousands or sub-one lakh to couple of lakhs per fiber pair kilometer. It is a broad range depending on the city and various other parameters. But that is the plan which they are finalizing and they are at the end of the final stage to finalize that, and subsequently we will start delivering this asset as well.

Mr. Gurdeep Singh:

Sachin, on the tariff, the recent tariff we just changed from 25th April as you would know, and it takes anywhere from 3-6 months to complete the tariff implementation cycle. As you know the headline tariff have been changed now after 14 months. We will move the customers as the expiry happens on their plans. You will be able to see the complete impact of the price change in the second quarter.

Mr. Sachin Salgaonkar:

Okay, and Gurdeep just one small follow up, is it fair to assume that RCom witnessed a bit of negative elasticity evident from the total minutes growth which is much smaller than its peers?

Mr. Gurdeep Singh:

To be honest and candid with you the answer to this problem is not in general but in specifics. The higher is the distance of the customer from the new tariff versus the current tariff they enjoy, the farthest leg of the customer, yes there is sensitivity, and we believe that sensitivity is a good sensitivity because they were ultimately delivering us the rate per minute which is below our cost to serve. So, I would say that in line with our continued thrust on growing profitable and paid minutes, this is a good news.

I just want to sort of take this question to a little larger sense, may be to benefit the other people on the line. We have been doing a few things in a systematic manner for the last 14 months. First we took the call probably in Oct-Nov'12, headline tariff first 1.2 to 1.5, then we followed with cleaning of the freebie and the promotional minutes, then we have been continuously weeding out the below cost-to-serve and the non-profitable customers, then we came and separated our focus on GSM and CDMA recognizing fully well that the CDMA handset ecosystem is suddenly rejuvenating under the universal chip ecosystem, and that has been just implemented in the last February, and then as we have said in the speech, in the previous and today as well, our leadership continues, we believe that we need to drive more penetration, more adoption, affordability especially 3G and 2G bundled data pricing offers with HTC, Nokia and Apple, are some of the initiatives that we have been taking, and we have very seriously taken to ourselves to create MNP as the key acquisition vehicle going forward because we have been firmly benefited ever since we have launched our data positioning in the market. So, if you see in the last 14 months in some quarters or the other we have been taking various steps to fix the base of the pillar of the business which is kind of strong and solid on which you can drive and accelerate the future growth, and I am happy and glad to share that in February and March we have come to at levels now where all the legs of the business, whether the tariff layer leg now, whether it is a postpaid focus, whether it is a data focus, whether it is a separate CDMA rejuvenation that we are doing, whether it is weeding out of non-profitable customers, whether bringing CDMA now to a stop-bleed, I think March was the first month we experienced CDMA is on a stop bleed, we hope it will continue in the future taking steps on the right side, and on the other side with the ecosystem improving sensible, mature behavior, hardening of the tariff, lesser number of players, every opportunity arriving which is helping us drive our spectrum led strategy far more efficiently in the market, I believe we are on a far more stronger footing today than we have ever been in the previous time. So, I am very hopeful as we go forward on the recent price and tariff change, we expect no elasticity, because the elasticity driven customers if at all have been already moved out or have been corrected, and we should see the full impact from Q2 onwards.

Mr. Sachin Salgaonkar:

Okay, sir. Thanks a lot sir, and all the best for the future.

Operator:

Thank you sir.

Next question comes from Amyn Pirani from Deutsche Bank. You may go ahead please.

Mr. Amyn Pirani:

Hi! Thanks for taking my question. Sir, just going back on the depreciation thing, you mentioned that part of it was also because of the recognition of IRU. So, correct me if I am wrong, there would have been some impact of IRU revenues also on the revenue line or is it just on the depreciation?

Mr. Arvind Narang:

There has been a small impact on the revenue as well.

Mr. Amyn Pirani:

Okay, and sir can you shed some light on the deferred tax asset as to what is the reason for creating that?

Mr. Arvind Narang:

You know the company provides for deferred tax liability every year. The company has entered into agreements with a strategic customer for infrastructure sharing which will give the company additional revenues and also save significant cost. In view of these confirmed profitable orders and in compliance, from the accounting standard point of view, the company has recognized these deferred tax assets of Rs. 1,488 crore. In subsidiaries, there are still deferred tax liabilities, that is why on the net level at a consolidated level you see the net tax impact positive of around Rs. 1,000 crore, because in some subsidiaries still there is a deferred tax liability.

Mr. Amyn Pirani:

Okay. Sir, on the plans that you have launched with the handsets, can you give some metric or some understanding as to how they are doing and what kind of numbers you have done because of those handset plans or I mean what kind of market share it is helping you to gain, if you could give some color on how they are doing?

Mr. Gurdeep Singh:

Well, under the contractual obligations with Apple we are unable to share the numbers, but the fact is it has tremendously improved our postpaid business in the large metro cities, it has particularly helped us in Delhi and Mumbai, we are getting a large entry into the corporate, and the best part of this deal that has happened we have moved 17 organizations in Bombay and Delhi who have moved, completely shifted to Apple as a preferred plan, and on top of that we are hugely MNP positive in Delhi and Bombay on value, that is reflecting in the outcome of the plans and the effectiveness of the plans.

Mr. Amyn Pirani:

Understood sir. Sir, can you some guidance as to what can be the level of capex for next year?

Mr. Vinod Sawhny:

Well, last year we kind of concluded on a capex of approximately Rs. 1,500 crore, this year we plan to take it upto Rs. 2,000 crore.

Mr. Amyn Pirani:

Understood sir. And, any indication as to where/which areas will it be spend, and what is driving the increase in the capex?

Mr. Vinod Sawhny:

Well, we will continue to bolster our network, this could be around the various arrangements that we will have with other players in terms of ICR arrangements, we will also continue to add REV-B onto our CDMA network, and our focus will be on enhancing network experience of our customers and we would be spending our capex exactly in that area.

Mr. Amyn Pirani:

Understood sir. Thanks for taking my question.

Operator:

Thank you sir.

Next question comes from Mr. Gaurav Malhotra from Citi Group. You may go ahead please.

Mr. Gaurav Malhotra:

Hi! I have a few questions. First of all on the increase in depreciation and amortization, just to clarify, it includes IRU and impairment, but impairment is a larger portion? That is one. Second question is on your finance charges, you know, Arvind, you have been mentioning that it should remain broadly stable, but it seems to have gone up this quarter; any particular reason for that? And thirdly, on the global business, while it is a lumpy business, we have been the revenues jump, but somehow the margins have gone down; so, any particular reason over there? Thanks a lot.

Mr. Arvind Narang:

First on the IRU, as I said there is some IRU revenue recognition and which is reflected, but largely the depreciation spike is by impairment of assets, including some of the old electronics, old category equipments, some battery banks, AC, DGs and so on. The run rate is likely to be around Rs. 950-1,000 crore per quarter.

On your second question on the finance charges, the rise in the finance charges is due to the following:

#1, we are creating a security on our loans which we have sanctioned from the nationalized banks led by State Bank of India. If you look in the last annual report we mentioned that we had an in principle sanction from State Bank of India led by a consortium of nationalized banks. That loan is around Rs. 6,500 crore. The security of that loan is being created, and that is the security charge which has come in Q4. As you know that some of the repayments which we have done, and some of the foreign currency loans which we have retired, we have partly used rupee refinancing and partly we have done from our internal accruals. There is an increase in the cost of loan because there is a difference in interest cost by 6-7% between rupee and dollar loan, which has increased the finance charge. Third is, due to the commission of utilization of non-fund based limits. So, these have factored in to increase the finance charges. I would say that our average cost of debt from these reasons has slightly gone up, and would be in the range of around Rs. 800 odd crore per quarter, which is around 7.5% of our weighted average cost of debt.

On your question on the Global Operations' margins being affected, yes, on the revenue front we have done very well; it is a very strong growth which has been shown. On the cost side there has been a one–off. If you correlate this with the SG&A number in the consolidated financials, a provision for doubtful or bad debts has been created which is impacting the Global Operations' EBITDA and the increase in SG&A cost by Rs. 130-140 cr. in the consolidated financials is only on account of this. India Operation has done fairly well on EBITDA; there is EBITDA growth, and EBITDA margin also has grown.

Mr. Gaurav Malhotra:

Just one question on the intra-city fiber, the Rs. 1,200 crore of contract; We were expecting that number to get reflected in the fourth quarter, should we expect it to now go into the next quarter or it will take some more time?

Mr. Arvind Narang:

As they are completing their formal acceptance it may not be just one number, it will continue as they continue to give their go ahead and green signal on a particular infrastructure which is being accepted by them.

Mr. Gaurav Malhotra:

But has anything been reflected in this quarter?

Mr. Arvind Narang:

Yes, we have booked some amount.

Mr. Gaurav Malhotra:

Okay, thank you.

Operator:

Thank you, sir.

Next question comes from Mr. Kunal Vora from BNP. You may go ahead.

Mr. Kunal Vora:

Thank you, sir. Couple of questions; first on the spectrum which is coming up for renewal next year the 900 MHz band; how do you see that, do you see it as a must to retain that spectrum or even moving to 1800 MHz is an option? Second, on the data realization; we don’t have much clarification on what kind of ARMB you are currently having, like what we have seen is other operators saw a dip in the ARMB this quarter; how the trend has been for you, if you can share some insights there? Lastly, on the 3G customer base per site, what I see is your 3G customer base per 3G site seems fairly high; what is driving this?

Mr. Gurdeep Singh:

Okay, just to answer your both the questions on the spectrum side; yes, our C circle or 900 MHz circles are coming up for renewal late next year, we are still quite a far away from taking a call on what will be our spectrum strategy. So we will evaluate closer to the time that we get on to the auctions. We will do anything and everything that is required to protect the customer experience and their interest; that is one. Second, on the data RPMB (rate per minute per MB) as you are aware that we are following a particular strategy which says that affordability, penetration and driving more smartphones on network is our key strategy at this moment, and to that extent our 3G comes at 2G rate, so it is but natural that there will be a certain impact of that on our RPMB being lower than competition; but, however, on the other side we have a dongle business where we continue to dominate the market. We are the leaders in the dongle business that more than kind of offsets the RPMB. So, even though we do not give any guidance on the RPMB, all I would have to say at this point is that we are in the comparative framework and we are in a similar well positioned market place.

Mr. Kunal Vora:

Okay, and on 3G customer base per site?

Mr. Gurdeep Singh:

Yes, so that is reflective of our 3G and 2G as a strategy in action. I think slowly we are

moving towards our desired objective to have disproportionate share of smartphones on our network in our 3G circles. And we truly want to move and be the brand of preference for the operator. So, our MNP numbers becoming positive reflects that, more number of smartphones coming to our network reflects that, and I think we are slowly becoming a preferred brand in the high speed data networks.

Mr. Kunal Vora:

Can you share the utilization levels like how the operators who got like much lower or may be less than half the customer base per 3G site are talking about 20-40% utilization levels; how are your utilization levels for the 3G network, and any reasons why you cannot share the data realization per MB?

Mr. Gurdeep Singh:

Our data utilization per site also varies from a city to city and it is in the ballpark of 20-34%, depending on the city and the market. Why we don't share the data RPMB, well every company has its own KPIs and statistics to share, we have been sharing certain statistics consistently, but going forward I take that as a good input and we will see what we can do in the coming up quarters.

Mr. Kunal Vora:

Great! Thank you very much sir.

Mr. Gurdeep Singh:

Thank you very much.

Operator:

Thank you, sir.

Next question comes from Reena Verma from Merrill Lynch. You may go ahead mam.

Ms. Reena Verma:

Hi! Thank you for the call. Just a couple of questions; on your revenue numbers, it looks to me like the summations of the quarters is not matching by pretty substantial sum vis-à-vis what you have filed as the annual number. So, can you please help me reconcile both the revenue number and also explain the rise in India margins for fourth quarter please? That is my first question. My second question is that for the contract that you have signed on intra-city fiber sharing with Reliance Jio, is it possible to give a financial number over the life of the contract like you have done for your tower and inter-city fiber contracts? And finally, if you could please comment on the reports about your looking to sell off the CDMA business and if you think there are potential buyers? Those are my questions, thank you.

Mr. Gurdeep Singh:

Hi Reena. I will take the last question first and I will ask Arvind to chip in for the financial numbers discussion.

There is no intent to hive off or sell off CDMA business. We see a great merit in the CDMA business; 12 months, 14 months ago we crafted the strategy to dominate data in our dual technologies market and to we have a fair share in the markets where we have the CDMA as the data technology. We are the only pan India currently mobile broadband operator. With the change in the ecosystem, with every other chipset moving to universally where on a software code you can change it to CDMA and GSM device on the one side is helping us grow the availability and bring more choice to the consumers. We have 26 CDMA phones today which are look alike of the GSM, means the same product, which we are marketing in all our markets, and we are beginning to see the traction against those. So, we believe that this is the right time when the whole market is moving towards multi-mode, multi-band chipsets and the universal devices with the SIMs also becoming universal, this is the time for us to really milk the power of dual technology. So, we are strongly focused, we will stay invested in this business, we believe in the business, and this is sub-one gigahertz band which provides a great customer experience.

Ms. Reena Verma:

May I just quickly follow up, thank you very much for these insights, so this multi-mode handset phenomenon that you are talking about, what percentage of your CDMA sub base uses those and what is the price point of these devices today please?

Mr. Gurdeep Singh:

Currently, less than 8% of our consumers are multi-mode multi-band, because they just started coming in for last 6 months. They are currently in the range of about $260-270, but all our discussion and our preparation of the road map of devices with our own proprietary as well as with the open market handset ecosystem suggests that in the second half of this year we will be get those prices down to about $100-120, so as they are infiltrating into the lower end entry level devices. So, we have a clear road map available from the device ecosystem that going forward in the early next year right from $70-80 and above all devices will become multi-mode and multi-band.

Ms. Reena Verma:

Thank you.

Mr. Manikantan Iyer:

Reena, on your question on the Q1, Q2, Q3, Q4, if you look at it, whatever the variation, we draw your attention to note #7 on the published Stock Exchange results which categorically states the March 31st 2013-14 figures are the balancing between the audited figures in respect of the full year vis-à-vis the published year on year to date figure up to the third quarter. I hope this is clear to you. This is a consistent policy company follows.

Ms. Reena Verma:

Yeah, but, you know my question is you know why is there such a big almost a 5% differential on revenue? You know revenue of all line items should be least susceptible to any change, right?

Mr. Manikantan Iyer:

Actually, there no difference. The total revenue for the year is aggregation of total income from operations and other Income. I hope you will be clarified with that, if there is anything, off line we can take it and solve it.

Ms. Reena Verma:

Yeah, and related to that I had a question on your India Operations margin that are looking so strong this quarter on the reported revenue numbers. What explains the jump in margin from 34.6% to 35.7% for the India business? There is no cost line item where there is a decrease in cost, the reported tariffs on both voice and data are down. So, how do I understand about the India Operations margins going up?

Mr. Arvind Narang:

The disconnect is when you are looking the cost item at consolidated level versus specifically the India Operations EBITDA number. As I mentioned a little while before that some of the consolidated costs are getting impacted because of some of the one-time cost impact in the Global Operations; for example, the SG&A impact of approximately Rs. 150 odd crore in Global Operations. There is no impact that is coming from the India Operations perspective. If you are looking at RCOM consolidated cost and trying to see how the India business has done well, then that will be incorrect. You have to see that the Global business cost have gone up, that is why the global operations EBITDA is significantly down. India business has done well; they managed the cost well. We had given certain cost indication, both on the network side as well as the other cost that how we are improving the efficiency which is likely to impact positively on the margins, which has been consistently happening. But the impact that you are talking about is related to Global Operations and not India Operations.

Ms. Reena Verma:

Thank you very much, and I had the final question on the intra-city fiber deal value.

Mr. Arvind Narang:

As I said that this is an agreement where we are offering them assets of close to 500,000 fiber pair kilometers on the ground, and they have been firming up their plans in terms of the structure, and what are their specific requirements for the next few years and so on. The agreement has been signed as a master service agreement. We have also shared that the rate for intra-city varies significantly from city and within city the area and the type of cities and so on. It could be from sub- lakh, or in thousands to couple of lakhs per fiber pair per kilometer, which basically is driven by the right-of-way cost. We can’t give you over the life of the agreement what would be the exact value coming out. Where it was possible we had already shared that, for example, in towers, where it was a straight annuity business, so we were able to easily correlate that and we have shared that.

Ms. Reena Verma:

Okay, thank you very much and all the best.

Operator:

Thank you mam.

Next question comes from Amruta from Morgan Stanley. You can go ahead.

Ms. Amruta:

Thank you sir. Sir, I just had one question about the tax. This time the number stands at minus Rs. 10 billion because of the DTA that you have recognized. Sir, going forward, what will be your guidance for the next few quarters in FY15?

Mr. Arvind Narang:

We have the exemptions under 80(i)(a) for the next few years, so we will not be able to give you a specific guidance on the tax front. But I think the best way to look at it, at least for the recent past quarters or the year is, you can see what has been the tax payout. Unless the company comes out with specifics and gives the direction, you can consider some of those data points. It is a continuous tax planning exercise, which you will appreciate, we continue to engage in.

Ms. Amruta:

Sure sir. Just one follow up question, if excluding the DTA and deferred tax liability effect, would you able to share what would be the actual tax expense number for the last quarter?

Mr. Arvind Narang:

It would be around Rs. 40 crore.

Ms. Amruta:

Thank you sir, that is helpful.

Operator:

Thank you mam.

Next in line we have Mr. Pankaj Suri from Nomura. You may go ahead.

Mr. Pankaj Suri:

Hi, Three questions from me. #1, in the February 2014 spectrum auctions, can you remind us if you have taken a staggered payment schedule for this one, and when are you going to start amortizing it? #2, there is negative additions again in this quarter, and presumably there is some thinning of the base has been done, so are we largely over with this kind of thinning or can we expect probably more of these rounds in the upcoming quarters? And #3, I think Arvind indicated what the recurring interest expense is for the quarter if I am correct; can you give us that number again please?

Mr. Gurdeep Singh:

Okay, I will take the first two and then my colleague will take up. On the recently held auction and the acquisition of Mumbai spectrum, we have given the requisite down payment and we will follow the entire payment schedule as given by the DoT. So, we will be taking that opportunity of equal EMIs payable after the moratorium of first 2 years.

Second, on the clean up, we have said in the past, clean up is an ongoing exercise. We have focus on growing profitable and paid minutes on the network. We are seriously looking into line wide, product wide, geography wide of our cost to serve and what it keeps us to have a healthy margin from the operations in the businesses that we do. This exercise we have done now the third or fourth time, and to say that we will not do that in the future may not be right, because we will continue to focus on profitable consumer, profitable segments, profitable geographies and focus is to now going forward look at changing the revenue mix and the customer mix table of the company.

Mr. Pankaj Suri:

Can I follow up, how do you actually decide which subscribers are going to get cut in this quarter; I mean what is the basis of it, for example, 6 million negative additions in this quarter?

Mr. Gurdeep Singh:

See, what happens is there is a minimum prescribed guideline from the TRAI which all of us needs to follow, and the operators are free to have guidelines over and above the guidelines given by TRAI, which is more liberal and relaxed. So, we have been following the liberal and relaxed guidelines assuming that multiple of our customers have dual SIM or they need an upgrade to the newer technology. We have been making efforts to bring those customers back through our retention effort and through our outgoing efforts. But now consciously, we have taken a call that we will continue to reduce that gap of keeping the customers in the network versus the TRAI mandated time line, and over a period of time we will probably be into the similar cycle. But as of now we have done that exercise in the March and we do not see any immediate need for the next further action.

Mr. Pankaj Suri:

Okay, thanks for that.

Mr. Arvind Narang:

On your question on the finance charges, I had mentioned around Rs. 800 crore a quarter would be the normal run rate.

Mr. Pankaj Suri:

Okay, thank you so much.

Operator:

Thank you sir.

Next question comes from Mr. Srinivas Rao from Deutsche Bank.

Mr. Srinivas Rao:

Thank you. Sir, I just wanted to get your color on the CDMA business. You mentioned that you would also put some capex to bolster it. Is the CDMA data business revenues growing or are they stable at this stage?

Mr. Gurdeep Singh:

Let me answer this question in three parts. The first part is what are we doing about network? Yes we are improving the quality of the network aligned more to the data delivery. To that extent we have identified some premium markets where we are upgrading our network to Revision B which gives over a 14.7 MBps on 800 MHz spectrum which is kind of equal to or better than in-wall experience than a normal 3G at a 2100 MHz experience. With more and more CDMA handsets coming with the Rev B in the future, it makes the network augmentation even more important and eminent as we are doing now. So, that is first.

As I mentioned earlier , March was the first month when we had seen the stop bleed situation on the CDMA, we are extremely encouraged with that achievement; however, having said that, CDMA data part of the business has been growing and has always been growing and will continue to grow, because we continue to lead the dongle business. Going forward, as more and more data oriented, Rev B oriented devices are coming on CDMA, we are even more optimistic about the growth of revenue. Our biggest worry has been in the past was the decline of the CDMA voice revenue, and which is what I had mentioned, we have been able to kind of hold it in the month of March, and going forward we are actually very optimistic that we will be able to now reverse the trend and make that part of the revenue grow. So, all in all, we are very, very bullish and buoyant on the CDMA as we go forward.

Does that answer your question?

Mr. Srinivas Rao:

Yes sir. Sir this is very clear, thank you so much sir.

Operator:

Thank you sir.

Next question comes from Mr. Abhay Moghe from IL&FS. You may go ahead.

Mr. Abhay Moghe:

Good afternoon gentlemen. I have a few questions; firstly, on tower, if I understand correctly the industry practice is, normally after any tower is decided by the customer, then within 21-30 days it is being handed over and the revenue accrual starts. Is it the same practice that is followed by RCom as well? Or not, then what is generally the gestation period? And following this, out of 30,000 towers, how many would have been already the revenue accrual has started, and is that included in the current quarter's P&L? And rest should we assume that by next quarter June end for the rest of the 30,000 towers the revenue accrual will start? I will mention the rest later on.

Mr. Gurdeep Singh:

Okay, to answer your first question on the towers, yes if the tower is fully ready and capable of taking the next tenancy on an outright basis, it is a matter of joint inspection, and takes anywhere between 21 to 30 days. But on a large scale deal of the nature that we have done with the Reliance Jio, over the 45,000 towers, and with the deployment of newer technology and the way they are looking at the deployment of the network going forward, it takes a little more time than what we have been doing with the other MSA partners who is merely fine on a 2G or a 3G technology. So, as mentioned earlier, we have now delivered over 30,000 towers after the severe joint inspection, and as we go forward in the next 3-4 months we hope to do the balance.

Mr. Abhay Moghe:

Okay. On the intra-city fiber deal, just wanted to have a number like what proportion of your BTS' would be connected by fiber optic backhaul?

Mr. Arvind Narang:

Overall, at a national level, we have around mid 20s, but in the main cities where it really matters and where they are looking at in terms of backhaul and so on, this would be close to 40% in terms of where they have the fiberized backhaul connectivity available to them.

Mr. Abhay Moghe:

Great! Thank you. On other things, one is on your paid up capital, my sense is it is this time net-off of 21 million shares. Can you add some color over there, what has like led to this thing in this quarter or year ending and what is the impact like?

Mr. Manikantan Iyer:

I would draw once again your attention to note #6 of the Stock Exchange published results wherein there is a ESOP trust, a employee stock option trust and there is a recent guideline from the Institute of Chartered Accountants of India that if there is a trust wholly held by the company for the employees, that needs to be consolidated. In line with that particular guideline, we have consolidated this particular ESOP trust along with our RCOM balance sheet. That is all, clearly the note #6 explains this; I request you to go through it.

Mr. Abhay Moghe:

Yeah, sir I have gone through that, just a small clarification, like conceptual thing that if suppose RCOM issues dividend, these 21 million shares will also get the dividend, right?

Mr. Manikantan Iyer:

Yes.

Mr. Abhay Moghe:

Okay. That is what I needed to know. Just one or two more, this impairment of assets that has been done, because of which depreciation has increased; is the impairment of assets largely on the CDMA asset side or no?

Mr. Arvind Narang:

Yes, to some extent, but it also includes some of the other old electronics of earlier generation and so on, and some others are technology agnostic, which are not specific to CDMA.

Mr. Abhay Moghe:

Okay. And lastly on the deferred tax asset, I wanted to understand a bit more, like as was mentioned in the note and also on the call that because of some infrastructure sharing contracts where revenue and profitability will be there and it is known for sure, that is why that deferred tax asset is being recorded in this quarter. In lay man terms it is like whatever your accounting books are and whatever your tax books will be, the profit that you are showing on the accounting books as of now because of those contracts, is much more than it will be in the future during the life of that asset, that is why you are paying tax more now and that is why there is a deferred tax asset? Is it a correct way to assume or am I getting it completely wrong or there is something else?

Mr. Manikantan Iyer:

Better way to understand is that you may have to go through the particular provisions of the act. While the liability is provided as and when it is known to us, asset can be recognized only if there is certainty of the asset being realized. The liabilities in this regard has been provided by the company year on year as and when it arises; however, the revenue has been recognized after conducting virtual certainty tests and some workings. So, in common parlance it is equivalent to asset which has been realized only upon on a prudent basis, whereas liability is booked as and when you come to know.

Mr. Abhay Moghe:

Okay, so to basically understand this deferred tax asset basically pertains to the future cash flows.

Mr. Arvind Narang:

There is not going to be any cash outflow on the utilization of deferred tax asset. We have deferred tax liability in subsidiary companies. As already disclosed this deferred tax asset has been created based only on the visibility of the confirmed orders from the customer.

Mr. Abhay Moghe:

Okay. My last question is a bit strategic one. This recent 3G ICR verdict by TDSAT, is it like does it help give a way for also sharing your CDMA spectrum after paying the market price with your other competitors or other telecom service providers? Is the company thinking on that line?

Mr. Gurdeep Singh:

Well, just to answer you on the 3G ICR, first of all we are evaluating the outcome of the honorable court's judgment. We haven't decided on what our next steps are with that respect. As and when we cross that hump we will look at as in when to liberalize the CDMA the spectrum and what to do with it. At this point in time we are pretty focused on executing what we have on hand.

Mr. Abhay Moghe:

Okay. That is it from my side. Thank you gentlemen.

Operator:

Thank you sir.

Next question comes from Mr. Ashish from TATA Securities. You may go ahead.

Mr. Ashish:

Thanks. I just have a couple of couple of housekeeping questions; first of all in the standalone financials under financial cost there is finance income reported of around Rs. 57 crore; just wanted to understand what is that regarding? Secondly, just wanted to understand your consolidated financial there is an Other Income of Rs. 266 crore, what does that pertain to?

Mr. Arvind Narang:

I will take your second question first. You see the Others which is there in the stock exchange format, this is basically a non-operating income in a way related to some of the devices, dongles, and so on. #2, many times we offer customer solutions including some of the corporate customers where some of the hardware is also part of the overall sales providing the full solution. That is also part of the business and not strictly from an operation point of view the way you are looking at. And any other kind of rental income to the business or to the company, including any other miscellaneous income would be part of that Others category.

Mr. Ashish:

Okay. And what is this regarding financial income.

Mr. Manikantan Iyer:

Yeah, financial charge is mentioned in the standalone. I request you to go through the standalone and would like to draw your attention to point #3 in the notes to account. As per standalone company, RCOM is the holding company of various subsidiaries, and interest has been allocated to various subsidiaries from April 1st; the net of Rs. 759 crore, is debited to all the subsidiaries, so on a consolidated level it does not any impact.

Mr. Ashish:

No, because last quarter and quarter before that you know financial expenses were around Rs. 600 odd crore.

Mr. Manikantan Iyer:

That is what I am saying, for effective the entire year the impact has been given, that is why it becomes positive, but overall on a consolidated level this does not have any impact. Please review note #3.

Mr. Ashish:

Okay, thanks.

Operator:

Thank you sir.

At this time there are no further questions from the participants.

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