



RELIANCE COMMUNICATIONS LIMITED

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

Conducted at 9.30 am IST on November 15, 2010

Operator:

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

This is Monisha, 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. Satish Seth along with other colleagues namely Mr. Syed Safawi, Mr. Mahesh Prasad, Mr. Punit Garg, Mr. S.P.Shukla, Mr. Sanjay Behl and Mr. Arvind Narang.

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

I hand over the call now to Mr. Satish Seth. Thank you.

Mr. Satish Seth:

Thank you, Monisha.

It is a great pleasure to once again welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the second quarter ended September 30th 2010.

A brief update on the sector would set the right context to discuss R-Com's performance during this period. The second quarter of financial year 2011 witnessed steady subscriber additions in the industry. The industry added 52 million wireless subscribers and total wireless subscriber base stands at 682 million as on 30th September 2010.

I am pleased to share with you that RCOM has been able to sustain its performance with fairly stable revenues and improved margins, notwithstanding newer dimensions of competition in the industry. Given the seasonality impact, mark to market, it was a good quarter and the direction we have taken on improving quality of operations is working well for RCOM. Going forward, we are geared up to take full advantage of the growth opportunities ahead which will help deliver sustainable revenue growth, stabilizing margins and strong free cash flows.

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

- Revenue at Rs. 5,118 crore, up 0.2% against Rs. 5,109 crore in the sequential quarter
- EBIDTA at Rs. 1,660 crore against Rs. 1,632 crore – increase by 1.7% sequentially
- EBIDTA margin improved from 31.9% to 32.4% sequentially. Here, I would like to mention that barring any unforeseen situation, we shall be able to sustain these margins
- Net profit of Rs. 446 crore, up 78% against Rs. 251 crore in the sequential quarter
- Net profit would have been higher by 165% at Rs. 1,181 crore, but for Mark-To-Market gain of Rs. 735 crore, used to set-off earlier notional forex loss
- Our RPM stood at healthy 44 paisa, we have successfully arrested decline in RPM for the last 3 consecutive quarters

Coming back to the Indian Telecom industry.

The industry is all set to witness an entirely new wave of mobile applications with the advent of 3G services in the coming quarters. Additionally, with the MNP implementation round the corner, the telecom industry will undergo a profound transformation.

As the 3G ecosystem develops, the entire value chain will evolve with new data centric products and services, new age multimedia VAS applications, network enhancements and higher penetration of affordable smart phones. Operators will need to move away from relying on conventional voice based model to providing innovative, yet affordable high speed data services catering to the needs of all customer segments. Going forward, a customer centric approach aimed at enabling a differentiated customer experience at a competitive price will form the core of a successful business model.

As an integral part of our 3G strategy, we have established a '3G Innovation Lab' with an objective of facilitating the development of mobile service innovations by offering a real-time product developmental capabilities to 3rd party developers. The Lab will involve 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.

I would now like to share with you some of the initiatives taken by RCOM during the year, which are likely to have a significant positive long term impact on RCOM's performance:

- 1) A Strategic alliance with Getjar, the world's second largest application provider for mobile customers with over 65,000 applications will impart an edge to us in the 3G regime.

- 2) During the last quarter, we also signed an exclusive strategic partnership with Universal Music which is the first, and by far the biggest, comprehensive music deal signed by an Indian telecom operator. Under this arrangement, RCOM shall offer Universal Music's full catalogue for its GSM, CDMA, 3G and Mobile Broadband customers. Our agreement with Universal Music is in line with similar deals signed by the conglomerate with other global operators like UK Orange, SingTel, Digi Malaysia, Bouygues Telecom and France Orange.
- 3) We also entered into first-of-its-kind multi-faceted business alliance with Nokia. The business partnership with Nokia is in line with the multitude of innovations lined-up by the two companies to take mobility to the next level. The alliance covers –
 - a. Making available Ovi Life Tools services targeted at the rural and semi-urban segments for Reliance customers
 - b. Exclusive offers on Ovi Music Unlimited (OMU) devices for faster music downloads
 - c. Special data packages for Nokia phones

We at RCOM are fully geared up to provide enhanced customer experience on the 3G platform and will continue to innovate new offerings as 3G ecosystem develops in India over time.

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

For the last 3 quarters, the focus has been to build quality of operations through initiatives focused on segmentation and cluster level profitability. As shared with you during the last quarter, we continue to remain focused on paid minutes. The focus on driving a quality portfolio driven by increase in non-voice services continued. The subscriber acquisitions were relatively modest due to the changes in the regulatory environment in terms of stricter subscriber verification norms and the measures taken by local law authorities in various states.

With increased share of rural subscribers and migrant rural customers in the urban markets, the Indian Telecom industry has started to witness the impact of seasonality influenced by the monsoon and agricultural economy. The MOUs saw a flattish trend due to "the plough & sow" agricultural activities in the 2nd quarter post the monsoon. With this year's intense monsoon, the agricultural activity was also high, hence the higher seasonal impact.

Overall, in the 2nd quarter, the new subscriber acquisitions remained steady. And, Reliance Communications saw modest growth in acquisitions and revenues in line with the industry trends. The quarterly revenues were stable at Rs. 4,161 crore and EBITDA of Rs. 1,210 crore.

As I mentioned earlier, we continued with the discipline we imposed on ourselves a few quarters ago by keeping a strict watch on MoU growth without commensurate revenue growth, by not inducing 'free minutes' or FAT. While major national tariff interventions are behind us, there are pockets in the country, where lower tariffs and bundled free minutes (like on-net calling, night time calling) continue to play a role among the challengers and incumbents looking to solidify usage from Multi-SIM customers. Nevertheless, the RPM for Wireless remained unchanged at a healthy 44p/min vis-à-vis the industry, which continued to show a decline in the RPM. Three quarters back, RCOM's RPM was lower than other industry players by 8-10 p/min. Now we are better than most industry players through a well executed strategy of focusing on the 'quality of the customers' as well as the "quality of the minutes". This will go a long way in laying the foundation for a sustained profitable revenue growth.

The Nation witnessed the first telecom revolution in the voice segment a few years ago. Once again, we are poised to usher in the much awaited and much needed second wave which would be the wireless data revolution in the country. RCOM continues to remain the only operator to provide wire-free internet access across the country in 24,000 towns, 600,000 villages with our CDMA 1x network. With the expanding CDMA EVDO network, combined with 3G rollout, we will have wireless broadband in excess of 600 towns in just a couple of months. RCOM looks upon itself as a key agent of change in creating a Broadband Wire-Free India.

Reliance Communication is clearly focused on building a 'healthy portfolio mix', through driving profitable Data and VAS businesses thereby future proofing the business against voice led growth alone. This is in line with the trends in the Global telecom markets of building a strong portfolio mix. Both these segments of Data and VAS are growing at a healthy double digits rate. We will continue this focus and are set to have the largest, widest and deepest footprint of 3G enabled data services in the country in the coming quarters. With 3G services and focus on Mumbai, Delhi and Kolkata like metros, Data and VAS would continue to drive the Company's Wireless business growth going forward.

We have already seen tangible evidence of accelerating mobile data adoption where consumers and business customers are seizing the benefits of fast, reliable mobile data networks using smartphones and other mobile data devices such as Tablets.

We are now an invaluable service brand already serving over 117 million customers. And, with a significant critical mass of GSM customers now on our network, we are seeing the impact of the scale of the GSM network which was rolled out in early 2009. This year and in the future, with the growing base of GSM customers on our network, we will continue to optimize the cost structure of our GSM network. We are now uniquely poised to exploit scale so as to enhance efficiency and deliver cost benefits. We intend to capitalize on the rapid increase in demand for ubiquitous mobile data services and accelerate the rate of adoption by customers in underpenetrated markets.

Mobile Number Portability, after numerous postponements and much delay, will soon become a reality. RCOM has always been committed to MNP roll out across its network and is now ready, irrespective of CDMA & GSM technologies. RCOM participated in the DOT TERM Cell co-ordinated MNP test schedule program involving all the Telcos in India and thus comprehensively tested all the pre-requisite tests and is now participating in the DOT's Haryana rollout program. We strongly believe that MNP could be a game-changer in the Indian wireless space, more so in the high ARPU subscriber segments where churn rates remain low. We look forward to MNP as an opportunity to help us deliver greater value to every wireless subscriber in the country and a threat to old GSM players in terms of retaining high ARPU customers.

We believe that the greatest asset for any consumer brand of our size is the trust of our customers. We are committed to provide the highest standards of customer experience across all our platforms – be it CDMA, GSM, 3G or wireless data. It is this customer focus which will increasingly become a differentiator in the ever-evolving Indian wireless market.

Let me now briefly cover the non-wireless businesses.

I am pleased to share that our business units of Global and Enterprise Broadband have been integrated together and would be known as “Global Enterprise Business Unit”.

As you are aware, our Global Enterprise business unit is the # 1 service provider in India with leadership in Data Centers, MPLS VPN and Centrex solutions. Internationally, we have built an enviable product and services leadership in the Managed Services and Enterprise Connectivity space, by acquiring UK-based FLAG, US-headquartered Yipes and UK-headquartered Vanco.

Both the businesses offer similar type of products and services and serve similar clients in different geographies. Thus, in order to synergize and leverage their strengths and unleash advanced services to all our enterprise customers, we have integrated both the business units.

The Global Enterprise Business Unit is one of the only two Asian companies to be ranked among Top 10 Global Network Service Providers serving over 2,000 large enterprises globally including over 850 of the Top 1,000 Indian enterprises and MNCs.

In our Global business, we continue to acquire large new contracts and obtain repeat business from our existing growing list of customers. This has helped stabilize revenue and margins with the Global business achieving revenue of Rs. 1,839 crores, an increase by 1.4% on a quarter on quarter basis and EBIDTA of Rs. 339 crores. We are confident of the continued growth prospects in each of our business divisions i.e. NLD, Voice and Data.

We are thrilled to share that in the National Long Distance carriage business, traffic has grown by 46% on a year on year basis which has been led by the growth in our GSM business. We see a steady continuation in bandwidth sales as well as infrastructure services to Operators rolling out 3G and BWA services in the coming quarters.

The International Voice business too has grown handsomely with a traffic growth of 72% year-on-year basis. I am delighted to share with you that we continue to have the largest inbound ILD traffic market share in India, with a traffic increase of 122% year-on-year. We have been able to achieve this tremendous growth by leveraging our client relationship and capacity across the globe.

In our Data business, we acquired new business of Rs 140 crores comprising Capacity Sales to carriers and Managed Services to enterprises. The Enterprise service business continues to win big deals both in the US and Europe. We are deploying the latest technology on our submarine cable systems to generate at least four times more capacity at fraction of incremental capex. This would help us cater to the impending growth in demand in the coming times.

Last but not the least; we continue to add new Brands in our Global Enterprise segment.

We have added more than 16 new logos in Q2 across diverse verticals like DeLaRue, world's largest commercial security printers; Sephora, a leading beauty retailer and many more leading companies in their respective verticals.

I would like to emphasize that we have been able to leverage on the market conditions by being agile and flexible to address the need of the hour requirements rather than adopt a fixed and rigid path. It is primarily due to this dynamic strategy that we have been able to convert small opportunities into big wins and strengthened our relationship with customers. We see a strong demand for all our products and services which is clearly reflected in our traffic growth. India and Asia will be the key growth areas in the coming quarters.

Let's now briefly look into the domestic Enterprise business.

During the quarter, we achieved revenue of Rs. 662 crore and EBIDTA of Rs. 248 crore.

Despite the continuous pressure on pricing, we were able to control the costs significantly and increase our EBIDTA margin from 36.6% in previous quarter to 37.5% in the 2nd quarter. This is a reflection of the robustness of our business model and our ability to deliver best in the class service to our customers.

Our growth is largely driven by our commitment to delivering value to our customers by way of our network reach and resiliency. We continue to focus on offering an

innovative range of products and services with a compelling and enhanced customer experience. On an average, our premium customers have rated us 8.2 on a 10 point scale. This customer confidence is reflected in the fact that our existing customers contributed more than one-third of our fresh acquisitions.

New orders added in this quarter came from corporates like Gujarat Minerals Development Corporation, Bombay Stock Exchange, HPCL, IDBI, HDFC Bank, Sesa Goa, AT & T, Birla Sun life Insurance and HCL.

As shared with you earlier that with a view to introduce domain specific focus in our Enterprise business, we had brought in vertical specialists. This strategy has paid us rich dividends and we are extremely encouraged, especially in case of the government vertical, where we have already closed four major deals in the last two quarters and expect addition of even more accounts in the times to come.

Over the last few quarters, SMB market segment has evolved as a new focus area for us. With large businesses gradually entering into a phase of stability in their communication requirements, SMB will continue to remain an aggressive focus area for us. The initial results of this focus area are extremely encouraging and I am confident that this segment is a potential growth engine for our business in future. For this purpose, we are continuously creating and testing new product offerings and have also realigned our sales channels to facilitate growth in this segment.

We continue to maintain market leadership in the IDC segment and with the new capacities now available in Chennai and Hyderabad, we will now be able to dominate the southern market where our presence until now was early limited only to Bangalore. Our shift towards enhancing the cloud computing offerings and providing more value added services like shared hosting and managed services will help us increase our yield and provide customers a one stop shop for their hosting and IT needs.

I am very pleased to inform you that RCOM has received many awards recently including:

- Maharashtra IT Award (MITA) for 2010 under the category of Datacenters
- Voice and Data Award for the year 2010 in the Broadband category
- CIO of the year award at CTO forum awards
- IT Industry leadership award, 2010 at InterOp
- In addition, RCOM's CIO has been appointed to the Board of Directors of TM Forum. RCOM is the only Indian Telco with representation on the board of this prestigious Industry association. With more than 700 corporate members in 195 countries, TM Forum is the world's leading industry association focused on enabling best-in-class IT for service providers in the communications, media and cloud service markets.

To conclude my initial comments, I would like to say that the second quarter has been satisfactory given the background of seasonality and high competitive intensity in the

industry. In the coming quarters, the Indian telecom sector is entering into a new phase of growth with the onset of game changing MNP implementation and launch of 3G services. We are clearly in a position of strength by operating an integrated telecom business that provides the whole gamut of services across the telecom value chain to meet the requirements of various customer segments.

The current structure of the Group has increased efficiency and enabled us to achieve favorable comparative cost positions in the market. We will continue to generate significant cost advantage from technology standardization, economies of scale and platform sharing.

We continue to apply capital discipline to our investment decisions to ensure that any investment and corporate activity will enhance shareholder returns. We will continue to benchmark our products and technology against the best in the world to ensure that we optimize value for all stakeholders.

The focused execution of our strategies of previous quarters in a challenging competitive market has enabled us maintain revenues and deliver sustainable cash flows whilst maintaining investment in technology and customer experience.

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

Mr. Arvind Narang:

Thank you, Mr. Seth.

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

Operator:

Certainly sir.

I would repeat, at this time, participants who you wish to ask any questions, please press *1 on your telephone keypad and wait for your name to be announced.

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

Mr. Sachin Salgaonkar:

Hi, thank you for the call. I have two questions. Firstly on the cellular business, we saw revenue per minute being stable for the last two quarters. Going forward do you expect

this to marginally dip or remain stable when MNP is rolled out? And a related question is about the outlook on MOU per subscriber. Do you see further room to meaningfully control the free minutes and hence should MOU per sub continue to decline as we head into the seasonally stronger quarter? My second question is on the net interest expense, which was down this quarter despite the increase in net debt. So, I was wondering if there are any one-offs on this and how should we look at the trend going forward?

Mr. Syed Safawi:

Good morning. This is Syed here. On your question on RPM, yes, we started consciously the strategy of focusing on quality of operations. For the last three quarters, if you have observed, we have held the RPM at about 44 paise. There is tariff intensity out there in the market but the good news is that there are no big moves happening at a national level, like the 1 paise per second kind of moves, which happened a year back. Now, the impact on RPM would be more through segmented offerings at a circle and cluster level and therefore the impact at the national level will be marginal if at all going forward at least for RCOM and I am sure for the industry as well. So, we see continued stability in terms of RPM as a whole for the industry, and definitely with our focus on stability of operations through quality of minutes, we see that continuing as well.

On your next point on MOUs per customer, 2Q FY11 was a highly seasonal quarter and we did not see MOU growth pretty much across the industry. We grew marginally and some of the other players grew at a very marginal level as well. But we see 3Q FY11 as being a better quarter because of festivities; therefore we see minutes of use hopefully in a better position versus 2Q FY11 and therefore more stability on that front as well.

I will hand over to Arvind for your third question, Sachin.

Mr. Arvind Narang:

I will take your question on the net finance income. As we have mentioned in the notes to accounts, there is a forex gain of Rs.735 crores in 2Q FY11 which is adjusted against the forex loss of Rs.780 crores in 1Q FY11 and is not included in the P&L, else our profit would have been Rs. 1,181 crores. If you recollect the 1Q FY11 earnings call, the notional MTM loss on forex and derivatives included in the P&L was about Rs.200 crores which has now reduced to around Rs. 50 crores in 2Q FY11. That is why there is a reduction by Rs. 160 crores in the net finance charges from Rs. 440 crores in 1Q FY11 to Rs.280 crores in 2Q FY11.

Mr. Sachin Salgaonkar:

Okay, got it. Arvind, just a follow-up on your 3G-debt repayment, when is that expected and what are the likely means you are looking to refinance that?

Mr. Arvind Narang:

We are looking to improve our cost of debt and refinance our borrowing. Even in the earnings call in 1Q FY11, we had mentioned about a short term loan which we had taken. It is likely to be maturing in next few months. It is our constant endeavor to reduce our cost of debt and use the arbitrage, which is available in the market. So there was an increase in debt which was largely taken at the end of the quarter, which was promptly replaced and brought back to the original levels, which you will see during this quarter.

Mr. Sachin Salgaonkar:

Okay, got it. Thanks.

Operator:

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

Mr. Srinivas Rao:

Thank you very much sir, just wanted two clarifications. One, your net debt has gone up despite what at least I can see from the cash flow statement that you have generated free cash flows this quarter. Can you kindly reconcile that? Secondly, can you throw some light on your potential 3G strategy on the GSM side? We are seeing some tariff offers from one player who has already launched. How do you see the tariffs on the data side moving forward? Will it be in line with your existing tariffs from the CDMA side or something different?

Mr. Syed Safawi:

Srinivas, I will take the second question and then hand over to Arvind for the net debt question. Regarding the 3G strategy, due to competitive reasons we would not be able to disclose the exact date of launch, but suffice to say that you would see us in the market by the end of the year in a phased manner. In terms of tariffs, 3G spectrum has been a fairly high-end buy in terms of costs. We have paid Rs. 8,585 crores and other players have also paid thousands of crores. So we can see more rationality in terms of 3G tariffs. Also, unlike voice where there are 11 to 14 players in each market; there are only 3 to 4 players in terms of 3G services in each circle. In a place like Mumbai or Delhi, these are just 3 players who have got 3G licenses. So, we will see more rationality in terms of 3G tariffs and therefore unlimited kind of data offerings are unlikely to be there. These used to be there in the west, they have already gone away from that kind of product pricing. So, we see much more rationality in the 3G spaces.

Mr. Arvind Narang:

Srinivas, this is regarding your question on the net debt. The net debt has gone up by around Rs. 708 crores. It is our constant endeavor to reduce our cost of borrowing. We have replaced high-cost debt and taken advantage of some of the arbitrage on the rates. The debt was raised near end of September and we promptly paid back the high-cost debt. In the current quarter, the debt has remained at approximately the original levels. If you look at our last 3 year annual reports, our cost of debt has been coming down consistently. In FY08 it was about 7%, in FY09 it was about 6% and in FY10 it was about 5%. So, it is our constant endeavor to look at these things very closely and taken advantage of that.

Mr. Srinivas Rao:

Thank you.

Operator:

Thank you sir. Next in line we have a question from Ms. Malvika Gupta from J.P. Morgan. You may go ahead, please.

Ms. Malvika Gupta:

Thank you. I have a question on wireless margins. I just wanted to understand any commentary around the stability expected here as I would expect an increase in marketing and SG&A costs due to 3G launch. Any other specific costs that one can expect to be in better control or any comment on cost control would be very helpful. Thank you.

Mr. Syed Safawi:

Malvika, as you can see, our wireless margins have improved by about 20 basis points on a quarter-on-quarter basis. Even in 1QFY11, it was stable at 28.9%. We have been working a lot on the quality of operations, which we have been reiterating for the last three quarters. Holding RPMs is critical for us and marked to market RPM battles are going on. On the cost side, the scale is finally coming into play. When we launched GSM services obviously there were upfront network costs as well, but now as we garner scale on the GSM side, the cost per minute gets leveraged much better. So, you see our EBITDA per minute actually which is a key determinant for us is rock solid at 13 paise per minute and we are very sure and very confident of working around that. There are lots of big cost ticket items in the wireless business, one of them being the diesel cost and the power cost. We are working diligently on lowering that through SEB connectivity, technological interventions and others. So, we see that being under control.

On your question on SG&A and marketing expenses, 3G is a separate business case as a standalone. As we get into 3G services, there will obviously be incremental 3G revenues and associated costs. Suffice to say, we already had a 3G ready network when we launched GSM services. Therefore, the incremental cost on the 3G business for RCOM is much lesser than for other operators who will have to establish a full blown 3G network. So we have optimized cost structure even in 3G business.

Ms. Malvika Gupta:

Okay, thank you very much. Just a question on the global business. Clearly the minutes' growth is very supportive and very encouraging in global business. I just wanted to understand your latest thoughts on what is the pricing there, is pricing pressure continued or are we seeing any type of relief in that segment specifically?

Mr. Punit Garg:

As far as the inbound is concerned, it has stabilized. As far as outbound is concerned, with the new launches happening of wireless service provider in different circles, they are using ILD as a prime product to launch and get those high end customers. Hence the pressure continues to be in those circles, but overall ILD segment is stable.

Ms. Malvika Gupta:

Thank you.

Operator:

Thank you, madam. Our next question comes from Ms. Reena Verma from Merrill Lynch. You may go ahead, please.

Ms. Reena Verma:

Thank you very much for the call. Just a couple of questions. Firstly, on your funding plans, can you please update us on what is the status particularly with regard to the tower hive offs and if you can offer any color on the reasons for the deal failure with GTL Infrastructure?

Secondly, any likely implication for RCOM from the recent political developments surrounding the telecom ministry, will it impact you in any way or have you already met all rollout obligations? Do you see any impact in terms of industry structure?

Finally a small question on 3G services. Have you initiated any discussions for roaming arrangements on 3G and if you can offer us some color on pricing there, please.

Mr. Satish Seth:

Let me take the question you raised on the political developments at Delhi. We are a company, which is fully compliant with every single terms and conditions of the license agreement. So, we have no issues of whatsoever nature, whatever changes may take place.

Second, on the funding plan or on RITL issue, we continue to look at a value for all our stake holders and whenever the value is right, at that point of time we will strike the deal, because if we do not feel that there is a value coming through then we will not do that kind of a transaction.

On your funding plan question, I would like to say that we are fully funded, and there is no need for any other additional resources. Only thing, we will see and as we have said in the past also, if there is an appropriate opportunity available then we will look at the RITL plan.

Ms. Reena Verma:

Sir, basically the RITL hive off is now on a back burner?

Mr. Satish Seth:

We will not say it is on a back burner, we are continuing evaluation of proposals. We will see which proposal makes the highest value for all our stakeholders and at that appropriate time we will close the transaction.

Mr. Syed Safawi:

Ms. Verma, on your 3G questions, we are in dialogue with like-minded quality operators to ensure that we get into a pan India presence and therefore roaming arrangements and so on will be the order of the day. As you know no one operator has got licenses for more than 13 circles, and we are privileged to have won 13 circles at the auction, therefore we would be working towards the pan India presence as well.

On the 3G pricing, as I mentioned a little while back to Srinivas as well, we see stability in 3G pricing. Everybody has paid quality money for the 3G spectrum hence we do not see irrational pricing in the 3G space.

Ms. Reena Verma:

Thank you for that. I actually meant the pricing for roaming.

Mr. Syed Safawi:

Yes, see these will be bilateral arrangements and there will be a bill and keep kind of situation which will evolve over a period of time. This is a unique situation, which does not happen in many countries where an operator does not get a pan country license. So, this will evolve probably at the end of one year. People will take stock of the situation on roaming minutes and so on and then it will revolve in terms of specific pricing.

Ms. Reena Verma:

Okay. Thank you very much.

Mr. Syed Safawi:

You are welcome.

Operator:

Thank you madam. Next in line we have a question from Mr. Shobhit Khare from Motilal Oswal. You may go ahead, please.

Mr. Shobhit Khare:

Good morning. Thanks for the opportunity. Three questions; first is the other revenues has increased by around 19% on a quarter-on-quarter basis. Last quarter also it increased, so just wanted to check what is driving this, is it lower handset subsidies or DTH? Second question is can you give guidance on the tax rate for the full year as it has been negative for the last two quarters? My third question is on external tenancy, have we booked any revenues in the second quarter or previously, is there any meaningful contribution there?

Mr. Arvind Narang:

Shobhit, I will take your first two questions. First, the question on the other income. The other income has gone up from Rs.335 crores in 1Q FY11 to Rs.398 crores in 2Q FY11, which is an increase of 19% or around Rs. 64 crores. There are basically three reasons for that. First is the growth in Reliance World Store revenues. Second, the DTH revenues have also shown growth. The third is the growth in revenues of Reliance Tech Services, which offers IT services and consultancy to even the third party customers. These are the three key reasons for the increase in other income from the operations side.

On your second question on tax, the amount of Rs.66 crores represents the reversal of excess tax provision which happened in the earlier quarters.

Mr. Shobhit Khare:

Sir, will this sort of a reversal continue going forward also and what is basically driving this?

Mr. Arvind Narang:

We do not give any guidance on the tax. We follow the MAT framework. The tax reversal was available to us within that framework. Shobhit, on your question on the external tenancy side, yes there has been a marginal increase in the external tenancy. As we have mentioned earlier also that our total tenancy is around 1.75 of which the captive tenancy is around 1.6.

Mr. Shobhit Khare:

Sir, is this revenue booked in wireless segment?

Mr. Arvind Narang:

Yes, it is a part of the wireless business.

Mr. Shobhit Khare:

Okay, sir. Thanks a lot.

Operator:

Thank you sir. Next in line we have a question from Mr. G.V. Giri from IIFL Capital. You may go ahead, please.

Mr. G.V. Giri:

Thank you. Why did your SG&A drop this quarter, please?

Mr. Arvind Narang:

Yes Giri, the SG&A has reduced by Rs. 87 crores or about 10% from Rs. 845 crores in 1Q FY11 to Rs. 757 crores in 2Q FY11. This is basically on account of normalization of two one-time costs in 1Q FY11. If you recollect, I had mentioned two one-time cost implications in the first quarter earnings call. First was the one time advertisement expenses mainly on account of T20 World Cup sponsorship and the second was the one-time brand promotional and trade schemes which we had announced on the Big TV side

in the 1Q FY11. Both these costs are normalized in this quarter and that is why you are seeing a reduction in the SG&A.

Mr. G.V. Giri:

Okay, thank you.

Operator:

Thank you sir. Our next question comes from Ms. Malvika Gupta from J.P. Morgan. . You may go ahead, please.

Ms. Malvika Gupta:

Hi, thank you for taking my follow-up question. I just wanted to check whether we are comfortable with the capex indication of about Rs. 30 billion for the year?

Mr. Arvind Narang:

Yes, that is our formal guidance as of now. Our internal accruals are much more than that and we will continue to meet our requirements internally.

Ms. Malvika Gupta:

Thank you.

Operator:

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

Mr. Srinivas Rao:

Yes, thank you. Actually, two questions. First question is on forex about which Arvind had mentioned in his remarks. Arvind, can you please repeat what you mentioned about the forex losses being taken and what the notion losses was because your statement also states that at the end of the year, you will adjust these forex losses against the reserves, which means, have you not done that for this quarter? Which then would imply that at the end of the year we will see a different PAT number, is that assumption correct? My second question is on the capex, which was slightly low this quarter; I mean the Chinese issue, kind of resolved for you?

Mr. Satish Seth:

Let me tell you, capex being low, everyone knows that from 3rd December 2009 to nearly middle of the August, no security clearances were available. And after the security clearances, it takes time to really order and get the deliveries. All deliveries have started coming in this quarter and that is the reason on the capex being low.

Mr. Arvind Narang:

Srinivas, on your question on the net finance income, I mentioned the forex gain of Rs.735 crores in this quarter is adjusted against the forex loss of Rs.780 crores in the 1Q FY11 and that is why it is not included in the P&L. If we would have included that in the P&L, our profit would have at Rs. 1,181 crores. The second point which is linked with this is the notional MTM loss on foreign exchange and derivative which was included in the P&L and which we had mentioned in the 1Q FY11 earnings call was around Rs.200 crores. Now, because that has reduced to about Rs. 50 crores in this quarter that is why there is a reduction in the net finance charges by around Rs.160 crores from Rs.440 crores in 1Q FY11 to Rs.279 crores in 2Q FY11. The combined effect of all the four quarters, if there is any loss on the marked to market, would be adjusted by withdrawal from General Reserve at the end of the year as per the scheme which we have mentioned in the notes to accounts

Mr. Srinivas Rao:

Okay. Just to clarify then, there are two forex impact issues. One is the MTM and the second one is the gain which you said this quarter is about Rs.735 crores. Is that a cash gain or what?

Mr. Arvind Narang:

Srinivas, sorry, can you repeat the question?

Mr. Srinivas Rao:

I said, in second quarter, you have mentioned there is a Rs.735 crores gain which was adjusted against the Rs.780 crores loss of the first quarter. These two numbers, they are not obviously MTM gains or losses, right, so what are these gains and losses?

Mr. Arvind Narang:

There was foreign exchange fluctuation in the 1Q FY11 as well as in 2Q FY11. In 2Q FY11, rupee appreciated by Rs.1.51 or 3.25%. So, on our forex borrowings there is marked to market foreign exchange gain in 2Q FY11, which has been netted off against the forex losses which incurred during 1Q FY11. So, the final impact at the end of the year on a four-quarter basis, if there is any loss, would be adjusted by withdrawal from General

Reserve at the end of the year as per the scheme. So, that is how it is going to be accounted.

Mr. Srinivas Rao:

Just wanted to check again if Mr. Syed can comment on the 3G tariffs? Obviously you may not be able to give what your strategy on tariffs on data plans will be, but will your 3G tariffs on the GSM side be in consonance with your existing data plans for CDMA?

Mr. Syed Safawi:

Srinivas, if the last three quarters are any proof of RCOM's strategy on pricing which is saying that we will focus on quality of minutes and hold RPMs if we do not see elasticity, I think the same logic extends into 3G tariffing as well. We will be competitive marked to market and we will not be in any way a price leader or a tariff loser in any situation. So, we will be competitive. I think the 3G game is going to be played on innovation of products; it is not going to be played on pricing. I think there is a mindset change that we as companies also will have to bring around and that is what our focus is. It is not the pricing alone which is going to get telcos revenue, it will be the innovation which will get revenues. So, our focus is there and we will be marked to market in terms of pricing with the two other players let us say in the metros.

Mr. Srinivas Rao:

Fairly enough sir. This is very helpful. Thank you so much.

Operator:

Thank you sir. Next in line we have a question from Mr. Sanjay Chawla from Antique Broking. You may go ahead, please.

Mr. Sanjay Chawla:

Hi, thank you for the call. I have two questions. One, for Arvind, just a clarification on the forex MTM gains and losses, which have been booked in the P&L. Out of the Rs. 280 crores of net finance cost, did you say that you have Rs.50 crores of MTM loss on foreign exchange and derivatives?

Mr. Arvind Narang:

Yes, in the last quarter the MTM loss on forex and derivatives was around Rs. 200 crores and the comparable number in this quarter is around Rs. 50 crores. The difference of about Rs. 160 crores in the net finance charges is mainly due to this reason.

Mr. Sanjay Chawla:

Sure, that is quite clear. So, both are loss numbers.

Mr. Arvind Narang:

Yes.

Mr. Sanjay Chawla:

Okay. The second question is in the balance sheet, there is a very marked decrease in your current liabilities by about Rs. 1,800 crores, on a quarter-on-quarter basis. Sir, can you please explain that?

Mr. Arvind Narang:

Yes, current liability has reduced by Rs. 1,762 crores, largely on account of reduction on the payments.

Mr. Sanjay Chawla:

Is it that any of the vendor payable has shifted to your buyer's credit or debt side?

Mr. Satish Seth:

Nothing has been shifted. As and when the liabilities fall due, they are paid off.

Mr. Sanjay Chawla:

Okay, sir. This is actual payment, the reduction of liability due to actual payment of the liabilities.

Mr. Arvind Narang:

That is correct, yes.

Mr. Sanjay Chawla:

Okay, all right. Thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Gaurav Surana from Alchemy. You may go ahead, please. Mr. Gaurav?

Mr. Gaurav Tyagi:

Thanks a lot for the opportunity sir. Sir, first question is on the 3G side. Don't you think that 3G on big screens like laptop can actually cannibalize our existing Reliance Net Connect offering? I am talking about the existing dongle based service offering on EVDO network. Just want to have your perspective on that.

Mr. Syed Safawi:

Gaurav, if you look at Internet / broadband penetration, it is just at about 40 million compared to about 682 million of wireless customers on pan India basis. It is therefore best to see the opportunity that lies ahead rather than worry about cannibalization of revenue. The penetration is so low that the opportunity is actually 10 to 15 times and that is the business case of the data revolution that we are talking about. You just heard Mr. Seth say that we are going to be leading a wire-free India, and we are looking at expanding both HSD and 3G beyond 600 towns over the next few months. We see absolutely limitless opportunity in data. Let me just share a data point with you. In most developed countries, data contributes upwards of 25% to revenue and India is just starting out, it is still in single digit, as an industry. Hence the migration of data contribution will be significantly larger in the coming years for India as we get more and more into data. So, there is no question of talking about cannibalization or worrying about cannibalization. Yes, there will be an upgrade path for customers who choose to upgrade to 3G, but that is the way to look at it as a limitless opportunity right now for the industry and especially for RCOM because we are positioned very well on both CDMA and GSM platforms. In fact that is the leverage we have, because there are dual technology dongles, which you can use to transfer traffic between CDMA and 3G services. So, it is an opportunity that we see for ourselves.

Mr. Gaurav Tyagi:

Sure, sir. You mentioned data contributing will contribute 25% of revenues. Sir, can we have the existing figure, how much it contributes right now?

Mr. Syed Safawi:

Gaurav, for competitive reasons we do not give out segmented revenues but suffice to say that is a growth engine for us in the coming years as well.

Mr. Satish Seth:

Gaurav, I will add one more point to what Syed has just said. We are the only company in this country, which has got data services for different scenarios. We have 1X, high-speed data and soon going to provide 3G data services. We will be able to meet the needs of the customer of their respective requirements. If they need 1X, they will take

1X; if they need EVDO or HSD, they will take EVDO, and if they need 3G, they will take 3G. That is the reason I have said in my opening remarks that we are going to make this country wire free and we are the only company which has made and which will continue to make this country grow into the wire-free India through all types of different data services.

Mr. Gaurav Tyagi:

Sir, very helpful. Just again going back to 3G pricing part. Can differential pricing exist for different circles, like relatively higher one for circles like Mumbai and Delhi where we have paid more? Is it a possibility? Because in that case Docomo's offerings will no longer be relevant because it is not there in those two markets?

Mr. Syed Safawi:

Absolutely, Gaurav. As we have been saying, the days of pan India pricing for everything are going away. You know, years back, there used to be one price, it is becoming more segmented into circles and even clusters at the next level. So, depending on the local needs and on the portfolio that you are running in every circle; definitely there is opportunity for segmented pricing even at a circle level or a city level as well.

Mr. Gaurav Tyagi:

Okay. Sir, the last one from my side, this is regarding network operating expenditure. What percentage of network opex will be diesel and power fuel related cost and how this percentage has moved in past few quarters?

Mr. Arvind Narang:

No, we do not give the details of the consumption on the diesel and electricity and so on, but you have seen the trends on the network cost side in the P&L.

Mr. Satish Seth:

Gaurav let me assure you one thing. There is a highest focus on optimizing power and fuel costs not only through electricity connection, but using every single mean available under technological platforms as also under administrative processes. It is highest focus area and we will continue to optimize that.

Mr. Gaurav Tyagi:

Thanks a lot sir, very helpful.

Operator:

Thank you sir. Next in line we have a question from Mr. Varun Ahuja from UBS. You may go ahead, please.

Mr. Varun Ahuja:

Hi, sir. Thanks for the opportunity. I have just two small questions. Sir, I heard you just mentioned about data revenue, you do not give out the numbers, but on the public domain the last available number is 7.4%. I just want to get an idea, is it more than that because if you look at some of the competitors, they are around 11 to 12%? And second on DTH sir, what kind of uptake you are seeing on the ARPU side? Thanks.

Mr. Syed Safawi:

Varun, I will take the first question. When you refer to some competitors being 11 to 12% that is the total non-voice revenue that competitors referred to, and that is not data alone. So, that is the mismatch and that is not apple-to-apple revenue. In our case, non-voice is actually doing very well but much higher as well versus the numbers that you gave out. It would not be possible to give segmented revenues for data separately.

Mr. Varun Ahuja:

Yes, sure. Thanks. I appreciate that.

Mr. Sanjay Behl:

On DTH side, we are amongst the top two industry players in terms of ARPU and we have seen incremental growth in ARPU in this year over the last year with increased number of channel offerings that we have had and also the impact of some newer services like high definition gaming that we have launched on the platform. So, suffices to say that industry ARPU sits up around Rs.160-170 and we are significantly above that.

Mr. Varun Ahuja:

Thanks a lot, sir. That is helpful.

Operator:

Thank you sir. Next in line we have a question from Mr. Tien Do from GIC. You may go ahead, please.

Mr. Tien Do:

Hi, thanks for the call. I just got two questions. The first question is on your free cash flow. Your cash flow after capex was perfect in this quarter and I am just wondering how you see that trend; and allied to that question, you have raised a bit of debt in this quarter and you have built up your cash balances, I just wondered why you are doing that if you are going to be free cash flow positive going forward as well? The second question is on your margins. I know right at the beginning you said you see your margins being at least going forward where they are at the moment. Just wondering what you see the effect of that increasing scale versus the effect to the 3G launch cost. The effect of increasing scale is enough to outweigh the costs of the 3G launch or not?

Mr. Arvind Narang:

Yes, the free cash flow, not only in this quarter but over the last few quarters has been positive. RCOM has been free cash flow positive company during the last six quarters barring one quarter where we had to make a 3G pay out which is common for all the industry players and nothing specific for RCOM. We have given the capex guidance of Rs. 3,000 crores on an annualized basis and the internal accruals are much higher than that, so we will continue to be meet all our funding requirements on operation side,

Regarding your question on the debt, why the net debt is higher and there is similar higher number available on the cash and cash equivalent, the answer is what I had mentioned in the beginning. It is basically to optimize and reduce our cost of debt that we had taken. It is just a coincidence that this happened at the end of the quarter in September, which we had promptly repaid or replaced the high-cost debt and in the current quarter you will see the numbers, which are similar to the original levels. Regarding your question on the margins on the 3G, Syed could you answer.

Mr. Syed Safawi:

Mr. Do, could you repeat your question on the 3G side?

Mr. Tien Do:

Yes, you mentioned that the costs and margins are up, costs basically flat lining because of increasing scale. I am just wondering whether the effect of your future 3G launch would be enough to outweigh the benefits of the increasing scale for you to see a margin decline or whether you see the effects of the increasing scale being enough to outweigh the diluted effects of the 3G launch.

Mr. Syed Safawi:

I mentioned a little while back that we are looking at 3G as a separate business case in itself and therefore given the fact that we have a 3G ready network when we launched GSM, we do not see too much incremental opex loaded on to 3G, because that opex is

already embedded into our P&L. Therefore, on an incremental 3G-business case, we see this as a decent business and hopefully coming soon EBITDA accretive and not EBITDA dilutive in any significant way, because as a standalone it makes business sense going forward.

Mr. Tien Do:

All right, okay. Thank you.

Operator:

Thank you sir.

Due to the time constraint, this was the final question.

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