



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 September 30, 2012

Conducted at 12.30 pm IST on November 09, 2012

Operator:

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

This is Mamta, the moderator for this conference.

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

Today, we have the senior management team from Reliance Communications namely Mr. Punit Garg, Mr. Gurdeep Singh, Mr. Arvind Narang and Mr. Hasit Shukla.

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. Gurdeep Singh. Thank you.

Gurdeep Singh:

Thank you, Mamta.

It is a pleasure to once again welcome you all to this earnings call to discuss Reliance Communications' financial performance for the quarter ended September 30th, 2012.

On Thursday i.e. November 8th 2012, our Board of Directors adopted the un-audited results for the quarter ending September 30th, 2012. 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.

Let me start by sharing the key highlights of this quarter:

The second quarter of the fiscal is generally a subdued quarter for the industry from the minute's consumption perspective and hence resulting in muted growth.

- **Revenue:** RCOM consolidated revenue stood at Rs. 5,202 crore, as against Rs. 5,040 crore, up by 3.2 % year on year basis
- **EBIDTA** at Rs. 1,638 crore as against Rs. 1,605 crore, a growth of 2.1 % year on year. RCOM consolidated EBIDTA margin at 31.5 %, amongst the highest in the industry

- **RPM:** Our RPM stood at healthy 43.2 paisa, amongst the highest in the industry.
- **Non-voice revenue:** Our non-voice revenue contribution to wireless revenues is at 20.8% and amongst the highest in the industry.
- **GEBU Revenue and EBIDTA:** In our Global Enterprise Business Unit, we achieved revenue of Rs. 2,433 crore as compared to Rs. 2,335 crore, a growth of 4.2 % year on year basis with an EBIDTA of Rs. 563 crore. Global and Enterprise Business Unit contribute a very steady 34% of RCOM's business.
- **Free Cash Flow:** RCOM continues to be Free Cash Flow positive in this quarter. All major projects have been implemented and capex intensity is behind us. All future Capex requirements are only incremental in nature, and focused on network quality, capacity, enterprise data center and wireless data growth.

Let me now share with you the financial and operational performance of our wireless business:

- Wireless revenue stands at Rs. 4,422 crore up by 3.9% year on year on comparable basis
- Wireless EBIDTA at Rs. 1,180 crore up by 16.4% year on year on comparable basis
- We have continued our increased focus on data and provide high speed data coverage in over 1,300 towns in India
- We serve 26 Mn. data customers out of which 4.8 Mn are active 3G customers, highest in the industry
- Total data usage on our network at 17,400 Terabyte and data usage per sub at 232 MB, which is highest in the industry.

Data

- As you are aware, the first phase of exponential growth in the telecom industry was led by voice. The next big opportunity will be led by data and broadband services, which based on various market estimates, may grow from less than Rs. 5,000 crore currently to over Rs. 35,000 crore in the next 4 - 5 years. RCOM would target significant share of this opportunity.
- India is the only country in the world, which has voice penetration of over 70%, whereas broadband penetration is less than 1%. Till few months back, there were few wireless networks capable of offering broadband services, the smart-phone prices were too steep and usage charges also acted as deterrent for mass scale adaption.

- Now, wireless broadband eco-system is improving fast. Most of the operators with 3G spectrum have rolled out networks, smart-phone suppliers have become more competitive resulting in device prices coming down and applications & content is being generated to target specific user segments with significant increase in apps adaption.
- This positive change in the eco-system is creating huge opportunity in data and wireless broadband services. In addition to focus on voice (which I will cover in a minute), we are continuing with our data led strategy for future revenue growth by enhancing wireless broadband penetration and maintaining our leadership position in providing wireless broadband products and services in the country.
- RCOM continues to provide a nationwide seamless Wireless Broadband experience on its own network, in over 1,300 top towns across the country as of September 30, 2012, including key metros. This includes 333 towns in 13 circles (including Delhi, Mumbai and Kolkata) in 3G, and over 1,000 towns on our High Speed Data Network. This, coupled with our extensive 1X Data presence offering high quality internet connectivity in 20,000 towns, has positioned RCOM extremely well to take advantage of the expected rapid increase in data consumption across the country.
- The key pillars of execution of our data strategy include leveraging our infrastructure; providing innovative products & solutions in narrow band to broadband; and forging preferred partnerships with application developers and device makers.
- In order to continuously innovate new product development, RCOM has launched first of its kind, a new plan 'All Share Postpaid Plan'. This unique postpaid plan offers upto 10 customers owning multiple devices within the family or group to enjoy free sharing of Voice and Data on a single bill. Thus, "Share More = Save More" where in every customer can save upto 50% on their postpaid bills every month. This plan is aimed to acquire high-value customers in the country including Corporate and SME customer segments along with HNI households.
- Subsequent to our exclusive partnership with Google for Android platform, we have now entered into another exclusive partnership with WhatsApp in India and launched "WhatsApp Plan" for GSM subscribers. We are the first Telco in the country to offer unlimited social media access for subscribers. "WhatsApp Plan" offers unlimited access of WhatsApp to all prepaid Reliance GSM customers in the country for just Rs. 16 per month. We will continue to make similar initiatives which are incrementally more profitable.

Voice

- Voice will continue to remain the biggest contributor to the business.

- The major focus would be to continue to penetrate smaller towns & remote areas and to re-align & re-structure the tariffs and service offering across customer segments to attract high-end users on RCOM network.
- As you are aware, the tariffs in the Indian Telecom market are already among the lowest in the world. Moreover, the inflationary cost pressures have been consistently high and impacting the profitability of the industry. During the quarter, RCOM raised pre-paid tariffs by 25% across GSM and CDMA platforms. This decision is in line with our aim of maintaining a healthy RPM and improving average margin per user. We expect the full revenue impact of the tariff hike to reflect by next financial year.
- Contrary to pre-paid tariffs, historically there is not much activity in the post-paid space, which is dominated by old GSM operators. There have been hardly any innovations on tariffs for post-paid customers over the last decade. These are high-end users including corporate customers and like any other large customers are also keen for a great 'value for money' proposition. RCOM being a late entrant in the GSM space, desires to be innovatively disruptive in the post-paid segment and this is one of the alternatives to target this high-end customer segment. During the quarter, the Company has reduced post-paid tariffs by 40% than those offered by other GSM operators. RCOM is offering unlimited voice calls for Rs. 899 for its post-paid customers while this option will be available along with 3 GB of data for Rs. 1,499. This is going to be a win-win situation for both the customer and RCOM as service provider, as the new call rates would reduce bills of high-end post-paid users by up to 60% and RCOM will incrementally gain customer as well as revenue market share in post-paid segment.
- As mentioned during my last quarter's address, we are adopting a deeply segmented and differential approach to improve revenue growth for our
 - 900 MHz circles,
 - The metro markets of Delhi and Mumbai and other metro like markets
 - 1800 MHz circles in our emerging markets.
- We have renewed our focus on enhancing customer experience by improving network quality, innovative product development, enhanced point of sales visibility and better retail engagements.
- I am delighted to share that Reliance for the second year in a row, has been conferred "Best Quality of Service Award" at the prestigious Economic Times Awards 2012.

Let me now cover the non-wireless businesses.

The Global Enterprise Business Unit comprises of Carrier, Enterprise and Voice business.

Carrier Business

Our Carrier business continues to show strong performance with order booking of over INR 380 crores. The growth is driven by robust demand for capacity services in our strong hold regions of Middle East, Asia and Europe. In anticipation of the continued high demand, we have upgraded capacity on various segments of our global network. During the quarter, we have launched 10G LAN PHY services in 19 metros on own global network. This unmatched capability will enable carrier customers to upgrade their existing Gigabit services to ten times the speed without forklift upgrades on their equipment.

The International Voice segment continued its robust growth; traffic has grown by 8% on YoY basis. With the launch of SMS Hub for terminating international SMS into India; Reliance plans to retain its #1 position in India. Our Single Board Number (SBN) service has grown by 60% on QoQ basis with increased demand from enterprise customers.

In the National Long Distance business, we have signed orders of more than Rs. 100 crore primarily for bandwidth sales to private service providers.

Enterprise Business

In Enterprise business, we have signed contracts of over Rs 360 crores in Q2 FY2012-13. Order value is up by 63% vis-à-vis the value of contracts signed in last quarter, showing robust demand for Reliance Enterprise services in India and abroad.

We have introduced leading edge services like Application Aware Networking, Managed Security services and Cloud based services like Managed Storage Software.

We launched Reliance Business Services – ‘Makes IT Easy’ campaign. The objective is to position Reliance at the forefront of communications solutions to businesses of all sizes. Reliance Business Services is the new identity of the Enterprise Business Unit created within Reliance Communications with an identifiable and differentiated positioning to reach out to the large and small Enterprises, offering them the strengths, expertise and experience of our Services. Reliance will continue to make the art of connections easy, secure and reliable for its 35,000+ enterprise customer base.

Our Q-o-Q success in the government vertical continued as we bagged an order for VPN services to a major PSU bank, data order from NIC and security services to the Navi Mumbai Municipal Corporation. We added several news logos in the Enterprise space across business verticals including financials, IT & ITES and Media & Electronics.

To reiterate, let me state that Global Enterprise Business Unit is growing as per plan. We have strong pipeline in both the Carrier and Enterprise segments. We expect to remain

ahead of competition on customer service and delivery parameters based on our superior global and India network.

To summarise:

1. We continue to maintain leadership position in the high growth data business having product and service offerings in 3G, High Speed Data, 2G and 1X platforms.
2. In the Voice business, we have implemented tariff rationalization across customer segments to attract high-end users and to improve average margin per user.
3. We have maintained a steady trend in our Global Enterprise business, backed by robust demand for bandwidth, managed services and enterprise outsourcing.
4. In the current challenging operational environment, where competitive intensity is still very high, the consistent stability of RPMs and margins is a good performance indicator for RCOM.

Finally, I would like to emphasize that RCOM will be highly focused on execution and will drive operational excellence to achieve profitable growth across all its businesses.

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

Moderator:

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. If you wish to cancel your request, please press hash on the pound key. Participants are requested to restrict to two questions in the initial round.

First in line, we have question from Mr. Sunil Tirumalai from Credit Suisse. You may go ahead please.

Mr. Sunil Tirumalai:

Hi, thank you very much. Sir, I had a couple of questions. Firstly, I wanted your thoughts and comments on what you are seeing in the market as far as the trade and channel commissions are concerned, some of your other competitors have reported lower gross adds during the September quarter but your trend seems to be divergent, your gross adds continue to increase quarter on quarter over the last one year and even

in the September quarter; are you also seeing any reducing pressure on channel commission and how are you reacting to it?

Mr. Gurdeep Singh:

Well, we had only intensified our distribution activities in the last quarter in line with our differentiated approach on 900 MHz circles, Metros, and the new 1800 MHz circles. The growth in acquisitions that you see is coming on the back of on-ground efficiencies of good quality acquisitions, and we are seeing its corresponding impact on our pulsing base and the growth in the VLR. So, we have done rationalization of retail margins to suit our various markets because there is no one-size-fits-all that we are working with any longer.

Mr. Sunil Tirumalai:

Okay, just to clarify over there, should I take it that you have also on a nationwide basis reduced your retail margins?

Mr. Gurdeep Singh:

We have rationalized between our 900MHz, Metro markets, and the 1800 MHz circles. So, depending on our market share and the position in the market, we have adopted a horses-for-courses strategy.

Mr. Sunil Tirumalai:

Okay. Sir, the other thing was just on the cash flow statement in the quarterly report, I am just trying to understand what is in the purchase of plant and equipment line which has shot up significantly?

Mr. Manikantan Iyer:

The Capex in the quarter is around Rs. 400 crores, which is pertaining to mainly on GEBU, that is Global Business Unit, and minor Capex from wireless segment, because major intensity of wireless segment Capex is already over.

Mr. Sunil Tirumalai:

Yes, but in the cash flow statement you have a much larger number in the purchase of plant and equipment line.

Mr. Arvind Narang:

The cash flow and the balance sheet are differently prepared. One is on accrual basis, and the cash flow is as per the accounting standard AS-3 format. Both are not actually comparable. So, if you are looking at the number for the quarter in terms of the investment or the Capex, Rs. 420 crore is the right number, but capex in the cash flow is based on certain other payouts which happened in this quarter based on the earlier transactions. So, these two numbers will never be similar because one is on the accrual basis and another is on actual cash basis.

Mr. Sunil Tirumalai:

Okay. Sir, and finally, I just wanted your comment on yesterdays cabinet decision on the one-time spectrum fee.

Mr. Gurdeep Singh:

Well, we are still awaiting the details on the one-time charge, until we have that it will be difficult to comment, but we also note from the media reports that the CDMA one time charge case has been referred back to the DOT. We will be more than happy to engage with DOT to figure out the way forward on the CDMA since there are no takers and bidders and the price is not yet established.

Mr. Sunil Tirumalai:

Okay. Thank you sir, I will come back later for questions.

Mr. Gurdeep Singh:

Thanks.

Operator:

Thank you Mr. Sunil. Next question comes from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao:

Yes, Sir, thank you very much. Just wanted to get your feedback. You have started giving the metrics on data. So, exactly how are things, I know it is nascent, but what is your view on the growth of data from now on?

Mr. Gurdeep Singh:

Well, we are very bullish on the data prospects. As I just stated that we see this market moving seven-fold between now and the next five years and we already are a leader in the data space and we are clearly focusing on getting at 25% of our revenues from this market. This is largely coming on the back of two factors, the on-boarding of smart phones: we are observing a dramatic increase month on month. This is to do with the overall ecosystem of devices, lowering of the prices, encouraging consumers to go in for 3G enabled phones, and over a period of time we are beginning to see an off-take on the video downloads. So I think the 3G smartphone and the video downloads are the two driving factors currently that we see.

Mr. Srinivas Rao:

And sir just to clarify, your data usage per customer is both 2G plus 3G, right?

Mr. Gurdeep Singh:

Yes.

Mr. Srinivas Rao :

Okay. How has your legacy CDMA business performed, over the last four quarters not just this quarter, just to get a sense of where the business is?

Mr. Gurdeep Singh:

Okay, number one, our GSM business continues to grow exponentially. It is doing extremely well at this moment. However, as all of us are aware that CDMA ecosystem

until about some time back was a bit stressed because of the drying up of the handsets in the market. Over the last couple of months we have seen more and more handsets coming into the ecosystem. We have brought in proprietary handsets in collaboration with Samsung. We are also actively engaged with other device makers to bring in the smartphones in CDMA. Dongles anyway continue to be attractive and competitively priced in the segment. We believe that going forward the ecosystem in devices on CDMA will begin to look healthy and hence we are very hopeful that this business which was bit under stress will now move into a comfort zone.

Mr. Srinivas Rao :

Thanks, this is helpful. I will come back if I have questions.

Operator:

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

Ms. Reena Verma:

Yes, hi. Good afternoon and thank you for the call.

Mr. Gurdeep Singh:

Good afternoon.

Ms. Reena Verma:

I have a few questions please. Firstly, just on the house-keeping side, I wanted a few clarifications. The drop in your network cost, the rise in interest, and the swing in others, if you can please throw some light in terms of what is going on there?

And my second question is with regard to the GSM growth strategy. This is the first time that I am hearing of a strategy where segmentation is done by spectrum. Can you just share some insights into what kind of growth differential you see when you say that you

have a different strategy for 900 MHz, different for 1800 MHz? What really are you thinking in terms of how the growth will vary depending on spectrum? Thank you.

Mr. Gurdeep Singh:

Thanks for your questions. I will answer the later one now, and later I will ask my colleague Arvind to talk about network and the other questions.

First, it is very important to understand that 900 MHz circles are now about 8 to 10 years old. They are well entrenched in terms of this distribution reach and the network reach. These were the businesses which came up at a time when we did not have a pan India presence. Second is, we had 14 circles which were rolled out between 2008 and 2010. They are relatively new, and they have a different market position, even though we have been in those businesses in those circles through the CDMA business. So, it was very important to look at our position of strength versus our position of entry and design the go-to-market strategy. For example, we would certainly behave like a leader in a market like 900 MHz. We would certainly get aggressive into the markets in the Metros where because we did not have a GSM you had a high value customer or a mid value customers residing with the old players. So we would then get into or which is what we have done is to design strategies to how to garner that share. That is why you see us launching things like unlimited postpaid plan and all share postpaid plan, making us the third telco in the world to launch that. When it comes to 1800 MHz, certainly when you enter at a position of being sixth or seventh in the rank of revenue market share, your go-to-market strategies need to be like a new player on the horizon, even though we have been there in those businesses through CDMA. So, while we leverage the CDMA strength, we continue to play in the space of GSM as an aggressive new operator. So, that is the fundamental reason for crafting out differentiated strategies differential to the market, because we truly believe that one size does not fit all.

Ms. Reena Verma:

Thank you very much sir. May I just quickly follow up on that, the revenue per minute (RPM) trend in the 900 MHz versus the 1800 MHz circles, , is it similar or are you seeing

big differences, and how did customers react to the tariff hike especially in 1800 MHz circle?

Mr. Gurdeep Singh:

Well, as I just said that when you move away from a leadership position to an aggressive incumbent, naturally you will have a differential of rate per minute. So, I am not able to share with you exactly what the nuances are, but the current RPM that you see is the weighted average of all the three geographies and data business. At the end of the day the job for us is to how do we optimize the rate per minute between geographies and markets and still stay healthy on profitable grounds.

Ms. Reena Verma:

Thank you.

Mr. Gurdeep Singh:

On the other question I am asking my colleague Arvind to answer to you.

Ms. Reena Verma:

Sure, thank you.

Mr. Arvind Narang:

Reena, the network cost is down by Rs. 227 crores due to certain corrections made on the actual payout basis. Reduction is also achieved due to implementation of significant amount of sites on State Electricity Boards, especially in the Central and Northern India. On an annualized basis this shall remain around Rs. 6,600 crores.

Ms. Reena Verma:

Arvind, what do you mean by correction in actual payout basis?

Mr. Arvind Narang:

If you look at the trend, for example over the last 8 to 10 quarters, you will find that our average network cost is in the range of around Rs. 1,500 to Rs. 1,600 crores. It has gone up sometimes towards the end of the year. I have mentioned in the previous calls the

rationale behind the payment made especially to some vendors or partners at the end of the year. But on an annualized basis the network cost shall remain in the range of around Rs. 6,600 crores.

Ms. Reena Verma:

Okay.

Mr. Arvind Narang:

Coming to your second question on the interest cost which has gone up by Rs. 40 crores from Rs. 553 crores to Rs. 593 crores. The minor increase is in the net interest cost. Our average cost of debt still remains in the range of around 6%. The slight increase is due to certain pending processing charges on our fund based and non-fund based credit limits, which got paid out. And if you look at even in the Q4, you know the net finance charges were in the same range and the debt levels are also similar.

Ms. Reena Verma:

So, this is a one-off, the processing fee?

Mr. Arvind Narang:

Yes.

Ms. Reena Verma:

In your segment classification, why has the Others EBIDTA loss dropped from Rs. 145 crores to Rs. 104 crores.

Mr. Arvind Narang:

It is actually improvement of EBIDTA from negative 145 to 104, so we are able to manage the cost well on that front. So, it is actually an improvement.

Ms. Reena Verma:

Yes, but led by what please, what does that refer to, what part of the business?

Mr. Arvind Narang:

If you look at the Others segment, both the income and the expense, have marginally reduced in terms of the absolute value of Rs. 24 crores in the revenues, while there is a larger saving on the cost side by Rs. 65 crores achieved through the operational efficiencies pertaining to the retail stores that we have, Reliance World stores and some of our smaller business unit like the Reliance Tech Services

Ms. Reena Verma:

Okay, thank you very much.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you madam. Next question comes from Mr. Anirban Roy from Morgan Stanley. You may go ahead please.

Mr. Anirban Roy:

Thank you for the opportunity. Just a couple of quick questions. Sir, I just wanted to have an idea on the tax rate for the year and what exactly happened to the tax this quarter.

And my second question would be more of a house keeping one. If you could share with us 3G ARPUs or any other data points apart from subs, and if you could give us a breakup of the data and VAS that you talked about, which is 20.8% of your revenues into anything apart from data or SMS or ring tone. Thanks.

Mr. Gurdeep Singh:

I will answer the second question first and let my colleague Arvind and Manikantan answer the other ones that you asked on the tax.

At this point in time, we continue to give the figures only on the non-voice and voice. Our non-voice contribution to mobile revenues is 20.8% versus 20.2% in the previous quarter. Coming to 3G customers, the current statistics that we are able to share with you is of the subscribers which are 4.8 million, and the average usage of the overall data customers is 232 MB.

Mr. Arvind Narang:

We still have the tax holiday under 80(i)(a) which we continue to have for some more time. But, we do not provide tax guidance.

Mr. Anirban Roy:

And how long will that tax holiday be for sir?

Mr. Arvind Narang:

At least for the next few years, at least 2 to 3 years.

Mr. Anirban Roy:

Okay, thanks sir.

Operator:

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

Mr. Shobit Khare:

Sir, good afternoon and thanks for the opportunity. First question is on revenue per minute (RPM). Sir, we have seen it being stable for the last two years or so and we have also taken significant prepaid tariff increase. So, should we see improvement and what could be the quantum of improvement because of the tariff increases that you have taken?

And my second question is on the channel commissions, RCOM has not seen the kind of savings which its competitors have reported. So, what is the reason for that?

Mr. Arvind Narang:

Are you referring to the SG&A costs?

Mr. Shobit Khare:

Yes, Arvind.

Mr. Arvind Narang:

The savings are similar to what you have seen in the results of other operators. The difference is that in the case of RCOM there was an additional expense which happened related to the T20 World Cup where we were one of the main sponsors in that. This has to some extent increased the SG&A costs but it is a one time impact. Largely the savings are on the Sales & Distribution side.

Mr. Shobit Khare:

Okay, got it Sir.

Mr. Gurdeep Singh:

Coming to the tariff thing, as you will recollect we moved tariffs up from 1.2 paisa per second to 1.5 paisa per second. Last time we had said that we will implement this across the country by end of October which we have done. So, all our newly acquired customers are under 1.5 paisa per second rack rate. We had also said that as and when current customers' existing base starts exhausting, the validity of the current tariffs, we will continue to move them, which we are doing diligently. And about 5 to 6% of the consumers of existing base are moving into the new rack rate. In correspondence to the rack rate we have also revised tariffs and the price of the tariff vouchers which is what we call as rate cutters in the market to make sure that the implementation is holistic. Over the next 4 or 5 months, we hope to complete this exercise and we should be able to see a complete impact or a full impact of this price shift in the first quarter of the next financial year. Having said that, we see a cost push coming on the back of one time charge, re-farming, and SUC going forward, and we see the tariffs hardening further,

and we will not be surprised if we have to resort to tariff hike at least on 2 or 3 occasions in the next 12 to 18 months.

Mr. Shobit Khare:

Sir, you have also introduced some new plans in the post paid. So, whatever steps RCOM has taken, would it be fair to assume that there would be RPM accretion over the next two quarters assuming that the current environment remains and there are no further hikes?

Mr. Gurdeep Singh:

As I said that we do see the tariffs hardening in the future, all our actions are towards making the business more sustainable because the current tariffs are surely not sustainable. Hence, it is fair to assume that there will be hardening of the RPM. The quantum of that will depend upon how many of the customers we are able to migrate, and what is the price elasticity to the consumption. I am glad to share that so far we have not seen any price elasticity to the consumption. So, we are fairly optimistic that RPMs will head northward in the future.

Mr. Shobit Khare:

Okay sir. Sir if I could ask one more question for Arvind. Sir, I just wanted to understand the increase in working capital for the last two quarters, we have seen a significant increase there. So, just wanted to understand what is driving this increase?

Mr. Arvind Narang:

The working capital in this quarter has actually reduced. This is mainly due to the movement in the current liabilities which has reduced the working capital. Actually this has come down in this quarter if you look at the cash flow statement. So, if you recollect even the last quarter's call where I had mentioned the rationale for increasing in the current liabilities and the same logic applies and the current liabilities in this quarter has come down, which has reduced the working capital requirement in this quarter.

Mr. Shobit Khare:

Okay. So Sir, this is pertaining to what, is it vendor payments and would we see more reduction in current liabilities going forward?

Mr. Arvind Narang:

Yes, the opex creditors and some of the capital creditors.

Mr. Shobit Khare:

Okay sir, thanks a lot. All the best.

Operator:

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

Mr. Rajiv Sharma:

Yes, Hi. Thanks for the opportunity. I have a couple of questions. First is on your license fees which has gone up this quarter by some 210 basis points, so just wanted to understand that apart from the move towards that 8% license fee what is the other thing which is driving this and how much has been impacted by the standard licenses which has been agreed?

Second is, I do not see any impact of seasonality in your minutes and also it suggests to me that the subscribers which have been churned, there was hardly any minutes coming from them. So, if you could share what were your gross additions, then I will be better placed to understand or capture this trend on an overall basis.

Mr. Gurdeep Singh:

Thanks Rajiv. To answer your question on minutes, our minutes quarter-on-quarter have declined to 102.5 billion versus 105 billion in the previous quarter. Our impact on the seasonality is little less than that of the peers, the fundamental reason being that we

have stepped up our extraction at the market place by adopting horses-for-courses strategy which is beginning to pay, that is number one.

On the question of the churn customers, these were the customers who were hopping between us and the other operators. We looked at their movement in the previous six months and when we found that they either do not carry any balance or are not using, we churned them out of the system. Hence there is negligible impact.

Mr. Rajiv Sharma:

So, will your earlier churn rate which used to be around 4% and 5%, prevail? After this clean up will the churn rate, which shot up to 10% this quarter, go down because those hoppers have been transitioned out? Will this now come down to 1 or 2%, or what is the trend you are seeing in the two months of this quarter?

Mr. Gurdeep Singh:

This is a one off that you saw of 10%, because of the clean-up to free up the numbering resource by deactivating the inactive customers. But going forward, we see it to be in the region of about 4-5%.

Mr. Rajiv Sharma:

Despite the clean up?

Mr. Gurdeep Singh:

Yes. This fundamentally Rajiv is because we still have 14 circles where our cumulative market share in GSM space is pretty low, so we continue to be aggressive and we need to ensure that we continue to get lot more customers on-boarded even though we make effort to retain them post 90 days. But I guess this will continue for at least a quarter or two before we stabilize to a fair share.

Mr. Rajiv Sharma:

And what has been your gross rate, just roughly on a national basis?

Mr. Gurdeep Singh:

Gross additions you are saying?

Mr. Rajiv Sharma:

Yes.

Mr. Gurdeep Singh:

It is something that I will not be able to share.

Mr. Rajiv Sharma:

Okay. And what has been the reaction by competition in markets like Gujarat and Bihar where you hike tariffs. How has the competition behaved in these markets, any change you see from them so far?

Mr. Gurdeep Singh:

Well, you and I read the similar media. If you look at some of the competitions and visit their web sites then they too have begun to selectively move the prices up. However, as I said last time, we are very clearly focused on delivering quality, service, and experience to our consumers, and do not wish the price to be the only reason for them to be with us. So, now we are moving towards a value for money as a proposition rather than pricing as the only proposition, and we have begun to craft our own strategy, be it 900 MHz, be it Metros, or be it 1800 MHz.

Mr. Rajiv Sharma:

And your prepaid subscriber proportion has come down by 40 basis points. Is this because of the new plans you launched on post paid, you are already seeing some gain there?

Mr. Gurdeep Singh:

I do not have the exact math, I may ask them to correct it. It is very early to see the postpaid impact on the composition shift because the acquisition numbers are far less than the overall subscriber base because of unlimited and All Share plans. However, the

trend lines are very encouraging, but I guess Rajiv, I am not sure, it could be because of the deactivation of the large customers that would have changed the ratios.

Mr. Rajiv Sharma:

Okay. And one question I had on license fees for Arvind.

Mr. Arvind Narang:

So, your question is on access charges and license fees?

Mr. Rajiv Sharma:

Yes.

Mr. Arvind Narang:

Access charges have gone up by Rs. 86 crores and license fee has gone up by Rs. 9 crores. The reason for access charges going up is basically due to reconciliation between the private operators for the IUC access charges. It is a one time provision. The license fee which has gone up by Rs. 9 crores is largely because of the NLD and ILD fees, the average license fee going up from 6% to 7% pertaining to the implementation of uniform license fee structure.

Mr. Rajiv Sharma:

So, this Rs. 86 crores will not come in the next quarter, this is one off?

Mr. Arvind Narang:

Yes, significant part is one-off..

Mr. Rajiv Sharma:

And what is the one off in your interest cost of Rs. 5,929 Mn?

Mr. Arvind Narang:

Our cost of debt is in the range, of around 6%. The Rs. 40 crores increase in the interest cost is nominal and due to certain pending processing charges on certain fund-based and non-fund-based credit limits. Like I earlier mentioned, if you look at the Q4FY12

finance charges, they are also at the same level, because the debt was also at the same level.

Mr. Rajiv Sharma:

Okay. Thanks a lot and wish you all the best for coming quarters.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you sir. Next question comes from Mr. Kunal Vora from BNP Paribas. You may go ahead please.

Mr. Kunal Vora:

Thanks for the opportunity sir. The first question is on the tariffs. Sir, post the tariff increases, have you seen any impact on your gross additions sir, like it is a tariff sensitive market, so are you seeing any such impact in the market place?

Mr. Gurdeep Singh:

Well, like I said last time that before we implemented the tariffs we did a pilot in few circles and we did not see any price elasticity, and we continue to see no price elasticity because of the price change.

Mr. Kunal Vora:

Okay. But for your share of gross subscriber additions, has there been any impact post the tariff increase?

Mr. Gurdeep Singh:

No, there is no impact. We continue to get our fair share in the industry.

Mr. Kunal Vora:

Sure, okay. The next question is on debt side. The debt continues to increase. Do you have any plans for fund raising or any strategic deals which we could see?

Mr. Arvind Narang:

Debt has gone up by only Rs. 242 crores. If you look at the quarterly report, the foreign currency loan is up by Rs. 407 crores and the rupee loan is repaid by Rs. 165 crores, so it is down to that extent, and the net impact on the gross debt is Rs. 242 crores. So, it is a very-very marginal increase.

Mr. Kunal Vora:

But is the company comfortable with the current debt level or are there any plans to deleverage in the next six months to one year time frame?

Mr. Gurdeep Singh:

Well, there are plans to deleverage and reduce the debt level. We are looking for an opportune movement either through our flag IPO or through the sale of the tower assets or dilution in the tower assets.

Mr. Kunal Vora:

Okay, great. Thank you sir. My question is answered.

Operator:

Thank you sir. Next question comes from Mr. Sunil Tirumalai from Credit Suisse. You may go ahead please.

Mr. Sunil Tirumalai:

Hi, thank you. Sir, I have a couple of follow-up questions. Firstly, on the tariff hike that you said, you have hiked tariff from 1.2 paisa to 1.5 paisa, So, I wanted to understand what was your experience last year when you undertook a similar tariff hike from 1

paisa to 1.2 paisa. We never saw the impact of the hike really flow through in the RPM number. I am just trying to understand what we are seeing now?

Mr. Gurdeep Singh:

Well, when the tariff hikes were taken last time when it moved from 1 paisa to 1.2 paisa, I think the competitive intensity on the ground was still a 14-player market. The difference between the last time and now is that we see a 5 to 6 player market effective on ground, Pan India, scale operators. So, when we made the change this time we did not see any price elasticity that could be a cause of concern, and we are now happy to share that we have implemented the base rack rate of 1.5 paisa across India as of end October, and every month about 5 to 6% of the consumer base is migrating into the new rack rates. So, this process should complete by mid February or end February, so you will be able to see the complete impact of this change over the next year. However, to assume that will it result into a better performance on revenue or on RPM side, considering the fact that we are now into the best of the two quarters in a year which is the festival quarter and the changes which are behind us, it is fair to assume so.

Mr. Sunil Tirumalai:

Okay, that is helpful. And my next question is, what do you think would be the impact on RPMs from the processing fee limit on low denomination vouchers which TRAI recently put up?

Mr. Gurdeep Singh:

Most of the rechargers were in the range that the new regulations had been framed. We do see an immediate one or two month impact on this but over a period of time it will nullify as consumers have begun to move into the higher denomination rechargers. So, when you look at a Rs. 30 recharge voucher versus a Rs. 10 recharge voucher, the processing fee capping of 1 rupee versus 3 rupee, our endeavor will be to move the consumers towards the higher denomination recharge voucher which we have been successfully able to do so far.

Mr. Sunil Tirumalai:

But, at the store level, how do you operationalize it because you necessarily need to have a 10 rupee recharge voucher as well?

Mr. Gurdeep Singh:

Yes, but it is a question of what you package in a Rs. 20 or a Rs. 30 recharge, so that is where it is. It is at a go-to-market level.

Mr. Sunil Tirumalai:

Thank you, that was helpful.

Mr. Gurdeep Singh:

Yes, thank you, pleasure.

Operator:

Thank you sir. Next in line we have a follow up question from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Ms. Reena Verma:

Yes, thank you for the opportunity once again. Just on CDMA, I wanted to get your thoughts, how you are viewing the absence of any bidders for CDMA spectrum? What do you think it means for the attractiveness of your own CDMA business, and in that context how feasible would it be for you to surrender any CDMA spectrum that you have beyond 2.5MHz?

Mr. Gurdeep Singh:

Well, the two things that have happened in the past few days, A) there have been no bidders and takers for CDMA spectrum, and B) yesterday's cabinet decision to refer the CDMA one time charge to the DOT where we said that we are more than happy to engage with DOT to work out a forward path.

Could you please mention your first question again, what was it, on CDMA, how do we see it?

Ms. Reena Verma:

What do you think, does the lack of bidders show poor economics of the business?

Mr. Gurdeep Singh:

See, we have all along maintained that CDMA is the technology which has reduced its share and contribution in the world market. There are only few select countries and the players and the operators who are still supporting this platform includes the US and China. The device ecosystem is certainly stressed versus the GSM because it offers limited options and choices to the consumer and hence it does limit your go-to-market approach, but having said that I did mention that over the last few months we have seen a dramatic shift in the evolution of the CDMA devices in the ecosystem as the chipset technology is advanced and earlier the device makers had to resort to a separate chipset for CDMA and a GSM. Now there are more and more of unified chipsets in the market which helps us bring far more number of devices in the market versus earlier. So, we are little optimistic about the ecosystem, but to say that will it be comparable to a GSM ecosystem, answer will be No, but it will certainly be a better ecosystem versus what we have gone through in the past.

Ms. Reena Verma:

So, you think that people who are not bidding for it is just basically because they have GSM resources?

Mr. Gurdeep Singh:

No, I think one of the reasons for not bidding is the unrealistically high price for CDMA spectrum which was pegged at 1.3times 1,800 MHz and no bidders and no takers establishes that further, that the price is unrealistically high and that it needs to be looked into.

Ms. Reena Verma:

And would you have the same view for the 1,800 MHz price as well?

Mr. Gurdeep Singh:

Well, one of our reasons for not participating in GSM is that even those prices are unrealistically high.

Ms. Reena Verma:

Yes thank you. And just for the second part of my question please, about surrendering possibly some CDMA spectrum?

Mr. Gurdeep Singh:

We are still evaluating our options on how do we play between the three technology layers that we have, 3G, 2G, and CDMA. It is a bit premature to talk on that.

Ms. Reena Verma:

Okay. Thank you very much. Best wishes.

Mr. Gurdeep Singh:

Thank you.

Operator:

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

Mr. Srinivas Rao :

Yes, thanks. Actually part of my question was what Reena asked. You have not bid for the 1800 MHz auction or you are not participating in that whereas you do have only start-up spectrum in at least 14 circles as you mentioned. Is your view that this spectrum is enough for you in the foreseeable future based on your business ambitions in GSM space? The reason for asking is typical commentary which we have heard from

players that you do need at least 6.2 MHz for a reasonable GSM network in the medium term, so that is the context of asking this question.

Mr. Gurdeep Singh:

Well, as we said that the fundamental reason of non participation in the auction is that we believe the prices are unrealistically high. Having said that, we believe that the current spectrum supports us in our near term requirement of traffic growth and consumption, and we will deal with this question as the time comes by, because in many of the markets we have three layers of technology, 3G, 2G, and CDMA. So our task is how do we harmonize the customer base between these three technologies and make best use of the spectrum that we have.

Mr. Srinivas Rao :

Just one more question sir, is it feasible or I know it is feasible to support voice over 3G, but is that something which you can look at as an option going forward or you expect the data growth, which you have been very positive on, will kind of more than consume your 3G spectrum resources?

Mr. Gurdeep Singh:

You can offer voice over 3G, this is dependent on what strategy you take and how stressed you are on the spectrum in the market. Some of the older players are currently supporting voice on 3G in the stressed out markets, and this will be a case to case and a market to market or may be a city to city kind of an approach.

Mr. Srinivas Rao :

Thanks sir, this was very helpful, thanks.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you sir. This was the last question. As 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.

Mr. Gurdeep Singh:

I just want to wish everyone a Happy and a Sparkling Diwali.

Operator:

Thank you sir.