



**RELIANCE COMMUNICATIONS LIMITED**

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**Transcript of Earnings Conference Call  
for the Quarter ended 30th September, 2016**

**Conducted at 2.00 pm IST on 15th November, 2016**

### **Moderator**

Thank you for standing by, and welcome to Reliance Communications Global Earnings Conference Call on Reliance Audio Conferencing Platform. This is Deepesh, 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. Please be advised, this conference is being recorded today.

Today, we have the senior management team from Reliance Communications, namely **Mr. Gurdeep Singh**, Co-CEO-RCOM and CEO-Consumer Business; **Mr. Bill Barney**, Co-CEO-RCOM and CEO-GCX, India Enterprise and Carrier Business; **Mr. Punit Garg**, President-Corporate Strategy and Regulatory Affairs; **Mr. Suresh Rangachar**, President- Commercial and IT; **Mr. Manikantan Iyer**, CFO-RCOM; **Mr. Rory Cole**, CFO-GCX; and **Mr. Anil Ladha**, Head - Investor Relations.

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

I hand over the call now to Mr. Gurdeep Singh. Thank you.

### **Gurdeep Singh**

Good Afternoon and welcome to our second quarter FY17 earnings conference call. I have with me the senior management team of Reliance Communications. On behalf of us all, Thank you for joining the call.

On November 14, 2016, our Board of Directors adopted the results for the second quarter FY17 ending September 30, 2016. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I trust you have had a chance to go through the same.

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

- **Consolidated revenue** was at Rs. 5,142 Cr and **EBITDA** at Rs 1,542 Cr and this reflected a decline of 4% and 1% respectively on a Q-o-Q basis. Overall EBITDA margins were at 30%.
- **Net Profit after Tax** was at Rs. 39 Cr.
- **India operation** revenue was down 4% Q-o-Q at Rs 4,488 Cr, and generated Rs 1,297 Cr. of EBITDA, also down 4% Q-o-Q.

- **Global operation** revenue was at Rs 1,089 Cr. down 8% Q-o-Q and generated Rs 245 Cr. of EBITDA, up 18% Q-o-Q.
- **Net finance charges for the quarter** were at Rs. 825 Cr. (up 3.6% Q-o-Q) and **capex** was at Rs. 405 Cr.
- **Operational highlights**
  - RPM was at 44.6p, down 1% Q-o-Q and ARPU was at Rs. 155, up 5% Q-o-Q.
  - Total MoU at 97.9 billion, down 2% Q-o-Q.
  - The total data customer base was at 35.1 million including 24.5 million 3G/4G customers.
  - The total data traffic on the network during the quarter was at 104.8 billion MB, up 2% Q-o-Q.

Our financial performance for this quarter was mainly impacted by increase in competitive intensity, migration of CDMA customers to 4G LTE and seasonality factors.

During this quarter, we have successfully completed the process of upgrading our valuable erstwhile CDMA and data card customers to 4G LTE, retaining profitable and valuable customers. We are very pleased with the response we are seeing for our 4G products across various customer segments, including the large and SME corporate sector. We remain confident of being one of the stronger positioned data incumbents in the sector with our offerings of Gold Standard 4G internet services on a pan-India basis on 850Mhz spectrum, enhanced by the sharing arrangements with Jio. I would like to reiterate that, with Reliance 4G services, **RCOM has leapfrogged from being a challenger operator to becoming the incumbent data operator.**

**Before I move on to give you the industry and business update let me spend some time talking about the recently concluded spectrum auction.**

In this spectrum auction the government offered maximum spectrum for sale than it has ever made available for the industry. The bidding and sale was mainly concentrated in the 4G spectrum bands, evidencing the importance of 4G growth and various operators' need of plugging their gap areas.

With merger of RCOM's wireless business with Aircel, the MergedCo would have about 450 MHz spectrum across 850, 900, 1800, 2100 MHz bands, i.e. over 13% holding among the private operators. It would have access to over 200MHz of 850 band for 4G services. So in this auction, RCOM bought only 5MHz in J&K in 1800MHz band and did not actively engage in buying additional spectrum in the auction as we already have sufficient spectrum. The 850 band has far better propagation characteristics than 1800MHz band or 2300MHz or 2500MHz band. Since data consumption is more indoors than outdoors, availability of 850MHz spectrum helps in truly elevating the experience of

4G vis-à-vis one would otherwise get from spectrum in supra 1-GHz band which is not capable of penetrating deep inside. Apart from the 850 MHz spectrum, our customers will also be able to roam on 1800MHz and 2300MHz in ICR tie-up with Jio. Hence, a customer experiences seamless connectivity on 4G across India.

This merger will also extend life of spectrum, as it will have a longer expiry than our current expiry period which will ensure better cash flows and optimal usage of our spectrum resources as a merged entity.

**Let me now move on to the key industry updates and trends during the quarter.**

Indian telecom sector is undergoing a large structural shift, from being a voice dominant market to a more data-centric market. The era of digital revolution has clearly arrived and would be boosted by high quality customer experience driven by 4G offerings. We are now at stage in the evolution of telecom services where 4G is expected to become the new 2G – i.e. near ubiquitous coverage across the country and universal adoption.

In India while we have seen rollout of 4G networks by some of the operators, but we are one of the only two operators currently offering Pan India 4G services, with a distinctive competitive advantage of the sub-1 GHz band. The sector dynamics is geared towards getting the customers to use higher amounts of data through 4G and 3G offerings and we are very optimistic with recent market developments. We believe that Indian consumers have significantly higher latent demand to consume data services, enabling the sector to grow.

The next key trigger in improving the digital penetration within India, besides improvement in affordability of the devices, is around improving the level of awareness and providing locally relevant content. We along with other operators have been closely working to educate our customers on the benefits of the internet.

**Affordable Smartphone devices** are central to the pick-up or growth in data services. “After successive decline in two quarters till March 2016, Indian smartphone market recovered with 17% growth in the Apr-Jun quarter of 2016”, as per IDC India. India registered a total of 27.5 million units of smartphones shipments in Calendar Year Q2 2016.

As per GSMA’s latest research “THE MOBILE ECONOMY INDIA 2016”, India is now the world’s second largest smartphone market, overtaking the US in the first half of 2016, with an installed base of 275 million as of June 2016. This was attributable to the increasing affordability of the smartphones and with easy-to-use features which helped first-time smartphone users leapfrog from the desktop/laptop phase. The smartphone adoption in India will grow to 49% levels i.e. 700 million phones in 2020 versus 24% i.e. 240 million in 2015. India will be the main driver of smartphone growth in Asia Pacific

over the next few years, adding close to half a billion new smartphone connections by the end of 2020.

India is also seeing an ongoing technology shift to mobile broadband services. With a gradual reduction in data tariffs and growing availability of affordable smartphones for consumers, the mobile broadband connection base is forecast to reach more than 670 million by 2020; nearly double the total internet users in India as of March 2016, as per TRAI Performance Indicator Report. By this date, almost half of the total connections will run over mobile broadband networks. There is also an accelerating move to 4G, with the 4G connection base forecast to grow rapidly, from just 3 million at the end of 2015 to 280 million by 2020.

Operators are increasingly looking to offset the impact of competition and slowing subscriber growth by monetising the growth in data traffic. As more users migrate to high-speed broadband, mobile data traffic is expected to grow 12-fold between 2015 and 2020, a CAGR of 63%. This is ahead of growth in the Asia Pacific region overall, forecast at a CAGR of 54%.

The **e-Commerce industry in India** has been propelled by the rise in internet penetration due to major improvements in the telecom infrastructure. With 3G and 4G services growing rapidly along with lower data tariffs, overall spend on internet data will grow significantly. Data rates in India being far cheaper than in China and US, will play a catalytic role in development of a large e-commerce market.

Globally, **mobile transactions** are picking up pace and are outnumbering the transactions done on tablets. Some of the global mobile retail commerce trends include:

- Smartphones becoming the device of choice for retail e-commerce: Now smartphones deliver the majority of mobile transactions in major markets like Japan, UK, South Korea, etc.
- Marketers with the best mobile sites and apps commanding a significantly larger share.

In India we are seeing a similar trend. Due to availability of high-speed 3G & 4G internet connectivity at affordable prices there would be an explosive growth in transactions done via mobile smartphones. As per a recent report jointly by CII and Deloitte, Online shoppers as a % of internet users in India, will be about 36% by 2020.

The Digital India project aims to offer online government services that will have mobile phone as the backbone for its delivery. The programme will give a strong boost to the e-Commerce market by bringing internet and broadband to remote corners of the country, which is expected to deepen the penetration of data services and significantly increase the data volumes.

Availability and affordability of the devices, improving the digital literacy for our customers, and availability of locally relevant content and services, will be the key factors to bring on the next wave of data customers.

**I will now spend a few minutes on some of the key business developments at RCOM on the wireless side of the business.**

Last couple of months RCOM has been busy upgrading its CDMA subscriber base to 4G and also allowing its GSM subscribers to upgrade to 4G. We have been seeing a lot of traction on this front where our existing 3G subscribers have also been upgrading to 4G. We have made great strides in building up good foundation of our 4G business – 1. Creating new customer base by attracting corporate customers to subscribe Reliance 4G for their employees, 2. Through MNP, we have successfully created positive churn by attracting the value customers to our network. We are seeing good usage of data among our customers especially after we launched a number of consumer centric offerings that transitioned us from being a provider of a dumb pipe to a more intelligent carrier of content and services.

Our business transformation towards 4G growth business is progressing well and with this, RCOM is firmly moving onto a growth path.

We have built our distribution network on the premises that “**Experiencing is Believing**” i.e. only once customers experience the benefits of 4G, will they continue to use it and more importantly pay for it. In our widely established and expanding network of stores, we provide on-location facilities, supported by a well-trained service staff, to experience power of 4G services to potential customers.

We have in the past taken several initiatives to offer a full-suite entertainment portfolio rather than offering plain vanilla 4G data connectivity, for example: Our content-bundled data offer—**‘MoviNet Plan’**—combining movies, music and Internet access; “**Calling Ka Naya Tareeka**” offer in which a customer will experience significantly better app-to-app voice calls with high-definition quality and instant connections.

We have always aimed at offering innovative and useful products to the customer. In this regard we have launched **Reliance Spottr**, an innovative location based service that will empower customers to ascertain safety and security of near and dear ones, while they are mobile. With this service an RCOM customer can find location of up to 5 RCOM mobile numbers anywhere in India after securing consent from them.

Mobile has become the new resource for Entertainment and we want to make the most of it. In this regard we have launched **Reliance Games Arcade**, an own Branded Games Store, powered by Opera. This has collection of more than 300 premium games from International and Indian developers. Reliance subscribers, both Prepaid and Postpaid can now access this Store at Rs 15 for 10 days on auto renewal. All Games

Apps which are available for download from the Store are full versions, include in-app purchases and allow users to enjoy an ad-free gaming experience.

We are actively engaging ourselves in improving the 4G device penetration and getting on board new and converting existing subscribers to 4G. We have tied up with financial services companies to offer financing options to our buyers for purchasing smartphones. We are driving sale of handsets through our own shopping portal as well. We are happy to see that a lot of customers have shown interest in buying smartphones through the financing scheme we have launched and are converting to use our gold standard 4G services.

We have also developed a number of attractive propositions for our corporate client base. Our earlier CDMA based Wipods and internet dongles were the mainstay of Corporate India. We have successfully launched 4G LTE compatible mi-fi devices that have helped retain our corporate customer base.

With these product launches our customers, having access to one of the world's best 4G LTE network, are experiencing blazing data speeds on their mobile phones and other connected devices and benefitting from the power of the internet.

**On the corporate side we continue to work towards successfully closing out the transactions we have planned to deleverage the balance sheet.**

In order to strengthen our balance sheet we have taken a number of initiatives that are now fructifying. These transactions will significantly reduce RCOM's debt and help it to improve its cash flows.

**Let me briefly update on current status of all these deals.**

**Tower Deal:** RCOM has signed a non-binding Term Sheet with Brookfield in relation to the proposed acquisition of RCOM's nationwide tower assets and related infrastructure. Under the Term Sheet, the specified assets are intended to be transferred from Reliance Infratel on a going concern basis into a separate SPV, to be owned by Brookfield. RCOM will continue as an anchor tenant on the tower assets, under a long term MSA, for its integrated telecommunications business.

RCOM will receive an upfront cash payment of Rs. 11,000 crore from the proposed transaction. RCOM will also enjoy 49% future economic upside from the towers business, based on certain conditions.

RCOM intends to utilize the proceeds of the proposed transaction solely to reduce its debt.

We expect to announce the signing of a binding agreement, as a next step. Subsequent to that, we will start the process of initiating regulatory and legal approvals.

**Aircel Merger:** The merger of our wireless business with Aircel is the largest ever consolidation in the Indian telecom sector and will create a strong operator clearly ranked amongst India's top 4 telcos by customer base and revenues, also ranking amongst the top 3 operators by revenues in 12 key important circles. As part of this transaction RCOM will transfer its wireless business to Aircel through a court approved demerger process.

The combined entity will enjoy substantial benefits of scale driving significant revenue growth, and capex and opex synergies with an estimated NPV of ~ Rs. 20,000 crore. As part of this transaction RCOM's overall debt will reduce by Rs 20,000 crore (nearly 40% of its total debt) and allow RCOM to continue to own and operate its high growth businesses in the domestic and global enterprise space, Data Centers, optic fibre and related telecom infrastructure.

We have applied for the Stock exchanges and CCI approvals, to be followed by filing of a court scheme in the High Courts.

**SSTL integration:** Our merger of SSTL's wireless operations with RCOM, marking the 1st consolidation in the Indian Telecom Industry, is now in the final stages. The DoT approvals are expected within a few weeks from now. Post that, we will begin to integrate SSTL's operations with RCOM and will migrate the customers to Reliance 4G services.

**I will now request Bill to give you an update on developments in the Enterprise and GCX businesses.**

### **Bill Barney**

Our B2B businesses continued to display robust quarterly growth as we expanded our infrastructure and enhanced our strategic Cloud X portfolio. GCX & India Enterprise continue to add new logos across India and global enterprise & OTT space.

We witnessed the green shoots from our transformational Cloud ecosystem deployed in India to bridge the gap between public Cloud services and Enterprise networks, enabling direct connectivity between RCOM and GCX's global MPLS network and the world's leading Cloud platforms as we continue to build partnerships worldwide.

We are aggressively moving forward in further building and expanding our business for long term sustainable growth on the bedrock of our unique Cloud proposition.

I would like to share some key highlights for the quarter:



- With our deployment of Fast Edge, the country's first "Make in India" Content Delivery Network (CDN), we have strengthened our strategic position in the marketplace. Fast Edge comprises a Content Delivery Network of content caches around the edge of Reliance's Indian network, connecting back to 9 state-of-the-art Tier III+ data centers in Mumbai, Bangalore, Chennai and Hyderabad. The content caches, in turn, are seamlessly connected onward to our network of data centers situated in key hubs along the Emerging Markets Corridor, all interconnected by our wholly owned global subsea fiber network.
- We have also launched CLOUD X WAN – a global SD WAN Solution for Enterprises. Cloud X WAN, the latest addition to the CLOUD X portfolio, is a Cloud-centric network platform designed to help overcome many of the challenges facing today's global enterprise networks, offering an affordable solution which embraces flexibility, scalability and enhanced security. Cloud X WAN is an evolution of GCX's existing hybrid WAN service which already connects more than 20,000 locations to a global MPLS network via the Internet.
- In Asia, we signed a strategic partnership with PLDT, the leading telecom services provider in the Philippines, to support its global expansion plans through delivery of service requirements in Asia, Middle East and Europe.
- We also launched DDOS Protection services across India and have already sold services to top financial institutions.
- On the operations side, we "raised the bar" considerably in our offshore businesses. With the expansion of our Customer Advocacy Team's support to high revenue customers, our KPIs are showing very positive results in addition to our new Order Desk function delivering 86% improvement in service delivery between 1<sup>st</sup> June to 30<sup>th</sup> Sept. We are running and delivering a world class operating experience for our customers.

**In the next few quarters, we will continue to focus on product & service innovation, capability expansion, ecosystem collaboration, and drive our unique proposition in the cloud space.**

Now I handover to Gurdeep for conclusion.

**Gurdeep Singh**

**In conclusion, let me reiterate the following:**

- RCOM is transforming **from a challenger to an Incumbent Data operator** in the country, and our consolidation transactions only reinforce our position.

- With Aircel merger, we will be a strong operator clearly ranked amongst India's top 4 telcos by customer base and revenues, also ranking amongst the top 3 operators by revenues in 12 important circles.
- We are well positioned to ride the 4G-fuelled growth curve as the incumbent and our sub 1Ghz spectrum pool provides the most competitive edge to our services.
- We had undertaken one of the largest customer upgradation programs in the country and have successfully upgraded our value accretive CDMA customers to the 4G LTE platform.
- Our Pan India 4G services going forward will **help us in enhancing subscriber and revenue market shares**. Our 4G strategy will be to increase our 4G market share by continuing to offer innovate plans and offers.
- Completion of Aircel merger and Tower sale will deleverage our balance sheet substantially.
- On the Enterprise and GCX side of the business we are well positioned at the crossroads of emerging market data traffic growth and exponential growth in Cloud services to make us a leading Next Generation Technology Service Provider.
- Our partnerships and strategic sharing agreements make us one of the most asset light operators in the country. We are well invested across spectrum and network capacities with focus on delivering better returns on our invested capital as well as deliver value to all our stakeholders.

Now I handover for the Q&A session.

### **Question-and-Answer Session**

#### **Moderator**

First question comes from Mr. Manish Adukia from Goldman Sachs. You may speak.

#### **Manish Adukia**

Hi, good afternoon and thank you for taking my question. I have three questions, if I may. First, you talked about increase in competitive intensity during the quarter. If you can just please provide us some more details on this, if you're seeing more competition specifically on the data side, or is the competition also on the voice side of the business? My second question is on your overall sites, I think, which saw a sharp decline this quarter from about 76,000 to 62,000. So you can just help us understand what is happening there?

And lastly, I think third question on your tower deal with Brookfield. There was a recent press report which suggested that Brookfield may also be interested in acquiring the Bharti Infratel stake which Airtel is going to sell. So if that were to be true, does that change anything for RCOM's tower deal? Those are my questions. Thank you.

**Gurdeep Singh**

Firstly, on the competitive intensity, what we fundamentally mean is, yes, in the market we have a new operator, and the other operators are also significantly looking at revamping their 4G portfolio and that is leading to a lot of land grab onto the data customers. This is currently leading to, with initial joining or the launch programs, a kind of pressure that we're seeing on both the voice and the data side. We have gone through these kinds of issues several times in our past and I think we are well versed with letting this intense competitive position to go by, allow it to settle, and then set our next course of action.

If you want to know specifically has this put a pressure on the voice and the data growth for the company? Yes, we are currently experiencing the same. But let's understand that this is all coming under intensely highly competitive plans that are being offered by many of the operators in the market. We have chosen our path clearly to make our customers experience the product, and believe in it. We are seeing a lot of traction on the postpaid corporate SME side and high value prepaid customer side and we continue to be encouraged by the actions that we've taken on the ground. So that's answer to your first question.

And second question, the number of sites coming down, yes, as I stated in my opening speech that we have migrated successfully all our CDMA customers on to our LTE platform, thereby all the CDMA BTSs have been switched off.

**Anil Ladha**

The difference which you are seeing between the two quarters is primarily on account of CDMA switch off and additionally we have added some 3G sites and to that extent, the difference is accounted for that.

**Gurdeep Singh**

And coming to the last question on the tower deal, all I can say at this moment is that we are progressing well with our proposed tower stake sale. We expect to announce the definitive agreement in the coming three to four weeks.

**Moderator**

Thank you, Mr. Manish. Next we have Ms. Amruta Pabalkar from Morgan Stanley. You may speak.

**Amruta Pabalkar**

I have couple of questions. Firstly, on the CDMA side, the migration to LTE, is the entire impact reflected in the numbers in terms of 88 million subscribers and 29% India margins as the base? Can we look this as a base going forward or any impact we would see in the current quarter?

Secondly, it will be helpful if you could give us some details on your 4G in terms of the 4G subs, ARPU, and what is the per data sub-consumption? Can we look at your ICR arrangement with Jio as buying bulk data MBs at around five paisa per MB or any guidance around this number would be very helpful.

**Gurdeep Singh**

So first on the CDMA, Yes, you are seeing the full impact of CDMA migration in this quarter. As I stated in my speech, we are particularly focused on migrating the value accretive customers onto the 4G LTE portfolio. There is an opportunity for us also not to aggressively pursue the below cost to serve customers for migration, of course those who wanted to and those we wanted to have migrated. The migration is successful. So there is no likely further impact to be coming up in the future quarters.

Second, on the 4G subscribers, as we said, we have over 35 million data users; out of that over 25 million are 3G/4G users. All I can say at this moment that we are not giving out the separate 4G subscriber data.

I would say that we are very encouraged despite the competitive intensity in the market, as high value prepaid and postpaid customers, corporate and SME customers are coming onto our platform. We have won over many new corporate accounts in the last quarter ever since we launched 4G and in the current corporate accounts, wherever we have been operating, our penetration has doubled in the last quarter, thereby reflecting churn on the competition.

**Amruta Pabalkar**

Understood. And anything in terms of your ICR arrangements with Jio, if you could share?

**Gurdeep Singh**

Well, ICR arrangements are bilateral and highly confidential in nature. All I can say is that – in our pursuit to pursue the asset-light strategy, we will continue to get access to the network under our spectrum sharing arrangements to give all the data services to our customers, and needless to mention that they will be value accretive and profitable as we go forward.

**Amruta Pabalkar**

So does your revenue this quarter reflect any inflow from Jio on back of tower or fiber?

**Anil Ladha**

Yes, there's an ongoing component, on the tower rentals. It is getting accounted in the non-voice revenues.

**Amruta Pabalkar**

If I can just ask one more question, on your global data business, how do we look at the global data, especially revenue trajectory and the margin profile going forward? Is it 22% kind of a margin that is something sustainable and can we expect this same margin going forward?

**Bill Barney**

Yes, the expectation is that the data margin should go up over the next few quarters. Many of our large multi-national customers are now using our FLAG networks, which actually has a much higher margin than our traditional services. This has actually helped us in terms of growing margins and we continue to see that we'll have margin expansion and growth from the data services over the next foreseeable future.

**Amruta Pabalkar**

That's quite helpful. And anything on the real estate monetization, any developments or any time frame that we can expect going forward on this, especially on the real estate monetization front?

**Gurdeep Singh**

On the real estate side, we have successfully disposed of our flats at the Navi Mumbai, and we have also signed up the deal for our Hyderabad property. We are at advanced stages of looking at monetization of our Delhi assets. And we are just about concluding a deal on our Kolkata premises. So as we have stated earlier, the Phase I of our monetization process of real estate were Hyderabad, Kolkata and Delhi properties besides the apartments at Navi Mumbai. So I think we've worked on all of these and we have progressed forward, and suitable announcements will be made later.

DAKC is the largest piece. It will take a longer period of time. It needs to go through certain approval processes, which we are doing.

**Moderator**

Thank you, Ms. Amruta. Next question comes from Mr Kunal Vora from BNP Paribas. You may speak.

**Kunal Vora**

First question is, Jio is offering the service free to its customers, and you have access to the same network. Did you think about making the service free for at least the 4G customers? What are your thoughts on that? And in the medium-term, how do you see Jio as a competition, would you keep your service prices at similar levels or would you look at considering giving a discount compared to Jio pricing? That's question number one.

**Gurdeep Singh**

Well, I may not want to comment on the marketing strategy of our competitors or the new entrant. All I can say is that this certainly raises the temperature on competitive intensity, one needs to calibrate and take decision for the long-term benefit of the business and the sector. We have seen this several times over in the last decade. We are purely focused on delivering superior experience to our customers. We have a nationwide well established distribution, corporate and SME infrastructure. That we are currently leveraging and we are encouraged by the fact that even in this hype and intensity of so-called free offers in the market, we are able to find our niche and get our customers who believe in us and who are happy about the experience on the network.

We are intensely focused on upgrading our current base of customers, a captive base of our customers on to the 4G and we have seen a large traction because we tied-up with both handset and the finance companies and that's really helping us.

**Kunal Vora**

In terms of pricing, your thoughts on how would you look at pricing against them?

**Gurdeep Singh**

I would say that we will wait for the official pricing to come out and then we'll calibrate our next action going forward. But having said that, we are today one of the two operators who have sub-1 gigahertz band, which is superlative in quality, when you show and demonstrate the network quality to the customer, there are no doubts that they see a clear black and white between what Reliance Communications offers and what the other operators may be offering in the market. We will continue to work on that and ensure that our pricing is commensurate to the quality and the experience that we are delivering.

**Kunal Vora**

Second question is on some of the customers, which included unlimited calling from Reliance to Reliance or like dongle customers, they might be the prime target for Jio with the kind of offering it has come out with. Are you seeing any pressure on those customers going for a Jio SIM in addition to RCOM SIM, which they might be holding?

**Gurdeep Singh**

Yes, so there are two phenomena. Let me first answer on the unlimited voice. You see that this has been done on an ongoing basis in the telecom industry to offer as many possible unlimited plans on-net, at a certain ARPU band onwards off-net to the customers across any network. So we have several of those plans running in the prepaid and the postpaid and they are competitive and they are lucrative enough for customers to latch on to them.

Yes, I agree with you that we are seeing competitive intensity pressure on to some of our 4G customers. A very little percentage, maybe below 10%, of our 4G customers,

have reduced or dropped their data consumption dramatically. That gives us a belief that customers might have temporarily shifted their usage for a while, while retaining their numbers, and they are most likely to get back to the full usage as we move towards the end of any of these competitive plans in the market or the moment they are shifted to the paid platform. So I think we will have to wait and watch.

**Kunal Vora**

Why you are not more aggressive on the 4G side?

**Gurdeep Singh**

Well, there are two things. Firstly, we are not a new entrant in the market; we've been here for more than a decade. We need not necessarily always respond to a competitive intensity, especially which is so huge in nature. After all, you will have to run a business in a profitable manner for the long term. At times you take a calibrated action, stay focused on the activities that you do, and we are seeing a good traction, because ultimately the product speaks. So I would say that we are calibrated in that extent, we are encouraged, and once everybody moves to a paid platform, we are only going to be more benefited.

**Kunal Vora**

Understood. Last question Sir, on the initial impact of currency demonetization, if any? Have you seen any impact on the recharges over the last week and when do you see things stabilizing?

**Gurdeep Singh**

Well, let me put this in two parts. One is on the postpaid side, most of our collections are already through electronic transactions, so we're least impacted on the postpaid side. On the prepaid side, we did see a dip for the initial few days. And we use this opportunity to push lot more digital wallet to our customers, encouraged them to load their digital wallet, and that is working.

**Moderator**

Thank you Mr. Kunal. Next question comes from Mr Varun Ahuja from JP Morgan. You may speak.

**Varun Ahuja**

Good afternoon, thank so much for the opportunity. I have a couple of questions. Firstly, on this economic upside from the tower sale, could you just give any clarity whether it's more in the form of performance-linked cash payout or is it some equity upside that you would get?

And secondly, for both the transaction, where are you in terms of approvals and would you need any creditors, bondholders, and all those approvals, and would you also need a consent from the bondholders? Those are my two questions. Thanks.

**Anil Ladha**

As far as this 49% future economic upside arrangement is there, further details on that will be provided once we sign the definitive agreements, which should be happening in next couple of weeks. So at this stage, it suffice to say that there will be an upfront cash component of about Rs.11,000 crore, and further 49% upside arrangement will be there.

On your second question, as far as approvals are concerned, yes, we will be seeking the lenders' approvals. So currently, the next step for us in this deal is to sign the definitive agreement, and then we will be approaching them for approvals.

**Varun Ahuja**

Can I just confirm when you say lenders, is it everyone including bondholders, bank lenders, the bankers, everyone?

**Anil Ladha**

Yes, it is all the bank lenders, and as far as the bondholders are concerned, as part of the overall procedural arrangements which we highlighted in our OC, we will be approaching suitably to the bondholders as well.

**Moderator**

Thank you Mr. Varun. Next question comes from Mr Sanjesh Jain from ICICI Securities. You may speak.

**Sanjesh Jain**

Thanks for the opportunity. I got two questions. One is on the Aircel merger, just wanted to understand what would be your next steps and what is the timeframe we're looking at in terms of closure of this transaction?

Number two on the same, what would be the synergy benefits from the merger with Aircel? We have been given some color in terms of merger in previous earnings call, but any update will be helpful.

And on the ICR agreement with Reliance Jio, two years down the line, will this be EBITDA accretive transaction, or we will see some compression in terms of EBITDA margin, since you will be saving a lot in terms of CapEx?

**Gurdeep Singh**

Just to answer on these three, first is on the Aircel merger. As I stated in my speech, we have already filed for stock exchange and CCI approvals. Post that, we will proceed with the High Court demerger process. We expect all of this to be concluded in six months to eight months.



Second, the benefits of the Aircel merger besides consolidation of revenue market share, superior spectrum portfolio, making it a pan-India 4G, 3G, 2G company and having a large pool of 4G-ready customers, is in the operating costs. As we stated that the NPV value of the synergy is about Rs.20,000 crore, that is a huge leverage for a business in this competitive sector. We estimate that synergy should be realized within the 12 months to 14 months of the effective merger.

And on the ICR, we are an asset-light organization. Any ICR agreement is value accretive. The percentage of how value accretive can vary from time-to-time, but for your information, it's a value accretive program from day one.

**Sanjesh Jain**

Okay. Then when we mean value accretive, it is more from free cash flow perspective, or from EBITDA?

**Gurdeep Singh**

See, in ICR, business EBITDA is as good as PBT, because there is no other cost that you're paying attached to it. So EBITDA positivity in itself is a big driver for an ICR arrangement to run and manage.

**Moderator**

Thank you Mr. Sanjesh. Next we have Mr Pranav Kshatriya from Edelweiss. You may speak.

**Pranav Kshatriya**

Hi. Thanks for the opportunity. I have two questions. Firstly, you talked about the land grab for data customers, but traditionally, Reliance Communication, because of the CDMA base, had lot of customers who were banking on the voice form of connectivity, and somehow, many of these customers are moving away. India still has almost 60% to 70% feature phone users, predominantly in the voice market. So how do you see competition stepping up, predominantly in the voice market, led by feature phone owners? So that is my first question.

And secondly, you talked about conclusion of some of the real estate assets like sale of Kolkata asset, so what sort of realization are we looking at from these assets? These are my two questions.

**Gurdeep Singh**

First one on the land grab, well, we have seen the stages of voice land grab, now it is the data land grab, which is actually fueled more by the spectrum and the quality of handsets that we have. I would say that as a country, we are in a leapfrog stage. We didn't make too good use of the 3G technology and it was probably more short-lived but, now we are leapfrogging from a 2G to a 4G nation.

My hypothesis is based on this. When we introduced 2G, the handset prices were unaffordable. When we launched 3G, the handset prices were above Rs.15,000 as an entry handset. But when the 4G has come into this country, the handset prices are already at around Rs.3,000. So I think this is leading to making 4G as ubiquitous as 2G and probably we have seen that happening in the shortest span of time.

Now, there are two ways out of that. First is you put a superior processing capability and a screen size in the hand of the customer. And the second is the need for speed. I think once you put the device size and the processing capability in the hands of the customer through such an attractive entry price, consumers will develop the need over a period of time; this will be the fastest migration that you will see onto the data services.

And in future, with a lot more VoLTE phones coming up, you will see that Internet-based calling and Internet-based data services will become the hub center of every activity. So consumers will shift to buying one plan, which is a data plan and that's why we launched Calling Ka Naya Tareeka at Rs.1, encouraging people to shift to app-to-app calling. So this transition will happen, and I think, like a quick migration from a black and white to color and color to plasma and LCD TV, you will see a quick migration from a 2G to 4G, we expect 500 million phones of 4G in the market by 2020 and that will be really sizable.

**Anil Ladha**

On the second point on the Kolkata property, we are mentioning this because basically it shows our continuing commitment on deleveraging through real estate properties. So we are moving as per our plan here. And as far as the overall amount is concerned, given the balance sheet size, it's not very substantial.

**Pranav Kshatriya**

Can you give any timeline over what period you expect the Delhi asset to be monetized? I believe Delhi asset is of substantially higher value than the Kolkata site.

**Anil Ladha**

Yes. So currently we are in the process of concluding that. This will happen within this financial year. And then we'll disclose further details on that.

**Moderator**

Thank you, Mr. Pranav. Next we have Mr. Rajiv Sharma from HSBC. You may speak.

**Rajiv Sharma**

Yes. Thanks for the opportunity. Just wanted to understand if the entire migration of your CDMA subscribers has been completed or there is anything pending?

Second, on the Aircel merger, there was some quantification of synergies and it was also suggested that you'll move to a new brand. So just wanted to understand that because on the synergy side, if we look at markets where Aircel is strong, RCOM has a

reduced presence and wherever RCOM has a meaningful presence, Aircel doesn't exist or is a very small operator there. And in fact they had shut down in many markets as well. So I was trying to understand that network synergies could be very minimal. And secondly, do you think shutting down Aircel brand in the Dishnet circles, which have been strong forte for Aircel, will make sense because that could have an adverse impact on the potential synergies.

And lastly on the tower transaction, Bharti Infratel's decision has come in only after the RCOM Brookfield transaction got announced. So possibly they could be competing to get the unlocking of value done. So are you sensing that it is a good possibility? And do the regulations allow Brookfield to be a part of both? Thank you.

**Gurdeep Singh**

Let me just take first on CDMA. Yes, the migration is complete and we are done with. And that's why we've paved the way for being a pan-India LTE player in the sub-1 gigahertz band.

Second on the Aircel merger, we've filed for stock exchange and CCI approvals, we will go through the whole process, and all of this, as I stated, will take six months to eight months. The basic premise of this merger is around creating a circa 12% revenue market share company, top 3 in revenue market share in 12 to 13 circles, full-fledged portfolio of 4G, 3G, 2G across India and a large pool of customers who are ready for a 4G upgrade makes it a very strong business case as we go forward.

Also, this will be a 50-50 holding company. Yes, you're right. It'll be a new brand, new philosophy, new values and new culture system in that organization so that it focuses more on the future than on the legacy. Having said that, the largest synergies in these two set ups is running one set up at the lesser costs. So this means network realignment to get more pop under coverage. This would mean one IT stag, this would mean one organization at circle and the people level, and also eliminating competitive intensity between us, interconnect cost that we paid for each other's and a revenue upside by the harmonized portfolio of the customers and nearly becoming a stronger entity in 17, 18 circles out of the 22 circles in India.

So I think these are all the synergies that have been valued into before going in for the signing of the definitive agreements and we are very sure of delivering on those synergy values in 12 months to 14 months of the effective date of the merger.

Third on the tower, all I can say is that we are into advanced stages. We made an announcement last month stating that we have signed a term sheet and only the definitive agreement needs to be signed now in next three to four weeks, and we are well on our course.

**Rajiv Sharma**

And Gurdeep, just going back to the Aircel deal, so you mentioned many variables on the potential synergies, but network cost reduction, you think won't be a significant one.

**Gurdeep Singh**

No, it will be, the basic synergy in the network is when you combine the two networks, the spectrum portfolio gets enhanced, the increase in capacity coming through spectrum reduces your requirement of towers on the ground or the base stations on the ground and the future capacity needs are addressed. Hence you can use them effectively to strengthen your network or to go to the new geographies depending upon the leverage on the distribution network that we have.

So fundamentally, this alleviates the future CapEx because your spectrum is higher which gives you more population coverage, enhances your play into the new revenue market and this large pool of customer base and access to 4G, which is an added advantage for driving the top line.

**Moderator**

Thank you Mr. Rajiv. Next we have Mr Srinivas Rao from Deutsche Bank. You may speak.

**Srinivas Rao**

Hi, thank you very much Sir for allowing for the questions. I have four questions to ask. First, just wanted to know your thoughts on the organizational changes, which was announced during the quarter, has it changed anything in terms of now and we having two Co-CEOs, is there any change in the responsibilities? That's my first one.

Second, in your cash flow, the CapEx number is a positive number again this quarter, again was there some sales which have offset what probably should have been a negative number? That's my second question.

Third, on a trend basis, your license fee, both in absolute and as a percentage of sales has been coming down over the last couple of quarters. Could you just explain what is happening and the fact that your tax number remains a positive provision, how do we explain the underlying profitability of the Company? So those are my four questions. Thank you.

**Bill Barney**

Gurdeep and I have essentially been Co-CEOs over the last six to seven months. And so this is really just a formalization of the management structure that we have in place, but obviously it gives us a closer and tighter relationship to collaborate on various cross-company initiatives. So it's been pretty exciting.

**Manikantan Iyer**

Yes, on the CapEx front, yes you're right, there is a sale on account of spectrum trading that has been accounted in this quarter for Rs.1,061 crore, and the CapEx for the quarter is Rs.405 crore.

And second question on the positive tax position, as per Ind AS, you are aware, that deferred tax assets can be realized by the Indian companies, so this particular position, is at consolidated RCOM level. And you would be aware that, at the time of first time adoption of Ind AS, deferred tax liabilities are generally created by the Company. So the deferred tax assets in the books reflect the position of the Company to realize the benefit in the near future.

License fee coming down is on account of higher settlement than the last quarter because now the license fee is on the net AGR, upon settlement.

**Srinivas Rao**

I have few more questions, actually. One question is on the overall cash flow of the Company. I'm just rounding up numbers, but maybe Gurdeep, you can throw some light. The EBITDA level is running at about, on an average of Rs.1500 crore per quarter, your interest costs are running at about a Rs.900 crore and you have guided for a CapEx of Rs.4,000 crore on a sustainable basis, which is, again, I'm rounding up, broadly Rs.1000 crore per quarter. So essentially, your interest and CapEx will potentially kind of more than eat into the EBITDA which is getting generated. Could you throw some light as to how things will move forward in terms of cash flows for the Company?

**Anil Ladha**

As far as CapEx is concerned, this year CapEx is lower, in the first two quarters itself, we have spent about Rs.1,200 crore and during this year, overall CapEx is estimated to be about Rs. 2000 odd crore. So some amount of CapEx we did last year and some amount of CapEx we are doing this year for the 4G fiberization purposes, et cetera. So the CapEx is not as high as it was last year. And going forward, interest component is going to keep coming down, as we complete these two deleveraging transactions, through tower deal and Aircel deal.

**Moderator**

Thank you, Mr. Srinivas. Next we have Mr Rohit Kar from SC Lowy. You may speak.

**Rohit Kar**

Thanks for taking my call. I have two questions. So first, with respect to Brookfield tower transaction and apologies if you've already answered part of this earlier. So my question, have definitive docs already been signed, because per the press release and the report, it looks like only I think there's only been a term-sheet that's been signed or an MoU has been signed. So that's first question on that.

The second part of question was, if the definitive document has been signed then what's your expectation when the Company would be able to receive the \$1.6 billion or the Rs.110 billion cash proceeds from this transaction, would that be in Q3 or would that be in Q4? The third question I have is, in the cash flows this quarter, there was Rs.6.7 billion as other financing income, could you guys provide some clarification what exactly that was?

**Anil Ladha**

As far as the first two questions are concerned, we have signed a non-binding term sheet last month and we are currently in the process of finalizing the definitive agreements.

As far as the overall transaction is concerned, after signing of the definitive agreements, it should take anywhere about five-six months to complete and conclude the transaction from a regulatory process perspective. And on conclusion of the transaction, we would receive this amount of about \$1.6 billion. It will be during later part of this fiscal or start of next fiscal when it could be coming in, depending on the timeline of the approvals.

**Rohit Kar**

And this would be used to pay down the bank facilities rather than the bonds?

**Anil Ladha**

That's correct. The full amount is planned to be utilized for deleveraging of bank debt. The bonds were raised as a long-term liability for the Company. So at this stage, the preference for the Company is to retain the long-term liabilities and to prepay the shorter to medium-term liabilities.

**Manikantan Iyer**

Rs.6.7 billion represents the net increase of rupee loans by the Company during the quarter.

**Moderator**

As there are no further questions from the participants, I would like to hand floor back to Mr. Gurdeep Singh for final remarks. Over to you, sir.

**Gurdeep Singh**

Thank you very much to all of you for being on the call. Thank you.

**Moderator**

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

{End of Transcript}