



RELIANCE COMMUNICATIONS LIMITED

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

Transcript of Earnings Conference Call for the Quarter Ended March 31, 2008

Conducted at 5 pm IST on April 30, 2008

Operator:

Thank you for standing by. And welcome to the Reliance Communications Global Earnings Conference Call on the Reliance Audio Conferencing platform. This call is hosted by Macquarie Securities. At this time, all 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 "star, one" on your telephone. Please be advised this conference is being recorded today.

Now, I would like to hand over the conference to Mr. Shubham Majumder of Macquarie Securities. Over to you, sir.

Shubham Majumder:

Thank you. Good morning, afternoon and evening, ladies and gentlemen. We at Macquarie Capital Securities are pleased to host this call for the fourth quarter results of Reliance Communications.

We would like to congratulate the Reliance management on a strong financial and operating performance during the quarter. Today, we have the senior management team from Reliance Communications led by the Chairman, Mr. Anil Dhirubhai Ambani and leaders of the company's strategic business units namely Mr. S.P. Shukla, who leads the Wireless business; Mr. Punit Garg, who leads the Globalcom business; Mr. Prakash Bajpai, who leads the Enterprise Broadband business; and Mr. Arvind Narang from the Corporate Group, who also leads Investor Relations. The call will begin with some key observations from Mr. Ambani followed by a question-and-answer session.

I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that the company faces.

It is now my pleasure to hand over the call to Mr. Anil Ambani. Thank you all.

Anil Dhirubhai Ambani:

Thank you, Shubham. I welcome all of you to this earnings call. At the beginning of this call I was told that there were over 400 people who logged on to this call. It talks volume about the interest in Reliance Communications and I'm thankful to each one of you for being on this call. We are here to discuss today Reliance Communications' financial performance for the fiscal year ended 31st March 2008.

It gives me great pleasure to report that in just the second year as a publicly listed company, and most of you are familiar that we were listed in March of 2006, Reliance Communications has crossed significant milestones. We have maintained strong momentum in our current operations and are implementing exciting growth plans that will further enhance our position as India's #1 fully integrated and converged communications service provider. Our focus as always is on the creation of sustainable value for our entire spectrum of stakeholders.

I would like to briefly share with you the key accomplishments of the year 2008.

Reliance Communications added over 18 million subscribers this year compared to just 8 million last year to reach the customer base of over 46 million customers.

We continue to remain the second largest wireless player in terms of number of subscribers.

Reliance Communications is the youngest and fastest company in the Indian corporate sector to report a net profit of over Rs. 5,400 crore or more than US\$ 1.3 billion.

We are also the most profitable telecom company in India delivering an EBITDA margin of over 43% during the financial year 2008. Our margins have expanded consistently over the last 12 quarters with Q4 2008 margins increasing to over 43.6%.

Our FY2008 EBITDA has now crossed Rs. 8,000 crore or over US\$ 2 billion. We are the fastest to achieve this milestone in Indian corporate history.

On foreign exchange and derivative transactions, our loss for the year due to the volatility in global markets and Indian markets was just Rs. 25 crore or just about US\$ 6 million.

During the year, Reliance Communications was by far the best performing telecom stock in India and also among the leading telecom stocks in the world. We are ranked among the five most valuable telecom companies in Asia.

Reliance Communications remains the only company in the Indian telecom services sector to reward and recognize all its shareholders. We declared a maiden dividend of 10% last year and that dividend has now been enhanced to 15%, which will accrue to our over 2 million shareholders for the financial year 2008.

We at Reliance Communications are proud to have participated in the growth of the telecom sector in India and expect the current momentum to sustain over the next few years. We believe that the accelerating penetration of mobile telephony in India is being driven by progressive Government policies that have removed barriers for competition and created an ecosystem of affordable connectivity to the common man in all parts of our country.

Reliance Communications is leading the expansion of mobility coverage that will enable us to connect India through voice, email, multimedia, messaging, video and managed services on the mobile, the fixed wireless, the data business and the public call office platforms.

We have embarked upon rolling out the world's largest network expansion program. This will enhance our coverage to over a billion people that is nearly all of the population of India as a country. Our coverage will be the widest and deepest, covering over 23,000 towns, over 500,000 villages, as well as, all railway tracks, national highways and state highways. So we are talking about 90 to 95%+ coverage of all railway tracks, and both state and the national highway systems.

We have awarded the contract for setting up our nationwide GSM network and we'll launch GSM services in a phased manner beginning at the end of this year. Reliance Communications is the only operator in India to offer nationwide CDMA and GSM services. We are also the only nationwide operator that has received startup spectrum for our nationwide GSM rollout.

Our network expansion will derive significant capex and opex synergies from our existing network infrastructure. The investment will allow us to expand our existing highly successful dual technology network model in six circles to a nationwide level.

Let me also share with you some of our other recent corporate developments. I will start with our recent acquisition of global WiMAX operator eWave World. eWave

World is at the forefront of the rapidly developing market for wireless telephony services using the WiMAX standard and is present in almost twenty countries including the growth markets in China, Asia, the Middle East, Africa and Latin America. We will be investing about US\$ 500 million over the next three to five years to build and acquire WiMAX networks globally.

We have also recently acquired licenses for the provision of comprehensive telecom services both in Uganda and Sri Lanka. We're in the process of working forward to a number of other geographies in our international expansion of wireless services. In both Sri Lanka and Uganda, spectrum has already been allocated and we hope to start a phase-wise rollout towards the end of the current financial year.

We consolidated our global telecommunications business, operations, strategies and initiatives under the brand Reliance Globalcom with the vision of creating one of the top five global communications companies in the world. Reliance Globalcom has a broad portfolio of data and voice services and we see significant opportunity for growth, leveraging our presence in over 50 countries and our world-class, IP-enabled global infrastructure.

Our acquisition of Yipes Holdings is aligned with the global vision of Reliance Globalcom. We are now implementing our expansion plans in the global enterprise data space to rapidly rollout the Yipes products on the FLAG Global Network.

We will also offer the entire suite of data services of Yipes' over 1,000 enterprise customers in the US. Reliance Communications' customers will gain from seamless access to Yipes' patented products and metro reach in the United States.

On the Reliance FLAG expansion, we've awarded the US\$ 1.5 billion FLAG NGN contract to Fujitsu and Alcatel to construct cable systems in Asia, the Mediterranean, East Africa and Pacific regions. On completion of the NGN cable construction, FLAG will be the only service provider to reach out to over 60 countries, contributing to 90% of world GDP, on a privately-owned cable system. Capital expenditure on this project will be funded by pre-build commitments and I am pleased to inform you that we've already signed a number of contracts for commitments on the Mediterranean system.

We are now at the threshold of launching several initiatives in our Home business. The first one amongst them is our Direct To Home service. We have commenced technical trials across the country and launched special offers to all our employees,

channel partners and selective customers. We are currently receiving very encouraging response.

Our DTH initiative will be launched under the brand Big TV and this will be the only nationwide provider of MPEG 4 services with high definition television facility. We have also signed an exclusive strategic partnership with Microsoft to create a robust platform for our IPTV offering. Technical trials for IPTV services have also commenced and we will be shortly ready for launch.

Our expansion plans are supported by committed capex of over US\$ 11 billion or Rs. 45,000 crores over the current year and the previous year. This amounts to the largest capital expenditure in the telecommunications history of this country. It is almost equal to the aggregate capex committed by all other Indian telecom companies put together.

We expect our capex intensity to significantly reduce from next year, and simultaneously return from these substantial investments will rise in a significant manner starting the next financial year. All these initiatives highlight the way ahead for Reliance Communications – strong growth prospect in the Indian wireless space and an even greater set of opportunities across a range of businesses in India and globally.

With that, I conclude my initial remarks. My colleagues and I are pleased to take your questions on this earnings call. Over to Arvind. Thank you.

Arvind Narang

Thank you, Mr. Ambani. We'll now open the call for Q&A. As you know, time is limited and we request you to focus on key strategic and business issues. We also request each participant to ask not more than two questions and to provide an opportunity for all participants to interact with the management. If there are detailed financial questions, I'll be happy to answer those separately and please feel free to mail me after the earnings call.

Moderator can we take the first question please?

Operator:

Certainly sir. At this time, if you wish to ask a question please press "star, one" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "hash" or the "pound" key.

Your first question is coming from Mr. Suresh Mahadevan from UBS. Please go-ahead, sir.

Suresh Mahadevan:

Good afternoon and thanks a lot for the call. Just had one quick question about the GSM strategy and wanted to hear your thoughts on how it would co-exist with CDMA? In terms of, you know, whether it is positioning or otherwise? Thanks a lot.

Anil Dhirubhai Ambani:

Thank you, Suresh. As I made a mention earlier, we are looking at both the services to be offered on a nationwide basis, CDMA and GSM. The customers will be free to choose their products in the marketplace. We are already operating in six circles in India, GSM and CDMA both together. And we will not be dramatically changing that strategy going forward for the Reliance Mobile brand and offering GSM and CDMA services. And we allow the customer and the consumer to choose what he wants to do. And just as I mentioned in my media conference, I was asked about the range of handset available on CDMA. And that is the right way for us to think about it that we do not want our customers to be constrained by the choice of handsets. And depending on the type of handset they choose, they can choose any type of service that they want, whether it is GSM or CDMA or a combination of GSM and CDMA in handsets that provide both GSM and CDMA service. So we are just going to go and further enhance what we are successfully doing in six different circles in India for the last two or three years, which we're going to take nationwide.

Suresh Mahadevan:

Thank you very much.

Operator:

Thank you, sir. Next in line we have Mr. Andrew Haskins from Nomura. Please go ahead, sir.

Andrew Hawkins:

Hello. Good. Hello. Can you hear me?

Anil Dhirubhai Ambani:

Yes, Andrew. Go ahead, please.

Andrew Hawkins:

Thank you. Just two questions, please. Firstly, quite clearly for the next few years or next several years you intend to run GSM and CDMA together. But do you have any idea at what point you would expect to be running down one network and concentrating on the other? Is that five years or whether is that 10 years away or is it impossible to say? And secondly, just one very general question. Everybody is well aware of the strong growth opportunities of the Indian Telecom Market. You have made this clear yourself in your presentation. If you have to say what is the biggest threat to the rosy picture? Can you comment on that? Is it shortage of spectrum, is it potential new competition, please let us know your thoughts? Thank you.

Anil Dhirubhai Ambani:

Thank you, Andrew. My guess would be as good as yours. I don't think that on GSM and CDMA networks and dual strategy going forward for us, we are going to leave the market forces and our customers to decide. We have no plan at all to run down any one network. I think we will leave it to our customers and our consumers. It will also be dependent on our tariffing, our pricing and our products strategy of how we will drive which networks towards which products. So I hope to see some very interesting times in the years to come where we will be able to differentiate between CDMA and GSM products, which unfortunately our competition will not be able to do. To take your second question in terms of the growth opportunities, you know, most of us are relating to growth opportunities in India by simply just restricting ourselves to the mobility space. Let me cover the mobility space but there is more to India's Telecom growth than just pure mobility. And Reliance Communications being an integrated player in our home business, in our enterprise business, in our global business, in the national long distance business, in the core infrastructure business both passive and active, we see a wide range of opportunities of growth and sustainability of performance over long periods of time because of the nature of the way we have constructed Reliance Communications. This is very, very different than some of our respected competition that is out there. But if I speak to just the wireless space we think that this year we would add over a 100 million customers for India as a country. If things go well at 7-8% GDP growth rate, we may be between 100 and 110 million customers going forward.

But leaving the number counts on the side, our focus in Reliance is profitable growth. So we're not too enamored just by adding numbers, we are also interested in seeing that we protect our bottom lines and protect our profitability. You mentioned about spectrum shortages or anything else of that sort. I think that the risk that the Indian Telecom sector faces in general and I think this threat is going to more felt by the new operators is if you want to be a nation wide wireless GSM operator, you would take between 3 and 5 years to do it, at the same time you would spend in the north of US\$ 10 billion which is 40,000 crores. Now in a falling ARPU, high MOU market, what is your business model to make money is something that new operators will have to decide? For existing operators like us who have 45 million customers and growing and who are integrated, I think we are in a much superior competitive position compared to any of these people.

Andrew Hawkins:

That's very helpful. Thank you, very much.

Operator:

Thank you, sir. Next we have Mr. Tien Doe from GIC. Please go ahead, sir.

Tien Doe:

Hi, everyone. Thank you for the call. Just a couple of questions on your income statement, the access charges and your license fees. They come down a lot quarter-on-quarter they used to be 23% of revenues and now less than 19%, I'm just wondering what happened there, why you're paying so little now versus the last quarter? And the second question is just on your finance charges they are almost nothing in the final quarter, just wondering how that happened as well? Thank you.

Anil Dhirubhai Ambani:

So, thank you for the question, Tien. I assume you are happy with what we have achieved.

Tien Doe:

Yeah. That's fine. I am just wondering about the make up of...

Anil Dhirubhai Ambani:

Yeah. I think that if you permit me, I'll get Arvind to talk to you in detail and go through both your questions in detail and get our controller on the line with you to give you better insight into what has happened to these charges.

Tien Doe:

Okay. Excellent.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir. Next we have Mr. Srinivas from Deutsche Bank.

Srinivas Rao:

Hi. Srinivas here. Thank you very much for taking the call. So, just a question on your revenues, when I look at the stock exchange statements, would it be a fair assessment to say that GSM revenues are growing much faster than your CDMA revenues? And B, the second question will be, the minority interest is that on account of RITL stake sale?

Anil Dhirubhai Ambani:

Yeah. The only sale that we've done in the last year was the 5% that we sold in Reliance Infratel, which was reported and accounted and in the notes to accounts as you can see. And what was your first question?

Srinivas Rao:

Is the GSM, you know, your GSM business growing much significantly faster than your CDMA revenues?

Anil Dhirubhai Ambani:

If you look at our GSM revenues in the six circles, what we expect to see is we will have an acceleration as the network rollout is completed in these six circles, but I expect that the data business on CDMA, the fixed wireless business, the PCO business and the unlimited calling businesses which are offered on the CDMA platform will continue to maintain robust growth momentum.

Srinivas Rao:

Thank you, sir.

Operator:

Thank you, sir. Next in line we have Mr. Rahul Singh from Citigroup. Please go ahead, sir.

Rahul Singh:

Thank you. I just had one question on the GSM business. Just wanted to get a better sense you said, you will be beginning the commercial launch in a phased manner, end of this year, which I presume is end of this calendar year. And just wanted to get a sense, when you say phased manner is it you are talking of in terms of percentage of coverage or you are talking of number of circles or what exactly? And when do you expect really to achieve, let's say 65%, 70% penetration, which is where the GSM peers are in all the new circles?

Anil Dhirubhai Ambani:

Rahul, I think that if I expand on what I said, when we speak about the phased rollout, we are talking about circle completeness in terms of the 60-70% that you mentioned. We speak about starting at the end of this year, so we talk about end of Q3 and move towards Q4. And we spoke about completeness in coverage both for extensiveness of reach by the middle of 2009, in terms of what we want to do in terms of railways and highways. I am sure Rahul that you appreciate that what others have taken 15 years to do we are trying to accomplish within a span of 12 to 18 months.

Rahul Singh:

No. Very true, I totally appreciate that. So that's why I was trying to get a sense of the timing. And also on the capex side you said, you'll be spending \$6 billion -

\$6.25 billion, if I am not mistaken, next year. So, if I can have a rough break up again, I mean has anything changed from what we heard last quarter to this quarter?

Anil Dhirubhai Ambani:

No. I think that Rahul we stick to our schedule of letting all of you know in the January call every year. We did this in January of 2008, which was our third quarter results, to give you a capex guidance for next year. We are pretty much at the US\$ 6-6.5 billion range which is what we had mentioned at that time, and we continue on that basis. I did mention in my media conference that over a US\$ 1 billion worth of the electronics ecosystem has already been ordered and a large number of all the other orders are already in place. If we want to start rollout in the next nine months, I think that a lot of these things are naturally on the way for execution.

Rahul Singh:

Thank you. That was very helpful.

Anil Dhirubhai Ambani:

So Rahul, I hope if you are a GSM customer that you will be a Reliance customer end of this year, or next year.

Rahul Singh:

Yes, if you have mobile number portability, then definitely.

Anil Dhirubhai Ambani:

Unless you are stopping it, I think we will have mobile number portability.

Rahul Singh:

Thank you, sir.

Operator:

Thank you, sir. Next in line we have Mr. Rajiv Sharma from HSBC. Please go ahead, sir.

Rajiv Sharma:

Thank you for the opportunity. I have just couple of questions. First question is about your WiMAX strategy like whether it's more on the global side and what's your strategy in India regarding WiMAX? And second, news reports talk about you're entering into a similar arrangement as what the Tata's have done like MVNO or a franchisee-based arrangement. So if you could give us more color there?

Anil Dhirubhai Ambani:

Yes. I think that our WiMAX strategy is pretty simple. As far as India is concerned, we have already launched services in the top 10 cities in India. It's primarily an enterprise service facility. When we look at our global WiMAX strategy, our approach is going to be similar in trying to cater to enterprises, and then track through as mobility and handsets become available, then to look at the voice business. Otherwise it's pretty much broadband and data, internet-access type business. Also there will be a dimension for backhaul and transport, which we would consider into the future for our WiMAX. As far as MVNO is concerned clearly a number of companies have approached us to do an MVNO in India. As you are familiar Rajiv, that the regulator is currently considering floating a consultation paper on MVNO, and we will naturally have to wait for that outcome before we can pursue that opportunity for allowing others to do MVNO in India with us. As far as global opportunities in MVNO are concerned, we are currently doing work for a number of geographies and as soon as we decide something in the near term naturally we will make an appropriate announcement for you.

Operator:

Can we go for our next question?

Rajiv Sharma:

Yes. Thank you.

Operator:

Thank you, sir. Next in line we have Mr. Vinay Jaising from Morgan Stanley. Please go ahead, sir.

Vinay Jaising:

Thank you. Sir, I have two questions out here. One on your towerco and second on the wireless business. Any update on the towerco business from what's happening on the bourses, the plan of listing, and you know, what's the updated number of towers? Do we have a big tenant on the other side? Anything there would be very helpful. On your second question, this is on largely on the wireless business, when we see the ARPMs they are best in the industry today. The EBITDA margins are the best in the industry, but if you look at absolute EBITDA growth, or if you look at absolute revenue growth, they are a tad bit slower than probably what I had expected. Wondering, you know, what are your thoughts there when -- if we are spending so much on capex surely we'll have GSM which will increase this growth, but some thoughts out there would be very helpful?

Anil Dhirubhai Ambani:

Sure. Vinay, as far as... I am sure that you are not complaining about the RPM and the EBITDA.

Vinay Jaising:

Certainly not.

Anil Dhirubhai Ambani:

Okay. As far as, I think what you need to factor into the wireless revenue growth is a large number of the markets are going to be driven by our coverage and our capacity, which are all work in progress. I have mentioned earlier that this is the world's largest wireless network roll out, we are talking about covering over 23,000 towns and 500,000 villages, and trying to do what others have done in 15 years in 2 years. So, I think you need to give us a few quarters is the way I look at it. And also this capital intensity that you refer to is something that is there right now – last year and this year. And we see a substantial decline in capital intensity in the years to come. We see FY09-10, our next year as the inflection point, when all this capital investment that is going in, is going to really produce extraordinary results for us going forward across all our businesses. This capex of over US\$ 6 billion or over US\$ 11 billion over the last year and the current year is not restricted to wireless at all. It is restricted to a wide range of things that we are doing. So I am sure that as we focus on profitable growth and we focus on our bottom line,

we are conscious about other KPIs like you mentioned and I am sure that over a period of time you will see them changing.

As far as Reliance Infratel is concerned, which is our tower company called. When we spun it off into a separate company, did the first placement of 5% for roughly an enterprise value of US\$ 9 billion, it was supposed to be doing passive infrastructure. What has happened in the last quarter or so is a number of regulatory developments have actually dramatically enhanced the value of Reliance Infratel. Number one is that there is not only active infrastructure added, so it's passive and active both, which changes the complexion of what we can offer and serve our customers. Number two, a number of new licenses have been issued and those become very large business opportunities for us for both active and passive. Number three, the regulator has announced and reaffirmed its stand and the DoT is moving in the direction of a 3G auction. Number four, the DoT is also talking about a WiMAX auction. Now both 3G and WiMAX again offer us tremendous opportunities to create value for Reliance Infratel. We will be at our projected number of towers 60-70,000. But never relate our towers with somebody else's towers because our average tenancy, the range of towers, the scope of our towers, the scope of our infrastructure, the complexity of our infrastructure, the number of ground-based towers we have compared to everybody else, all this is very, very different for us. 95% of Reliance Infratel is owned by Reliance Communications. And as we look forward to potential listing subject to market conditions and subject naturally to SEBI approval, we will still continue to hold 85% and that will clearly be reflected in the consolidated earnings of Reliance Communications. A number of the new licensees are at an advanced stage of discussion with Reliance Infratel both for passive, active and combination type of discussion. And I believe in the next two quarters, we should have firm agreements in place with some of these operators going forward.

Vinay Jaising:

Thank you, sir.

Operator:

Thank you, sir.

Shubham Majumder:

Can I ask question?

Anil Dhirubhai Ambani:

Yeah. Shubham, go ahead.

Shubham Majumder:

Okay. Thanks for the opportunity. I had two questions. Very clearly if I look at the current quarter's numbers and also compare notes with the couple of quarters previously, very clearly, there is a very strong element of non-wireless driven growth that we can see and that's possibly the differentiation on Reliance Communications relative to its peers. However, sir, I along with quite a lot of investors out there understand a lot less of the non-wireless businesses and the key drivers of growth and think at least going forward relative to what our understanding already is for the wireless business... What exactly is, you know, the template or strategy of growth from a 2 to 3 years' perspective in Globalcom as well as in Broadband and fixed line and in the near-term also what sort of catalysts are there for growth which we can actually build in to our numbers...

Anil Dhirubhai Ambani:

I think it's an excellent question, Shubham getting away from your standard KPI type of questions. Number one, I think that Arvind is going to spend some time with all of you over the weekend to take you through some of our thought process. But just to use this opportunity, when we look at the business in the 2-3 year horizon, our enterprise business, our home business, as well as our global businesses are going to be a far more meaningful part of our top line revenues and of course, our bottom line. And I'll just give you an example of our IDC business. We are by far the largest in India, it's not only in the number of square feet we have or the number of customers we have or the number of long-term revenues we have from world-class customers, it's also the class of services that we provide and how are we on the vertical stat of the upper end of services. We are currently expanding and building over a million square feet of new IDC's at five or six different locations in India. That is going to dramatically drive our IDC business and we hope to be among the top 3 businesses in the world in IDC. It is not only millions of square feet but it will also be in the class of services that we provide. They are also very high EBITDA margin businesses going forward as far as IDC is concerned. If I speak to you about our enterprise businesses, we are talking about improving our coverage from over 1 million buildings to potentially doubling the number of buildings we serve to over 2 million buildings with our metro ethernet network. That gives us

tremendous flexibility and access to very high value customers both for enterprise as well as for the home business. And those are very high stickiness type customers with very high ARPU's and EBITDA. As we launch our DTH business also, we believe that is substantially, in the medium-term to long-term, a much higher EBITDA business than our wireless business is – wireless voice is what I am really referring to. So I'm sure that Arvind and his colleagues will add some more color to your questions and I encourage all of you to think more about our non-wireless businesses and as you think about our wireless businesses, think about our differentiation about our data capability and the range of services we offer on data which are unmatched by competition.

Shubham Majumder:

Thanks for the answer Mr. Ambani. I will still come back with my second question on to wireless. Just without getting too much into the quarter's number per se, you know for the last 2-3 quarters we're seeing a declining MOU trend in RCOM and especially if you look at this quarter there is to an extent a divergence in minutes of use trend relative to the peers, Bharti and Idea, who have reported recently. What are your thoughts on industry elasticity because we are anyway taking for granted significant tariff falls going forward and what would be your thoughts on elasticity and MOUs going forward and the implications for overall wireless revenues?

Anil Dhirubhai Ambani:

Yeah. I think at one level, I will get Prakash Shukla to say in a few words but at one level imagine the plight of the existing operators who are sitting with limited spectrum and are continuously driving their MOU's higher and higher and driving their RPMs lower and lower. Some of the leading operators will have access to practically no further spectrum and for the first time in more than a decade they will have to spend large amounts of capex to just meet the quality of service and the voice capacity that they will have to serve. Practically that voice capacity will be at a marginal cost in terms of RPM and thus they will have a very sharp fall in their ARPUs and in their RPMs going forward and you will see, in our assessment, an inflexion in their capital expenditure. And I'm talking about some of the existing GSM operators. Prakash you want to comment?

S.P. Shukla:

Yes.

Anil Dhirubhai Ambani:

Talk about the MOU part, please?

S.P. Shukla:

Shubham, Good evening, this is Shukla. Building upon what Mr. Ambani just now said, we had given this feedback a few quarters back – that we are going through the process of rebalancing, wherein we are curtailing, deliberately, consciously some of the MOU's by reducing the number of free minutes in the past. This is what you are seeing under blended ARPUs and blended RPMs. In fact, today we are at industry level as you have seen. Going forward, we are substantially better placed than anyone else. Because of our efficiency of technology, we are in a position to offer far more minutes of use going forward and leverage on the elasticity. Coming to the other part of the question, elasticity is strong and we have seen that when we did a traffic cut, it led to significant increase in uses leading to revenue growth.

Shubham Majumder:

Okay. And very quickly, sir, if I am allowed to ask one small question. If you would give us the March year-end tower numbers that we have and possibly the tenancy ratios on those towers?

Anil Dhirubhai Ambani:

I'll get Arvind to share with you Shubham.

Shubham Majumder:

Okay.

Anil Dhirubhai Ambani:

Thank you.

Shubham Majumder:

Thanks.

Anil Dhirubhai Ambani:

Okay. Thank you.

Operator:

Sir, we will take our next question, now?

Anil Dhirubhai Ambani:

Yes. Please.

Operator:

Thank you, sir. The next we have Mr. Mr. Henry from Nevsky. Please go ahead, sir.

Mr. Henry Cobbe:

Hi there, its Henry Cobbe from Nevsky Capital. Just two questions. You'll be sitting on about Rs. 100 billion of cash on the balance sheet waiting for the network rollout, what are you waiting for, when do you expect spectrum to be issued to you to start GSM rollouts?

Anil Dhirubhai Ambani:

Henry, I think you may have missed my comments. We are the only operator that has received spectrum for start up purposes on a nationwide basis both for CDMA and GSM. Network rollout is on its way, large orders for electronics and the rest of the ecosystem has already been ordered. We expect to start services towards the end of this year.

Henry Cobbe:

Okay. Thank you very much.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, sir.

Anil Dhirubhai Ambani:

Yes. Please.

Operator:

Next, we have Mr. Vivek from Boyer Allan. Please go ahead, sir.

Vivek:

Hello there. Just a very quick question. First of all, congratulations on a very strong set of results. The question really is that with 18% market share, you know, going forth will the focus actually be at some kind of target level of market share or will it be more profitability driven as far as the wireless business is concerned?

Anil Dhirubhai Ambani:

I think Vivek, our focus is EBITDA market share rather than customer market share. So we would like to be the leading player in term of our profit, our integrated margin and our focus is, you know... you can look at customer market share, you can look at revenue market share and we'd like to focus on the EBITDA market share.

Vivek:

That is very useful. Thank you very much again.

Operator:

Thank you, sir. Next, we have Ms. Reena Verma for Merrill Lynch. Please go ahead, ma'am.

Reena Verma:

Yeah. Good evening and sir, thank you for this call. Two key questions, one was on your capital structure. Your net debt seems to have short up from Rs. 18 billion in March '07 to about a Rs. 100 billion in March '08. Can you help us understand how comfortable you are with rising gearing and whether you see this trend

continue to increase? And my second question is we have seen more news of headline tariff cuts in the last few days and there is some level of investor concern about whether the incumbents may end-up ruining margins for themselves and for the whole industry. Could you please comment on what direction you think wireless margins will take over the long-term. You have told us in the past that you don't think they'll exceed 40%, if I remember correctly. But do you really see margins trending down from where they are? Thank you very much.

Anil Dhirubhai Ambani:

Yes. I think Reena, as far as the margins are concerned, these are all individual positions of each and every company. We believe that we have a strong cost position for Reliance Communications. We are building a nationwide network of presence for both CDMA and GSM, which then get back to your question on gross debt and net debt. I think that, we are very comfortable with where we are in terms of our cash on hand, our net debt and our gross debt. And on the completion of this very large capex and the debt that we have between last year and this year, I think there will be a strong recovery in terms of our gross debt and our net debt to equity numbers going forward. So we are comfortable, I look at this as a phenomenon to get to what others have done in 15 years in the next 24 months.

Reena Verma:

Okay. Thank you. And just if I may ask one more question on spectrum pricing, there have been reports that the Government may reconsider 2G spectrum pricing. Do you see any risk to your GSM operations on that count?

Anil Dhirubhai Ambani:

No. Our belief is that the contracted spectrum under the universal access license nationwide is 6.2 megahertz for Rs. 1,650 crore, I am just rounding off numbers, and you get a startup spectrum of 4.4 megahertz which is what we have received nationwide for GSM. All comments in the media are talking about pricing spectrum, which we believe will be only above the contracted spectrum.

Reena Verma:

Okay. Thank you very much, sir.

Anil Dhirubhai Ambani:

Thank you.

Operator:

Thank you, ma'am. Next we have Mr. Sanjay Chawla from JPMorgan. Please go ahead sir.

Sanjay Chawla:

Hi, good evening everybody. Thank you for the call. I have two questions sir, one is this news about the fact that Reliance is looking to swap the 1,800-megahertz frequency with 900. If you could just elaborate how much truth there is and should the investors be expecting that you would be ultimately be able to get the 900 megahertz, which obviously would help you in lowering your capex even more. Second question is just a follow-up to what was asked earlier, given that you are very comfortable with your spectrum position and other operators are constrained, should we not be seeing more traffic cut initiatives from Reliance's point of view to not just benefit from elasticity but also it might be more beneficial to Reliance, relative to the other rival operators?

Anil Dhirubhai Ambani:

As I think Sanjay, on the first question we have received 4.4 megahertz nationwide in 1800. We believe that going from 4.4 to 6.2 also will be in 1,800. I read the same reports as you have read. Our approach with the DoT is that, if they do want to give EGSM spectrum or 900-megahertz spectrum or there is a transparent policy in awarding that spectrum, naturally we want to be the part of that process going forward. Otherwise we're proceeding on the basis of 1800-megahertz rollout. As far as your question on elasticity and traffic cut etc, every incumbent will follow his own strategy. As I've said earlier, we have our cost position and what we can consider doing pre-emptively at what period of time is clearly left to us based on our market driven strategy, which I'm sure you'll appreciate I'm unable to share with you today.

Sanjay Chawla:

Great. Thanks for the answer. Just a follow-up on the first frequency swap issue, I mean do you think that you would want to wait for the DOT to come out with the

900-megahertz or a policy on EGSM before really proceeding with the launches and the rollout?

Anil Dhirubhai Ambani:

No, I don't think that to the best of our knowledge there is any policy framework that is imminent to talk about farming or re-farming between 900 and 1800. So we want to go ahead with our 1800 rollout.

Sanjay Chawla:

All right. Thank you very much, sir.

Operator:

Thank you, sir. Next in line, we have Minar Majumdar from Kotak Securities.

Minar Majumdar:

Hi. Good evening to the management. My question is on the comment made by Mr. Shukla and he said there were some reducing trends in the minutes of usage. But from taking cues from the news recently, one of your competitor just reduced tariffs across, on the roaming too. And we have made a mentioned that there will be more increasing number of Reliance to Reliance free minutes. So can we assume a kind of a change in the trend going forward whereby the MoUs should be increasing per user per month.

S.P.Shukla:

Thank you Mr. Majumdar. Yes. There are three things which work at the same time, which one has to see when we see blended RPM or blended MOUs. One, tariff innovations does not always mean tariff cut. What we have done recently was to offer unlimited calling to Reliance customers across India but at a very significant revenue of Rs. 500 per month, which actually leads to actually revenue growth while giving unlimited usage. So these customers come in at very high usage while giving you good revenue. This is different from tariff cuts where you wait for elasticity of demand to take over in a period of a few weeks. Now what you see is the blended result ultimately and this will play out differently in different quarters for different companies. It does not compared quarter-on-quarter basis across.

Minar Majumdar:

Okay.

Anil Dhirubhai Ambani:

Thank you. Can we take the next question?

Operator:

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

Anil Dhirubhai Ambani:

Thank you so much.

End