



Communications

RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended September 30, 2013

Conducted at 1.30 pm IST on November 13, 2013

Moderator:

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

This is Mamta, the moderator for this conference.

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

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

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

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

Gurdeep Singh:

Thank you, Mamta.

It's a pleasure to once again welcome you all to discuss Reliance Communications' financial performance for the quarter ended September 30th, 2013.

On Tuesday, November 12th, 2013, our Board of Directors adopted the unaudited results for the second quarter of the financial year 2013-14 ending September 30th, 2013. The Media Statement, Quarterly Report and The Results have been uploaded on our web site and I hope you have had a chance to go through the same.

Let me start by sharing the changes in reporting segments starting this quarter. The business of RCOM has been re-organized into two strategic customer-facing geographical business units: India and Global Operations. It has no impact on consolidated financials of the Company including consolidated revenue and EBITDA. This simplified segment reporting will lead to enhanced transparency and disclosures of the financial performance of the Company.

With the changes in segment reporting and consequent basis of segment allocation, Inter Segment revenue under the old segments become Intra Segment and hence, does not form part of Gross Revenue, which results in significant reduction in eliminations.

This is in-line with the company's endeavor for a more transparent and robust reporting structure which will benefit all the stakeholders.

I will briefly provide the specifics of the new segments:

India Operations: Revenue arising and/ or accruing from Telecom Operations through Subscribers or assets located within India. This comprises of Telecom Revenue of:

1. Voice, and
2. Non Voice
3. Others include revenues arising from operations other than Telecom Operations like DTH, IDC, etc.

Since the voice market in the Indian telecom market remains the major contributor, its performance review at an independent level has become essential. Hence in the new reporting structure, the voice operation is being disclosed separately. This voice business is generated mainly by 116 million wireless customers; however, it also includes a small contribution from 1.2 million wireline customers, which is about 1% of wireless customer base.

Global Operations: Revenue arising and/ or accruing from Telecom Operations through Customers or assets located outside India. This includes revenue from ILD, IRUs/ leased circuits for international voice & data connectivity through sub-marine cable systems, Global Ethernet services, international managed services, calling card business, etc.

Now let me take you through the key highlights for this quarter:

- **Revenue:** Q2 performance has been satisfactory, given that it is a seasonally weak quarter for the industry. Total operating revenue, excluding provision write-back, stands at Rs. 5,394 crore, up 3.7% from Rs. 5,202 crore in 2Q FY'13.
- **EBIDTA:** Operating EBIDTA for the quarter is Rs. 1,887 Crore, a growth of 15.2% Year-on-Year basis.
- **PAT:** PAT has increased to 675 crore from 102 crore in 2Q FY13, an increase of 562% Year-on-Year basis. Excluding write back of provision, the PAT is Rs. 234 Crore, a growth of 129% y-o-y.
- **RPM:** RPM has increased to 43.4 paisa from 40.3 paisa in 2Q FY13, an increase of 7.7% Year-on-Year. ARPU for the quarter is Rs. 120, up by 26.3% Year-on-Year basis. We have significantly improved RPM with tariff hikes and strong focus on paid & profitable minutes.

- **Free Cash Flow:** RCOM continues to be Free Cash Flow positive in this quarter. RCOM generated EBIDTA of 2,328 crore, paid net finance charges of Rs. 676 crore and invested Rs. 364 crore on CAPEX during the quarter.

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

- The first quarter India Operations' revenue stands at Rs. 4,624 crore, up 5.4 % y-o-y from Rs. 4,387 crore in 2Q FY'13. India Operations' EBITDA stands at Rs. 1,640 crore, up by 15.1% y-o-y.
- Voice revenues up by 7.8% year-on-year and stands at Rs. 3,384 crore. Non-voice revenue stable at Rs. 1,018 crore.
- Voice ARPU has increased to Rs. 92 from Rs. 72 in 2Q FY13, an increase of 27.8% Year-on-Year. Voice RPM has increased to 33.4 paisa from 30.4 paisa in 2Q FY13, an increase of 9.9% Year-on-Year.
- We are increasingly focused on data growth, and as such provide high speed data coverage in over 1,300 towns in India
- We currently serve 34 Million wireless data customers with a year on year growth of 31%.
- 3G customer base has grown 90% year-on-year basis and stands at 9.1 Million. 27% of mobile Internet users on the RCOM network are 3G users, enjoying high-speed data services
- Total data usage on our network was at 37,570 million MBs, a growth of 116% y-o-y and data usage per sub at 385 MB, still remains the best and highest in the industry.

I will now talk about current status of Indian Telecom Sector. We mentioned in our previous call that Indian Telecom Sector is witnessing virtual consolidation as many operators have either completely exited the business or reduced their footprint considerably. Indian Telecom sector now has only 5 Pan India private operators.

We hope that progressive M&A policy can further help industry consolidate in terms of total number of players including regional players to bring more sanity and synergies in the sector.

TRAI and DoT have already noted the sector's concerns and are taking steps to revive the sector. The regulator has recommended a steep reduction in the prices of spectrum, after the previous two auctions that saw very low participation and no takers for Metro circles, which if accepted by DoT can possibly help the industry to sustain cost pressures temporarily. As we have seen that pricing is slowly returning to the Pan India players, higher RPMs reported in 2Q FY'14, and some Pan India players already

increasing tariffs in certain circles and for certain products, we expect that Pan India players are better positioned to drive growth in the future.

Currently, India has 625 million unique wireless subscribers after adjusting for 15-20% dual SIM users. With rural penetration of approx. 40%, we believe there is still headroom to grow 200-250 million voice customers in next 3-4 years. However, much bigger growth opportunity exists in the data market. India currently has 143 Mn. wireless data users and only 15.3 Mn. wireless broadband users, with a penetration of less than 17% for 2G data and meager 2% for wireless broadband, which shows that data can have exponential growth for many years. In China 3G subscription exploded in last two and half year and increased ten folds from 35 Mn. 3G subs in March 2011 to 378 Mn. 3G subs in September 2013. We are expecting similar exponential growth in wireless data in India in coming years and data is likely to replicate the voice growth story for Indian telecom companies.

Update on India Operations and new initiatives: The second quarter of the fiscal is historically a seasonally low quarter because of subdued economic and agricultural activity due to monsoon conditions. This year again it was no exception, as we saw early onset of monsoon in the month of June itself stretching beyond September quarter. RCOM has performed in-line with industry trends and reported 0.8% de-growth in India Operations revenue as compared to 1Q FY'14.

RCOM is continuously working on differentiated strategy to expand both Voice as well as Data revenues on its network. Last quarter on the Voice front, we had unveiled "Smart Capex" strategy by entering into 2G GSM ICR agreements with multiple operators in order to expand our network significantly. Under these ICR agreements, RCOM is planning to increase national 2G GSM network foot print by 10,000 base stations and bring in an addressable market of over 150 million pops. By the end of 2Q FY14, we have already added more than 5,000 sites through these bilateral arrangements.

On the Data side, we have taken multiple initiatives to increase the data penetration by making data plans more affordable, offering bundled product & services and entering into exclusive tie-ups with social networking sites. We have announced launch of an exciting new 3G data offer at 2G data prices for Smartphone and Tablet users, targeting the fast-growing segment. The aggressive and affordable pricing is all set to trigger a wave of 3G adoption in the country, ensuring greater traction from mid- to high-level data users, and resulting in significant data usage and revenue growth across customer segments. With this initiative, RCOM aims at 40% share of fast-growing Smartphone's market of 66 Mn. handsets, which is currently growing at approx. 2 Mn. handsets per month.

This quarter, RCOM announced revolutionary Apple iPhone offers that promises to change the way people buy the iconic Smartphone in India. We have announced two game-changing offers—just Rs 2,599 per month for the iPhone 5c and Rs 2,999 per

month for the iPhone 5s, both for a duration of 24 months — which include the handset cost, unlimited local and STD calls, SMS', national roaming and 3G data. And in another first in India, ever, RCOM is offering these much-awaited iPhone models at no down payment. Furthermore, under this unique offer, Apple iPhone 5c and iPhone 5s customers will not receive any usage bill for 24 months, as the monthly payments include all usage charges. Only international calls and international roaming charges will have to be paid for. This latest iPhone offer is part of the Company's efforts to bring more Smartphone customers to its built-for-video 3G network, which will increase the acquisition of high value post-paid customers to its total customer base and further cement its position as India's leading data services provider.

The adoption of data services on our network is immensely helped by our agreements with social networking sites like Facebook, Twitter and WhatsApp. The large traction in data usage is coming from higher usage on social media sites such as Facebook, You Tube and Whats App. Our tie up with these social networking sites is helping us in 'first timers' accessing limited data on their mobile in the initial days and later on becoming a full-fledged data customer. Hence our strategy of giving 'a teaser' at low cost to our customers of our superior HSD & 3G network and converting them into higher revenue generating data customers is working well.

With these initiatives in place, we are witnessing very encouraging traction of 3G service on our network and we are happy to share with you that RCOM now serves 9.1 Mn. 3G customers, which is 27% of data subscribers and 7.7% of total 118 Mn subscribers; highest in the industry. Total data usage on our network was at 37,570 Mn MBs, a growth of 116% y-o-y and data usage per sub at 385 MB, still remains the best and highest in the industry.

In addition to profitable growth of Voice and Data services on our network, we expect our agreement with Reliance Jio Infocomm to share 45,000 towers will help us to significantly improve the margins and hence cash-flows. We have already started deliveries of towers to Reliance Jio and expect realization during the second half of this fiscal.

During the quarter, we have also initiated steps towards deleveraging the balance sheet by completing the securitisation of proceeds under the Rs. 1,200 crore inter-city Fibre Agreement signed with Reliance Jio Infocomm in April 2013. Deliveries of inter-city fibre links to Reliance Jio have already commenced and total deliveries of 120,000 kms inter city fibre under the Agreement are expected to be completed within the current financial year. In addition, we are also considering securitization of the proceeds under Reliance Jio tower sharing agreement. We aim to complete this in the next 6 months, which can result in significant reduction in debt.

RCOM also announced that its Board of Directors has in-principle decided on demerger of the Real Estate held by RCOM into a separate unit, Reliance Properties Ltd., to unlock

substantial value for the benefit of its approx. 2 million institutional and retail shareholders.

Reliance Properties Ltd. will be a separate listed Company. All shareholders of RCOM will receive fully tradable pro-rata shareholding in Reliance Properties Ltd., free of cost, based on their existing shareholding in RCOM. The preliminary indicative monetisable value of RCOM's real estate on development is estimated by independent valuers at over Rs. 12,000 crore, which is equal to Rs. 60 per RCOM share. A committee has been formed, which is looking into this de-merger and listing process separately.

Now, let me hand over to my colleague Mr. Punit Garg to cover Global Operations.

Global Operations

The first quarter Global Operations' revenue stands at Rs. 1,139 crore. Global operation EBITDA stands at Rs. 246 crore, as compared to Rs. 213 crore in 2Q FY13, up 15.5 % year-on-year.

Global Operations comprises Carrier business, Global Enterprise and Voice business. We have established leadership position in each of the businesses. Reliance owns the largest subsea cable system in the world "FLAG" connecting 27 countries with 47 landing stations. In Global Enterprise, Vanco is recognised among Top 5 Managed Services provider in Europe and Asia Pac. Our Ethernet Services business in the US is going strong, underpinned by over 22,000 route kms of fiber in 16 major metros in the U.S. In Voice, Reliance is among Top 15 carriers worldwide in terms of minutes carried with over 18 billion minutes and #1 carrier for inbound traffic into India.

The Carrier business continued its strong performance with order booking of over Rs. 225 crores. Major orders include Telecom Egypt, Telekom Malaysia and Etisalat. Reliance is reaping the benefit of owning subsea cables in routes comprising 63% of the global data demand which is growing at 40% to 50% per annum especially in markets of Middle East, India and China. To deepen our coverage, during Q2, in alliance with Du, Reliance extended connectivity to Datamena at IMPZ (International Media Production Zone), a Carrier Neutral Data Center in U.A.E., where international/regional carriers, media and contents providers converge. This alliance will help Reliance Globalcom expand the Middle East customer base and add more recurring IP Services revenue.

Reliance established inter-connects with Interroute at Frankfurt and Hong Kong to improve service coverage in Eastern Europe and China respectively. The objective is to increase revenue from value-added services delivered over our subsea cable network.

In Enterprise business, we are seeing higher momentum wherein MNCs continue to outsource entire telecom and network services to proven service providers. We signed over Rs 275 cr of contracts in enterprise business. To illustrate the capabilities in Global

enterprise, for SGS, a multinational leader in certification services, we delivered managed services to over 850 sites across 115 countries. To quote the SGS CIO, he stated that "the new contract is an extension of the relationship that began in 2004 and reflects the consultative advice we receive. Through its unique approach to network sourcing Reliance Globalcom enables SGS to adapt the existing WAN solution in each local market and achieve the targets set in our Strategic Business Plan. Reliance Globalcom is our single point of contact for any network related services, and provide us the flexibility to scale our operations rapidly, and ensuring we are always cost competitive in every market".

We continue to build on our marquee customer base in the global enterprise business and launching new services portfolio including hosted contact center solution, cloud computing, security services expansion, advanced network management tools. All these initiatives will enable us to increase wallet share of existing customers and increase revenue market share.

In Voice, Reliance launched International Toll-Free Services (ITFS) to over 100 countries at extremely competitive prices. Customers looking to expand their business globally would avail these services on their existing interconnect to maximize cost efficiency, with a superior Quality of Service (QoS). Our voice services business has healthy growth and strong product pipeline for retail and enterprise segments.

Recent Rewards & Recognition:

Leading Lights Award - RCOM won Leading Lights award for its "Connect Prime" service as the "Most Innovative Enterprise Service". Leading Light award is given to world's top telecom companies for excellence in service, applications and equipment.

IT EDGE award - RCOM is the only telecom company to receive this award for information technology. It has been awarded for our Innovative and Agile IT processes setup using TM forum standards, benchmarked in International arena.

IT Transformers award - Awarded for Enterprise Storage Management innovative Solution which enables RCOM to virtualize the exponential storage requirements for Tier 1 applications through optimization and effective solution engineering of Storage, at the same time improving the SLAs for our businesses.

To summarise, let me reiterate:

- The pricing power is coming back in the Industry with virtual consolidation happening on the ground.
- The average realized rates for operators are going to strengthen on back of improved headline tariffs, removal of free & promotional minutes and increased contribution from data.

- RCOM continues to work with handset manufacturers and application providers in order to improve 3G ecosystem to accelerate adoption of the data services.
- In Global Operations, RCOM continued its emphasis on enhancing service coverage and customer experience.

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

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

Moderator:

Certainly Sir.

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

First question comes from Mr. Rajiv Sharma from HSBC. You may go ahead please.

Mr. Rajiv Sharma:

Hi, thank you for the opportunity. I have just one question. Your EBIDTA margin this quarter has improved significantly to 35%, and I see that, in all the opex line-items there is some reduction Q-o-Q. Can you help us understand what exactly happened this quarter that such sharp EBIDTA improvement has been recorded?

Mr. Gurdeep Singh:

Thanks Rajiv.

EBIDTA expansion is largely driven by operational performance, especially the various cost optimization initiatives the company has undertaken in the last few months. Having said that, as you are aware on the voice side, tariffs have gone up resulting in RPM hardening, which we believe has more room to improve in the coming quarters. We believe RPM hardening shall have positive impact on margins as it is a direct flow through. On the data side, the revenue would be driven by the data traffic growth. We expect the growth to be very robust and strong in the upcoming quarters. Since the current capacity utilization on the data side especially on 3G network is very low, we

believe that increase in data traffic shall have positive impact on margins, and as you know, data business also doesn't have IUC cost hence it contributes more towards margins versus the voice which has a interconnect element. Though we do not give any guidance in the margins on a quarter-on-quarter basis, however, our view is that directionally margins shall improve on a trend line basis over a period of time, and the cost measures that the company has taken will continue to yield a better control.

Mr. Rajiv Sharma:

Gurdeep, thanks for the answer on this, but if you can just provide some specific color on network operations and SG&A; movement in network operation is because of the managed services deal, but if I'm not wrong, when a managed services deal happens, the employee cost and admin costs come down and the network cost increases because there is a fee which goes to the vendor.

Mr. Arvind Narang:

Rajiv, you have to correlate this to the discussion we had in the previous quarter's call. We had discussed in the last quarter earning call that RCOM is making lot of efforts to connect the sites to the state electricity board which we have been doing over a period of time and got a significant success in that. So because of those initiatives, the utilization of certain assets like DGs also have significantly come down, which obviously has an impact on the fuel cost and related expenses. Second, if you recollect in the previous quarter call, we had mentioned that there is an increase in the additional repair and maintenance cost which obviously on a normalized basis gets corrected in this quarter, and the third point which also we had mentioned in the previous quarter call that there are certain payments which are given to the outsource partners in the beginning of our arrangement which was effective from April 2013. On an ongoing basis these get normalised and are not applicable in this quarter. So overall network cost, of Rs. 1,629 crores is more or less in line with our Q4 numbers which was around Rs. 1,634 crores.

Mr. Gurdeep Singh:

Having said that, yes, I do agree with you that when you transition network you do transition manpower. Our overall reduction in the manpower cost is a combination between the manpower having moved to the managed service partners plus the overall manpower optimization that we have undertaken at RCOM which is correction to our manpower cost.

Mr. Arvind Narang:

Just to add to what Gurdeep said, if you recall from the last quarter earnings call, we had said that there was an increase in the manpower cost by Rs. 29 crores, basically on account of one-time payment of incentives to employees and full-and-final settlement who have moved to our outsourced partners. On a normalized basis that was not applicable in this quarter thus showing a reduction to that extent in the employee cost.

Mr. Rajiv Sharma:

Okay, thanks. Just a quick follow up is on the Current Liabilities which have come down whereas the Net Debt that has gone up. If you can just provide some color there.

Mr. Arvind Narang:

Current Liabilities are down because of the forex exchange notional variation in the Q1 which was there in the current liability, that full impact has been taken into the debt. If you see our quarterly report, the movement in net debt is about Rs. 2,700 crores however this includes the foreign exchange movement impact. In real terms the debt is actually down by around Rs. 1,150 crores.

Mr. Rajiv Sharma:

Okay, thank you very much.

Operator:

Thank you sir.

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

Mr. Srinivas Rao:

Thank you very much. I just have one question on the new reporting format. As a matter of clarification, your India Enterprise revenue would be part of the India Operation numbers, right?

Mr. Gurdeep Singh:

Yes.

Mr. Srinivas Rao:

When I say Enterprise I mean Enterprise lease lines and all that will be part of your India Operations non-voice?

Mr. Arvind Narang:

Yes, when you say Enterprise, it's not necessarily only the fixed wireline network. A lot of services now are wireless too, a combination of hybrid solutions which has been used to offer these services to enterprises. But to answer your question, the answer is Yes, it is within India operations.

Mr. Srinivas Rao:

So the others include primarily DTH and IDC?

Mr. Gurdeep Singh:

That's correct. It's totally non-telecom revenue.

Mr. Srinivas Rao:

Understood, thank you.

Operator:

Thank you sir.

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

Mr. Gaurav Malhotra:

Hi, good afternoon everyone. I just have a couple of questions. Gurdeep, you mentioned that there is a big focus on the data front, but we have seen in the last three quarters the 3G site count has really not moved up. Is it because the capacity utilization has been on the lower side and the entire coverage or the desired coverage for 3G has been achieved till now?

Mr. Gurdeep Singh:

Thanks for your question, Gaurav. We are dual technology operators having both, GSM and CDMA, technology. Hence, we have the capacity to keep the data dongle players on the HSD. And while we have the smartphone hand held users on the 3G, we've been taking a conscious strategy to use the CDMA spectrum effectively. Hence, much of our 3G subscribers are primarily the hand held smartphone users which has been our strategy. Our dongle customers reside mostly in the CDMA business. Having said that, I think we have made a robust growth in the last three quarters and our recent move on 3G@2G is just about 60 days young as far as that quarter is concerned. We will see a lot more traction on that going forward.

Mr. Gaurav Malhotra:

One follow up – if you can just share some data on what is your 3G data ARPU and how many MB of data is being used per subscriber on 3G right now?

Mr. Gurdeep Singh:

We don't give that breakup as a part of our disclosures, but I can share two things with you. Ever since we started the 3G@2G, earlier only less than one-third of 3G handset owners were using 3G on our network, but today nearly 68% of the 3G handset owners have migrated to using 3G, thereby resulting in a higher data usage. We've also seen

about 40% increase in the per customer usage in the 3G data ever since we put 'one internet' plan for our customers.

Mr. Gaurav Malhotra:

Thank you so much.

Operator:

Thank you sir.

Next in line we have Mr. Piyush Choudhary from CIMB. You may go ahead please.

Mr. Piyush Choudhary:

Hi, thank you for the call. I have a couple of questions. First, on the Global operations; I was just looking at your voice revenue trend under Global operations which have come down 1.6% Q-o-Q, while ILD minutes have grown 1.7% in the same period. This is despite INR depreciating during the quarter around 9-10%. I just want to understand your thoughts around the same, how should we look at this number?

Mr. Punit Garg:

Well, three points are important here. First, all of our minutes don't come into India. There are minutes which remain outside i.e. picked up from one country and terminated into another country outside India. We have around 70+ pickup and drop points around the globe. So let's say there are more US oriented minutes there, which is picked up from elsewhere, it may increase the overall volume, but not the price. The third part, which is the impact of the foreign exchange, we had volatile dollar and rupee rates in the last quarter. We did not actually benefit much out of that. We provided for the Indian terminating minutes, a rupee rate based on a pricing which actually did not take advantage of the fluctuating dollar rates, which in effect is like a hedging built into itself.

Mr. Piyush Choudhary:

So just to understand this correctly Punit, the contracts are more rupee based rather than dollar based for minutes terminating into India?

Mr. Punit Garg:

Yes, whenever the dollar is volatile and is fluctuating too much, we actually do the contracts on monthly basis and we enter the contract on a rupee basis during that time, on a fixed rate of the dollar, and that's how the carriers paid us for minutes terminating into India.

Mr. Piyush Choudhary:

Okay. And secondly, Gurdeep, on non-voice side business of the India operations, which has fallen 5% Q-o-Q. Could you help us understand among that non-voice portion, how much is still coming from SMS, ring-back tone, and those kinds of revenue pies, and how much is data revenue?

Mr. Gurdeep Singh:

Well, we do not give the breakup and the guidance on the elements of the non-voice. We have been a leading data operator. All I can share with you at this moment is that we have a significantly high share out of this coming because of the data revenue which is way above the industry mark.

Mr. Piyush Choudhary:

Okay. All the best for the future.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you sir.

Next question comes from Mr. Rahul Singh from Standard Chartered. You may go ahead please.

Mr. Rahul Singh:

Hi. I have a related question to the previous question but I will ask nonetheless. So, if I divide the non-voice revenues of about Rs. 10 billion in September quarter by the total

data traffic that gives me a tariff per MB of about 27 paisa. Is that a fair kind of a calculation or how much should I be discounting it further because some part of that revenue would be SMS, P2P SMS and VAS.

Mr. Gurdeep Singh:

Yes, closer to a fair estimate.

Mr. Rahul Singh:

Okay, thanks.

Operator:

Next in line we have Mr. Aryn Pirani from Deutsche Bank. You may go ahead please.

Mr. Aryn Pirani:

Hi, this is Aryn from Deutsche Bank. Are you sticking to your capex of around Rs. 1,500 crores for this year and what would be the kind of capex that you expect next year, given that you are going to be quite aggressive on the data side and in terms of coverage?

Mr. Gurdeep Singh:

I will give the answer to your question in two parts. For your first question my answer is, Yes. Second, as we shared earlier but I will share it again, I think given the fact that there is a surplus 2G capacity in the market, given the fact that there is more openness amongst the operators to share that capacity at a price which is profitable across the counter when you sell, we have entered into ICR arrangements with Tata, Aircel, Loop and Vodafone, to expand our footprint by 10,000 sites and if we were to do that 10,000 sites on our own it would have accounted for Rs. 5,000 crores of capex including the electronics. So I'm sure you will appreciate the fact that this is a smart way of making the market expansion and covering the market and getting revenues ahead of the cost that you commit in that market.

Mr. Aryn Pirani:

So we should assume that capex would remain more or less flat going forward as well?

Mr. Gurdeep Singh:

At this point, yes, but when we go into the next year, we will be more than happy to migrate some of these areas and the clusters which we have taken under ICR as they become profitable to transfer into our own capex and also look at the 3G expansion in line with the smartphone penetration by town.

Mr. Aryn Pirani:

Okay, thanks, thanks for your answer

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you sir.

Next question comes from Rohit Dokania from B&K Securities. You may go ahead please.

Mr. Rohit Dokania:

Hi, thank you for the opportunity. This is Rohit here. I just have one question Sir. Is it possible for you to quantify the revenue that you have booked from the fibre deal of Reliance Jio?

Mr. Gurdeep Singh:

Well, as you know that in the previous quarter we said that we are preparing the inter-city fibre and the towers for delivery to Reliance Jio, I'm happy to share that in this last quarter towards the end of the quarter we have started delivering the inter-city fibre and the towers to them, and as we go forward we will be happy to share more that time.

Mr. Rohit Dokania:

And sir, just one follow up, would this revenue be booked in non-voice India Telecom revenues?

Mr. Arvind Narang:

Yes, it will be part of the India operations. We may take a view in H2, whether we need to have an additional line item and will keep you duly informed about that when we do those disclosures.

Mr. Rohit Dokania

Sure sir, thanks a lot and wish you all the best.

Operator:

Thank you sir.

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

Mr. Rajiv Sharma:

I just have a follow up question on the tower deal with Reliance Jio. What kind of discount rate will you be comfortable with when you go for securitization, a 50% or 40%, so that you can deleverage and reduce the net debt immediately?

Mr. Gurdeep Singh:

Well, at this moment, Rajiv, it is difficult to say that because the talks are already under way. We are in an advanced stage of discussion and negotiation. We must keep in mind that RCOM has a certain standing and position, RIL has a certain standing and position in the market too. The comfort and the degree of ease with which we can do this transaction will clearly determine what kind of leverage we can take out of it. So, that's the real part of the negotiation which is currently underway.

Mr. Rajiv Sharma:

Okay, but if you can just help with some color whether anything above 30% or anything above 40% will be something you will not go for or are you comfortable upto 30%?

Mr. Gurdeep Singh:

Well, this is something which will not be shared at this moment.

Mr. Arvind Narang:

It's not about the discounting percentage. If you recollect yesterday's discussion, we had mentioned our strategy for debt reduction over the next 2-3 years, and we also highlighted the securitization of Reliance towers' deal. And if at a very broad level we are able to do it close to around a billion dollars it would reduce our Net debt/ EBIDTA by a factor of 1. So, since we are in the discussion, we can't give you anything specific, but it will be on similar lines to what we discussed yesterday.

Mr. Gurdeep Singh:

We are confident of generating over a billion dollars through this securitization, can't give you the finer nuances but this will directly bring our debt down by a factor of 1.

Mr. Rajiv Sharma:

Okay, this is helpful. Thanks.

Operator:

Thank you sir.

Once again, if you wish to ask a question, please press*1 on your telephone keypad and wait for your name to be announced.

Mr. Gurdeep Singh:

If we don't have any more questions Mamta, really thank you very much ladies and gentlemen for being on this call. Good luck and good bye.

Mr. Punit Garg:

Thank you, everyone.

Operator:

Thank you.

At this time, there are no further questions.

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