



Communications

RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended December 31, 2013

Conducted at 12.30 pm IST on Feb 10, 2014

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 December 31st, 2013.

On Friday, February 7th, 2014, our Board of Directors adopted the unaudited results for the third quarter of the financial year 2013-14 ending December 31st, 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.

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

- **Revenue:** Total revenue for the quarter stands at Rs. 5,403 crore, up 1.9% Year-on-Year from Rs. 5,301 crore in 3Q FY'13.
- **EBIDTA:** EBIDTA for the quarter is Rs. 1,845 Crore, a growth of 11.6%, Year-on-Year basis.
- **PAT:** PAT has increased to Rs. 108 crore from Rs. 105 crore in 3Q FY13, an increase of 2.7% Year-on-Year basis.

- **RPM:** RPM has increased to 43.5 paisa from 41.4 paisa in 3Q FY13, an increase of 5.1 % Year-on-Year. ARPU for the quarter is Rs. 125, up by 11.6% 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 Rs. 1,845 crore, paid net finance charges of Rs. 749 crore and invested Rs. 327 crore on CAPEX during the quarter.

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

- The third quarter India Operations' revenue stands at Rs. 4,637 crore, up 3.2% y-o-y from Rs. 4,493 crore in 3Q FY'13. India Operations' EBITDA stands at Rs. 1,606 crore, up by 15% y-o-y.
- Voice revenues up by 6.5% year-on-year and stands at Rs. 3,417 crore.
- Voice ARPU has increased to Rs. 96 from Rs. 84 in 3Q FY13, an increase of 14.3% Year-on-Year. Voice RPM has increased to 33.5 paisa from 30.9 paisa in 3Q FY13, an increase of 8.4% Year-on-Year.
- We currently serve 36.2 Million wireless data customers with a year on year growth of 31.2%.
- 3G customer base has grown 82% year-on-year basis and stands at 11.1 Million. 30% of mobile Internet users on the RCOM network are 3G users, enjoying high-speed data services
- Total data usage on our network was at 41,702 million MBs, a growth of 85% y-o-y and data usage per sub at 396 MB, still remains the best and highest in the industry.

I will now talk about current status of Indian Telecom Sector. During fiscal year 2011 and 2012, the Indian Wireless industry had double digit annualized growth rate of 12% and 16%. In the financial year 2013, the industry revenue growth tapered down to single digit at 9%. Industry estimate indicates that the growth may further shrink during the current fiscal year. This clearly demonstrates that voice business is entering into a maturity phase and data contribution is still modest inspite of high growth rate. However, voice still remains the bread and butter for the industry and contributed over 70% of total revenues in fiscal year 2013. Data is going to be the next frontier of growth for the industry. Industry estimates indicate that data contributed Rs. 12,000 Crore in FY 2013, which will grow to Rs. 36,000 Crore by FY 2016, with an estimated CAGR of 85%. In the coming 2-3 years, the industry is going to witness data revenue growth similar to what we have seen in voice revenues few years back. Last 5 quarters have seen an average quarterly growth of around 20% in data volumes as reported by top

four operators. Between 1QFY13 and 2QFY14 the data volumes have grown 2.5 times clearly showing the increasing uptake of data.

This is very encouraging sign for the whole industry and in particular for RCOM. This is a great opportunity for RCOM as we are best positioned to leverage our “Built for Internet” network. RCOM’s unmatched Pan India access network deployed across technology platforms along with world’s largest IP enabled backhaul network gives it a unique competitive advantage. RCOM has historically invested in creating robust backhaul network, fiberizing most of urban centres / major cities’ sites, which are capable of high speed / broadband services including handling 4G services. We provide the widest footprint of broadband wireless coverage in India on the back of 3G network in 13 circles and nationwide HSD network.

One of the most important drivers for 3G data growth is the pricing of the handset. The industry is now seeing lower priced 3G handsets available in the market making it affordable for the masses to use 3G data services. The growth in 3G smart-phones is not limited to global brands but also lots of local companies are launching 3G phones in sub Rs.5,000 price category.

The industry has gone through virtual consolidation, improvement in the headline voice tariffs and elimination of free and promotional minutes. Last quarter, the industry increased 2G data tariffs in order to further support continuous hardening of realized Rate per Minute (RPM).

We expect the year 2014 to see the beginning of real consolidation in the industry. We expect that the development in M&A norms will provide a better opportunity for the industry to consolidate. As stated earlier we expect the industry will consolidate to approx 5 PAN India players as small operators will not be able to sustain costs and eventually become consolidation participants. Once that happens, the industry will further see tariff hardening with pricing power returning to PAN India operators. The rise in tariffs will also be driven by high spectrum cost in the industry. This will lead to improved margins and help better cash flow generation.

The Industry is now concentrating on quality acquisition, which has resulted in moderate net additions per quarter in the last 3-4 quarters as compared to 8 – 10 Mn. net additions per quarter earlier. This has not only helped in bringing down the acquisition cost but also improved churn and increased contribution from the new additions.

Update on India Operations and new initiatives: Referring to my earlier comments, Industry is seeing modest growth during this fiscal year, which is evident if you compare the reported numbers of top four Telcos for Q1 to Q3. The real comparison of Q3 performance should be done with that of Q1. Since Q2 generally is a seasonally weak quarter, it impacts different operators differently depending upon their urban and rural subscriber mix. RCOM has performed mark-to-market in revenues in Q3 as compared to

Q1 as we have higher share of urban, semi-urban and mobile internet data users. We have undertaken various cost optimization measures during last 2 - 3 quarters, which are now beginning to yield results as our EBIDTA in Q3 has out-performed the industry as compared to Q1.

RCOM is continuously working on differentiated strategy to expand both Voice as well as Data revenues on its network. Couple of quarters back 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. By end of 3Q FY'14, we have added more than 9,000 sites under these ICR agreements, in order to enhance network coverage and improve the quality of coverage.

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. Last quarter, RCOM announced revolutionary Apple iPhone offers that promises to change the way people buy the iconic Smart-phone in India. We have announced Zero Plan offer at Rs 2,499 per month for the iPhone 4s, Rs 2,999 per month for the iPhone 5c and Rs 3,599 per month for the iPhone 5s, all three for a duration of 24 months — which include the handset cost, unlimited local and STD calls, SMS', national roaming and 3G data. We are witnessing strong traction of high ARPU customers, porting into RCOM network with MNP request. After launch of this offer, we are MNP value positive in all 13 3G circles. In future, we plan to replicate this bundling strategy with more smart-phone brands across various pricing segments.

RCOM started a true internet revolution by offering 3G speeds @ 2G rates by launching an exciting 3G data offer at 2G data prices for smart-phone and Tablet users, targeting the fast-growing segment. The reason for introduction of this plan was to reduce the barrier for adoption of 3G services, low adoption rate of 3G among existing smart-phone users and low utilization rate of 3G network. During the quarter, we have increased rates for 3G data plans. This was primarily done to remain mark to market on 2G data prices as most of the operators have increased 2G data prices. We have received overwhelming response from the customers. This will lead to higher adoption of 3G data, increase in data volumes and eventually lead to better margins. Also, this will help us in becoming more disruptive in the postpaid category in the metros.

We are enthused to share with you that CDMA handset eco-system is improving fast. Our CDMA voice revenues are almost stabilizing and our renewed focus on CDMA business will help us to grow this in coming quarters. We have taken various CDMA oriented initiatives like introduction of GSM + CDMA smart-phones in the market, dedicated CDMA team within mobility business and up-gradation of EVDO network to Rev B in non-3G circles.

The adoption of data services on our network are immensely supported by our agreements with social networking sites like Facebook, Twitter and WhatsApp. This will

further gain traction as we announce more device tie-ups, offering “Zero Plan” to support all smart-phones. We believe that “Zero Plan” can be a new category like Postpaid and Prepaid Plans, which will drive the revenue growth in future.

With these initiatives, 3G traction is increasing faster and we now serve 11.1 Mn. 3G customers, which is 30% of data subscribers; highest in the industry. Total data usage on our network was at 41,702 million MBs, a growth of 85% y-o-y and data usage per sub at 396 MB, still remains the best and highest in the industry.

Regarding R-Jio contracts, the deliveries of towers and fiber infrastructure is progressing well. We believe that we shall be able to deliver most of the required infrastructure in next 3 – 4 months.

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

Global Operations

The third quarter Global Operations’ revenue and EBIDTA stands at Rs. 1,090 crore and Rs. 239 crore respectively.

Global Operations comprises Carrier business, Global Enterprise and Voice business.

The Carrier Data business continued its strong performance with order booking of over Rs. 155 crores. Reliance is leveraging owned subsea cables connecting 47 countries to offer mega-bandwidth connectivity to content providers and large global telcos. Reliance has deployed 100Gbps wavelength on most routes. During Q3, additional 400 Gbps capacity was built on FA-1 between London Hosting Center and New York. Capacity Reservation System functionality has been introduced under Transmission Services which enables customer to reserve capacity on Reliance Globalcom’s network just like airline reservation system. Very few operators can match this capability and Reliance is well positioned to capture most of the internet driven capacity demand.

Reliance has strengthened its IP layer on top of transmission layer. The St. Denis, Paris PoP has been established as the primary hub in Europe for IP services, complementing London PoP for diversity. This has improved network latency, reliability, and enhanced service coverage.

In Global Enterprise business, Reliance signed over Rs 55 cr of contracts. Reliance has established itself as few managed service providers with secret sauce to connect enterprise offices in over 160 countries with diverse portfolio of services including WAN connectivity, internet, voice and managed security services. Reliance extended contract terms with most of its enterprise customers for whom cost and risk of changeover is very large. This included for example one of the largest mining companies in Australia with operations in 50 countries. They extended contract with Reliance as their single

point of contact for any network related services, and provide its offices the flexibility to scale operations rapidly, and market competitive prices.

Enterprise Business

In domestic Enterprise business, Reliance's Pay Per Use model for Data Centre business continues to have strong traction in the Enterprise market, with large order in Q3 from a MNC Conglomerate and a leading foreign bank. Reliance continues to maintain leadership position in Data Centre business, in terms of market share, innovative services and pricing model. RCOM has renewed certification from Cisco as the Cloud Managed Services Partner for MPLS, Internet and Security services.

RCOM won prestigious Light Reading Global award for the “most innovative enterprise service” for the recently launched product ConnectPrime™. Reliance has strong demand for ConnectPrime™ since it delivers most cost efficient connectivity solution leveraging pan India wireless and wireline network.

Reliance continued its winning streak in the Government vertical with prestigious orders from UP Power Corporation, National Informatics Centre, Electronics Corporation of India, and Bihar Electricity Distribution company.

To summarise, let me reiterate:

- RCOM continues to follow the strategy of building revenues ahead of investments and de-risk the business by deploying more sties through bi-lateral ICR agreements and subsequently deploying own infrastructure on viable sites to improve shareholders returns.
- RCOM to focus on bundling strategy by introduction of innovative products and services like recently launched “Zero Plan” in order to build affordable ecosystem for 3G services helping 3G services and data market to grow.
- Riding on the development of common CDMA + GSM chipset and phones, RCOM is aggressively working on reviving usage on our CDMA network in order to improve its contribution in the Company’s overall growth.
- In Global Operations, RCOM focused on network reforms and related supporting systems transformation in order to deliver tailor-made solutions for sophisticated customer requirements.

Finally, I would like to emphasize that RCOM is highly focused on product and service innovation, development of 3G eco-system to make wireless broadband services more affordable and providing enriched customer experience.

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. Shobhit Khare from Motilal Oswal Securities. You may go ahead please.

Mr. Shobhit Khare:

Good afternoon, Sir. Thanks for the opportunity. My first question is on the non-voice revenue, where the revenue contribution seems to be stagnant over past 3-4 quarters. While we are seeing sharp increase in data traffic, is this because of pricing pressure in data or otherwise, if you could give some color on that? Second is, in the analyst meet last quarter, you had mentioned that sustainable margins at consolidated level could be 32-33%, so should we expect some more pressure on the margins going forward?

Mr. Gurdeep Singh:

Thank you, Shobhit. Coming to the point number one on the non-voice revenue, there are two events that have taken place during the last couple of quarters, first one being the VAS regulation by the TRAI, that has lowered the VAS contribution, and the second, as a part of our strategy to provide consumers with one-internet plan, we had lowered the 3G prices at 2G rate, and it was said at that point that we will go through the initial dip as more 3G consumers downgrade their ARPU to 2G levels, but eventually the data consumption and the penetration will kick in to bring in the benefits. So I think we have crossed that hump now. As we go forward, we should see a higher traction on this account.

And thirdly, coming down to the discussion regarding margins and the pressure on the margins, since we are seeing the RPM hardening in the market, we are seeing the rise in the data contribution to the business as we go forward, and the fact that we are not in a

position any longer to absorb the inflationary cost pressures, the RPM hardening will continue as we go forward, not as a planned event but as an ongoing event, and this will help reflect better margins in the future.

I hope I have answered your question.

Mr. Shobhit Khare:

Yes, sir. Thank you so much.

Operator:

Thank you, sir.

Next question comes from Mr. Pankaj Suri from Nomura. You may go ahead please.

Mr. Pankaj Suri:

Hi. Three questions from me. Number one, the voice RPM numbers, are they primarily only for the mobile business or do they have some contribution from fixed as well, that's number one. Secondly, can you give us some guidance how should we see the tax rate for this year and the next couple of years? And number three is, what is the foreign exchange loss number for 9 months and 3Q in particular? Thank you.

Mr. Gurdeep Singh:

Thank you very much for your question. On the voice RPM, our Indian operations largely the voice comes from wireless business, so it is reflective of the overall voice trends in the wireless mobility business. The contribution of the voice from the other segment is relatively smaller and does not impact the percentages movement in the RPM and the RPM hardening as we go forward.

I would request my colleague, Arvind to answer your questions on the forex and the tax.

Mr. Arvind Narang:

We do not provide tax guidance, but we still have the tax holiday under section 80(i)(a) for some more years.

Mr. Pankaj Suri:

And for the forex loss for 9 months and 3Q?

Mr. Arvind Narang:

In this quarter, the rupee has marginally appreciated. If you look at our debt numbers for 2Q, we had around Rs. 3,842 crore impact on our foreign currency debt, which we had mentioned in the Q2 results. The similar number for Q3 because of the slight appreciation in the rupee is about Rs. 3,600 crore, which basically means that net of forex impact, our forex debt is Rs. 25,068 crore for Q2 and Rs. 24,870 crore for Q3. That means a reduction of close to Rs. 200 crores.

Mr. Pankaj Suri:

Thanks for that, but I was actually looking for the P&L impact to the forex movement.

Mr. Arvind Narang:

On P&L there is hardly any impact because the rupee-dollar is almost stable. However, we account forex variation in Balance Sheet as per Government of India guidelines.

Mr. Pankaj Suri:

And what about the 9 months number?

Mr. Arvind Narang:

We are following the guidelines, issued by Ministry of Corporate Affairs. The impact of foreign currency is reflected in the balance sheet which has been prepared in-line with those guidelines. Accordingly you can see the impact on both the asset side as well as the liability side, that's why the debt in the previous quarter had gone up, and the assets also in the previous quarter. But this quarter it has been largely flat.

Mr. Pankaj Suri:

Okay, thank you so much.

Operator:

Thank you sir.

Next question comes from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Ms. Reena Verma:

Hi. Thank you very much for the call. I had a few questions; firstly, just on the contracts with Reliance Jio, please can you update us on the status, both for the IRU contract and the tower contract and whether we should continue to book the IRU accounting revenue in fiscal 2014 as per your earlier guidance or you see a push back?

My second question is with regard to your 900 MHz circles which are due for renewal, I guess next year. Could you please share with us any thoughts in terms of how you think about the outgo for these circles, and what we should possibly expect in light of your comments, that the industry will see a lot of consolidation in 2014?

And just two housekeeping questions, one is on the Global business, if you could please comment on both the revenue and margin contraction and in the overall P&L the sharp rise in the interest cost. Thank you very much.

Mr. Gurdeep Singh:

Thank you very much, Reena. On the Reliance Jio, the following is the sequence of events that have happened. We signed the IRU contract on the inter-city fibre and followed by 45,000 towers to be given to them on lease or tenancy. Part one, on the IRU, we received proceeds through securitization, which is reflective in the balance sheet as stated in the last quarter. However, we are continuing to prepare the handover of the fibre as well as the towers. Much has been handed over as the work is currently in progress. As and when we finish those deliveries, as I said in the initial speech, over next 3-4 months, and they put up the electronics, we will then be able to share further proceeds and the accounting and the booking of those proceeds.

Ms. Reena Verma:

That means, over next 3-4 months, probably end fiscal 2014 or early fiscal 2015, the accounting recognition will happen?

Mr. Arvind Narang:

Yes, as Gurdeep said, from money perspective, it is already received post securitization and was captured in the Balance Sheet and Cash Flow statements. The Intercity fibre sharing/handover process is still going on. However, once we are able to complete that, we shall then be able to share with you. On the tower front, over 50% of the deliveries have already been given to Reliance Jio, and the rest is underway, and once they start doing their own installation, testing and so on, subsequently we will share with you the specifics related to the revenue and its realization.

Ms. Reena Verma:

So when you give the deliveries, do the revenues kick in only when they start using or on delivery from you?

Mr. Arvind Narang:

There is a 3 step process involved. One is the handing over of the tower, second is the installation of the equipment, both the passive infrastructure as well as the active equipment, and then followed by the testing. So once they install their own equipment and do that testing, then the revenue realization starts.

Mr. Punit Garg:

Just to cover two points. One is as far as IRU of Reliance Jio is concerned, we are well on track and we would be able to deliver over 90% in this year itself. It could be 100%, but at this moment for your calculation 90-95% would be there, and there could be a spillover of 5-10% which would be in the first quarter. So we are well on track as far as IRU of Reliance Jio project is concerned.

Your second point on global, just let me cover that before handing over for wireless. As far as revenue and margin costs are concerned, yes, in this quarter, you have seen bit of dip, and it is on account of mainly two reasons. The first is that, we have made the

prices mark to market resulting in the decrease in the elimination figures also, which is a part of the consolidated accounts. Accordingly the revenues and margins have also come down. That's number one. Number two, the activation of IRUs for FLAG has been comparatively lower in Q3, but we maintain a healthy backlog, a lot of that has already been activated in this particular quarter, and this particular quarter we see as a lumpy quarter for us, which will make up for all the losses in Q3. Normally Q4 has always been a high quarter for us. That's what you would probably see as a result currently in the global operations.

Ms. Reena Verma:

That's very clear, thank you.

Mr. Gurdeep Singh:

Yes coming to your next question on the 900 MHz, I think we are still about 18-19 months away. This is coming up for renewal towards the end of 2015 calendar year, and as we approach closer to that we will take a call on our strategy on reacquisition of 900 MHz or together with 1800 MHz, so I think we will be able to share far more in detail and with clarity as we get into that time span.

Mr. Arvind Narang:

On your question on interest charges, finance charges has gone up by Rs. 73 crores, largely because of one time discount charges paid on securitization of Reliance Jio receivables, which are related to inter-city fibre agreement, and also there are small one-time payments related to commissions paid on utilization of some non-fund based facilities. But if you really look at our cost of debt, without this one-off, it is still in the range of 6.5%, which was 6.3% in the 2Q, so ballpark in the same range.

Ms. Reena Verma:

Thank you very much, gentlemen. Thank you and all the best.

Mr. Gurdeep Singh:

Thank you.

Mr. Arvind Narang:

Thank you.

Operator:

Thank you, ma'am.

Next question comes from Mr. Rama Maruvada from Daiwa. You may go ahead please.

Mr. Rama Maruvada:

Hi. My first question has been answered with regards to the finance cost. So I just wanted to ask you about the overall revenue momentum. Over the past 3-4 quarters you've been trying actively to raise the pricing but just wondering how comfortable are you with regards to revenue traction in the Indian wireless segment.

The second question is with regards to the GSM as well as the CDMA businesses. There are media reports about restructuring, just wondering what are your thoughts on this and what are the timelines involved. Thank you.

Mr. Gurdeep Singh:

Thank you very much for your question. Let me answer both of them in a separate form. First is, I think what we are witnessing now for 3 quarters is that continuing focus by telcos on growing profitable minutes, and we started that sometime in the end of 2012 calendar year and we have continued that with a relentless pursuit. It's very important because industry is no longer in a position to cross-subsidize, cash cow segment versus the loss segment. I think we have crossed that stage, those are the activities that you do at a hyper growth phase but as we are virtually consolidating with a far more rational behavior on the ground and the pricing power is coming back to the Pan India scale operators, I think our focus is completely shifting on growing profitable minutes, coming also on the back of rise of input material cost and the spectrum prices which are probably also reflecting in the auction selection as well. So maybe we have entered a phase where minutes growth which is normally associated to a hyper growth phase, when you are capturing far more cash rich customers than trying to grow

revenue on the existing customers, may not be the direct KPI to measure. I think it is more important to pay focus onto the EBITDA per minute, how strong or how good is the quality of the minutes that you have on the network. So, that's one.

Second, on a quarter-on-quarter basis I think now there is an established trend and pattern that Q2 is a seasonally weak quarter, and when we say Q2, the July-September quarter is seasonally weak. It has got a different impact on different operators. The operators which are far too entrenched on to the last mile, those who serve the population closer to the 100%, naturally face the highest seasonality impact on their business, and when they come out of that seasonality and go into the Q3, they have a relatively modest growth projected. But you look at other operators like us, who have a fairly strong mix of urban, semi-urban and data users across the country, show less acuteness on to the Q2 revenues. That's why we did outperform the industry in the Q2 performance. I think and I would urge all of you on the call to please ponder for a moment and think over through this. I think our true measure of a Q3 festival season is now to be seen in light with what is your performance versus Q1. If I draw that comparison, even of the several years in the past, you will see that RCOM in Q3 is moved in line with the performance of the top Telcos. The revenue growth of Q3 versus Q1 of all the operators is in the range of either flat or a 1%. While if you look at EBITDA trajectory, I think the operators have moved in the range of 4-5% growth of EBITDA versus Q1 in Q3, whereas we have moved by over 10%. So I would say that we have now begun to participate in the market growth. We are moving in the league of market-to-market performance as is evident from our Q3 versus Q1 performance. And our focus on cost optimization including focus on the profitable minutes and focus on our growth engine of GSM and data is beginning to pay off. And we see that trend continuing in the future, including hardening of the RPM and the margins in the future.

I'm sorry I forgot your second question.

Mr. Rama Maruvada:

That's with regards to the restructuring of the CDMA and the GSM businesses. Where are you and what is the timeline?

Mr. Gurdeep Singh:

What we have done is that we are restructuring the go to market action of CDMA and I will give you the rationale of why we are doing it. We are now fully clear about two developments in the CDMA ecosystem. One, with the commonality of the chip sets supporting the CDMA and the GSM rising, coming from Qualcomm and the other vendors, the availability of the CDMA devices are suddenly going up, A. B, we do have a clear roadmap indication from these vendors that by 2015 end, the industry is moving towards universal products supporting a universal SIM. That means each handset will be able to support multimode, multibands, thereby increasing the possibility of the uniqueness of a CDMA SIM being inserted into a GSM phone or any phone and it will work on the CDMA. That's one. Second, if you look at some of the high-end devices which are coming from HTC, Lenovo and Apple, and which are being marketed in the US and the other countries, they work seamlessly on GSM and CDMA, and that trend is now coming down to mid and the lower end devices. That is the second part. The third part, for the interim till this happens when the device ecosystem actually becomes completely ubiquitous which we have a great clarity to, in the interim we realize that CDMA is a device-bundled business and GSM is a SIM-card-led business. The characteristics of sales, distribution are entirely different from GSM, and hence we have now created the CDMA org structure with a view to get the ecosystem of consumer durables and the handset ecosystem, get the quality of people on our CDMA which come from that ecosystem, so the distribution, people and the go-to-market strategies are aligned the way a device selling is done, because this is a bundled sales proposition, which a GSM team is never used to selling, but for what we sell from our company-led stores. So we believe that this renewed focus of go-to-market strategy led by increasing availability of the ecosystem or devices is the good time for us to accelerate the pedal on the CDMA business, which is already bottomed out in terms of its bleed and we are

now looking up to a growth in the segment over the few quarters, and I can say that with lot of confidence. I hope that clarifies.

Mr. Rama Maruvada:

Yeah, if I can just have a quick one final follow-up please. Could you give a sense of what GSM revenues are as a proportion of your telecom revenues maybe this quarter and the last quarter?

Mr. Gurdeep Singh:

I've been saying in the past that now, GSM plus data have identified as the current growth engine, while CDMA takes a bit of a time to move into the growth engine, it will soon move into the growth engine as we believe over next 3-4 quarters. The contribution by GSM plus data is now over 71%, which was 65.4% a year ago. So over a period of time, we have been able to shift a lot of our focus on to the growth engine of our business.

Mr. Rama Maruvada:

Okay. Thank you very much.

Mr. Gurdeep Singh:

Thank you.

Operator:

Thank you, sir.

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

Mr. Gaurav Malhotra:

Yeah hi. My questions have been answered. Thank you.

Operator:

Thank you, sir.

Next question comes from Mr. Aryn Pirani from Deutsche Bank. You may go ahead please.

Mr. Aryn Pirani:

Yeah, Hi Sir. Thanks for taking my question. Sir, my question was on the competitive environment, and since you mentioned that the focus of the telcos over the last few quarters was growth of profitable minutes, margins have improved for most companies, churn rates have come down, but going forward as we now most likely have a new player getting in, what is the likely scenario shaping up in your view as far as competition is concerned, and what could you do to these trajectory of tariff and the profitability going forward for the industry as a whole?

Mr. Gurdeep Singh:

Firstly on the tariffs for the future. We believe, as I said, there is no head room available to absorb inflationary pressures on to the system. So we will continue to pass that on to the consumers, not as a planned event, but as an ongoing affair, A. B, we will continue to weed out below-cost-to-serve and unprofitable minutes from the network, be it in the shape of free minutes, discounted minutes or loaded minutes at the time of acquisition. The focus will be on paid and profitable minutes. And since we will continue to pass on the inflationary and the other cost pressures on to the consumers, it is fair to assume that the tariffs could harden upwards/northwards in the range of 5-6% during the year.

Mr. Aryn Pirani:

We've had phases in the past wherein tariffs improved but then somebody or the other played spoilsport. But do you feel that going forward everybody would not be looking at a scenario wherein they could spoil the party for the other players.

Mr. Gurdeep Singh:

As I said, the market indicators of the RPM hardening are indication of the fact that pricing power is back to Pan India scale operators, those who enjoy the economies of

scale the best, not to say that today we don't face some pressures from regional or semi-regional players from the market, it is very localized, it is very limited. This may or may not continue in the future, because of some of the players who had taken aggressive stand on voice-tariff based strategy in the cities and the markets where they have got already congested. There is a evidence on the ground that they have begun to harden the tariff because now the time has come for them either to expand the number of base stations in that city or take more spectrum and in both the cases, the economics doesn't seem to work for them and hence they are restoring to the tariff hardening. So I think we do not see much competition on that perspective from the players in the market.

Mr. Aryn Pirani:

Understood sir, thanks, thanks for taking my question.

Mr. Gurdeep Singh:

Pleasure.

Operator:

Thank you, sir.

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

Mr. Kunal Vora:

Thanks and good afternoon, sir. Three questions; first one on, can you throw some light on your LTE strategy, are you looking to use your 800 MHz spectrum subject to liberalization for LTE in the long term, and is your spectrum contiguous, that's question one.

Second one on data pricing, how are you looking at it and in the next 2-3 years, do you see pressure on data pricing?

And lastly on the Reliance Jio, do you see them as a partner or a competitor, do you think entry of Reliance Jio can impact voice tariff? That's about it, three questions.

Mr. Gurdeep Singh:

All right, let me answer the first question on 800 MHz. Most of the spectrum that we have across the circles is contiguous. That's the good news. Second, do we wish to liberalize that and to offer LTE services? I think at this moment we are focused on two things. A, to make the good use of the 3G spectrum and the network already deployed, because they continue to be seriously underutilized. We are working together with the handset makers to see that we penetrate more and more smart-phone devices, because this is unlike a 2G, where you can go forward and expand network and the consumers will come. 3G is highly dependent on the device ecosystem and the penetration. So we will continue to focus on this and sweat our assets more on the 3G perspective, that's one.

Second, coming to the 800 MHz, there are two events that have happened. A, one of the players in the CDMA, is a regional and a localized player, and the other who was a national and a Pan India scale operator has submitted or surrendered half of their CDMA spectrum which seriously impairs their ability to provide HSD services. So in the current ecosystem, we see a great opportunity for Reliance to flare up our high speed data services and the data revenues coming from our 800 MHz network currently deployed in the market and that's why that's another one of the reasons why we are reorienting and restructuring the CDMA business, as we expect to gain from device ecosystem advantage, bundled sales, and weakening spectrum position of our CDMA competitors in the market. Yes, we will look at the liberalization of the 800 MHz spectrum as and when the need arises.

Second, on the data pricing, as I said that as we go forward, we have a continued belief that we want to offer consumers one internet plan, be it 2G or a 3G. We believe India is not yet ready for a speed-based pricing. We believe that consumers need to be given an experiential choice for the speed, and the day the need for speed gets established, we will move into the tiered pricing. Till such time we will continue to drive adoption of higher technology or 3G services in this market. To say that the data prices worsen from

here on, my answer to you will be the data prices will harden as we go forward in the future. But we will continue to stick to our strategy of 3G@2G prices for now.

Secondly, on the Jio, yes, there is a partnership and there is a competition. I think the go-to-market completely remains separate because these are legally two separate organizations, where we have come together or is to use each other's assets which are on the ground, which are not visible to the consumers, these are on the back end, and this is a smart way to monetize your assets and create a quick access to the market. Under Reliance Jio's agreement with us, we have a reciprocity clause. In the reciprocal arrangement, whatever infrastructure will be laid out in addition to what they procure from us, by the Reliance Jio will come to us, be it fibres or the towers at the same terms and conditions at which we have given as per our need and requirement. This will make our entry into the market for expansion very, very quick and will lower our capex in the future only to the electronics part of the capex, for which we do have an open line with the China Development Bank. I hope this answers all your questions.

Mr. Kunal Vora:

Yeah, very clear, thank you, sir.

Mr. Gurdeep Singh:

Thank you very much. Really appreciate it.

Operator:

Thank you, sir.

Next question comes from Mr. Gaurav Dhavale from Nomura. You may go ahead please.

Mr. Gaurav Dhavale:

Yes, hi. Thanks for taking my questions. My question was regarding your revenues per minute. Can we expect more RPM improvement to come through from the tariff hikes which were done earlier and can we expect more tariff hikes coming through in the near future?

Mr. Gurdeep Singh:

As I just said that RPMs can only go one way from here on, it is northward. RPMs will harden in the future, they will continue to focus on profitable minutes growth, profitable segments, profitable customers. I think this is the calibrated approach that RCOM has taken because we are not chasing mindless revenue growth, we are cautious about balancing between profitable minutes and a profitable revenue growth. As a sector there is a complete rationale behavior on the ground and we should not be surprised that if all of us want to take, depending upon our own internal time and the pressure on the cost, to continue to harden the pricing in the market after being fully aware that can semi-regional, regional players offset your party, my answer to that is no. I think we have crossed that hump that hyper competitive stage is behind us.

Mr. Gaurav Dhavale:

Okay, then are there any tariff hike plans in the near future?

Mr. Gurdeep Singh:

As I said, this is not a planned activity, this is an ongoing activity and it will continue to happen month after month as we go forward, and you should be able to see the RPM hardening quarter-on-quarter as we go forward.

Mr. Gaurav Dhavale:

Okay. On the securitization of your tower leases, can you update us on the progress? Do you have to wait till delivery of all the towers to Reliance Jio before you can actually securitize it?

Mr. Gurdeep Singh:

Last time when I said we had approached the banks and they had agreed to look at this proposition, and in those terms the discussion and the due diligence is on, and you are absolutely right, once we complete those deliveries and hand over to Reliance Jio, it becomes then pertinent for us to look at the securitization of the proceeds coming from the tenancy.

Arvind, you want to add something to it?

Mr. Arvind Narang:

That's on track, it's a fairly voluminous contract and from a due diligence perspective also India being so geographically spread, it's a relatively time consuming and large exercise which is under way, but we do hope that in the next few months we should be able to do this.

Mr. Gaurav Dhavale:

Okay, and I guess my final question is on, there was an announcement or there was some news an intra-city fibre cable sharing network agreement also being signed. Are there plans to actually formalize such an agreement, is it on track, what should we expect?

Mr. Punit Garg:

Our various agreements including Reliance Jio as far as intra-city is concerned is under negotiation and at the appropriate time it would be announced. In the Wireless business it requires for operators to first have all the towers, which they are planning, in place. They may decide to have their own towers or they can lease from anyone., Finally they decide about the fibre route. So the intra-city fibre usually is the last thing, and the same is true about the 3G operators. As and when they expand, they later decide on the new towers and where they would go. However, we expect in the next 2-3 months all of our agreements with Reliance Jio to be finalized.

Mr. Gaurav Dhavale:

Okay, that's very helpful. Thank you so much.

Operator:

Thank you sir.

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

At this time there are no further questions from the participants. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.

Mr. Gurdeep Singh:

Thank you. And once again, good afternoon ladies and gentlemen, and thank you very much for being on the call. I really appreciate this.

Operator:

Thank you sir.