



RELIANCE COMMUNICATIONS LIMITED

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**Transcript of Earnings Conference Call
for the Quarter ended September 30, 2015**

Conducted at 2.30 pm IST on November 09, 2015

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. Vinod Sawhny (CEO – Reliance Communications), Mr. Gurdeep Singh (CEO – Consumer business), Mr. Bill Barney (CEO – GCX, India Enterprise and Carrier Business), Mr. Punit Garg (President – Corporate Strategy and Regulatory Affairs), Mr. Manikantan Iyer (CFO – RCOM), Mr. Rory Cole (CFO – GCX), Mr. Shrenik Vaishnav (SVP – Finance) and Mr. Anil Ladha (Head – Investor Relations).

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

I hand over the call now to Mr. Vinod Sawhny. Thank you.

Vinod Sawhny

Thanks, Mamta. Good Afternoon and welcome to our Second quarter 2016 earnings conference call. I have with me the senior management team of Reliance Communications. On behalf of us all, Thank you for joining the call.

On November 06, 2015, our Board of Directors adopted the results for the second quarter of the financial year 2015-16 ending September 30, 2015. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I trust you have had a chance to go through the same.

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

- **PAT:** Profit After Tax for the quarter stands at Rs. 156Cr, a Y-o-Y increase of 1.9%.
- **Revenue & EBITDA:** Consolidated Q2 revenues are at Rs. 5,355 Cr, a decline of 0.9% YoY. Consolidated Q2 EBITDA is at Rs. 1,782Cr, a YoY decline of 2.5%. India operations revenues are 4,701 Cr., an increase of 0.4% YoY. Global operations revenues are Rs. 1,062 Cr, an increase of 5.5% YoY. Indian operations revenue growth was partly affected on account of full quarterly impact of change in IUC and roaming charges and seasonality factors.
- **EBIDTA margin:** Our EBITDA margin continues to remain healthy at 33.3% in Q2.
- **Cash Flow:** RCOM generated operational cash flow (EBITDA) of Rs. 1,782 Cr in Q2, paid net finance charges of Rs. 711Cr and invested Rs. 862 Cr on capex during the quarter.
- **RPM & ARPU:** In Q2, overall RPM has increased to 45 paisa; a YoY growth of 0.9%. ARPU for the quarter is Rs. 138 up by 0.7 % YoY. Total MoU for the quarter is 102.5 Bn, up 0.4% YoY.

- **Data Subs & Traffic:** Total data traffic was 97.3 Billion MB in Q2, up 48% Y-o-Y. Our data growth has been robust - overall data customer base has grown by 25.3% YoY to 37.2 million.

Given that the second quarter is a seasonally weak quarter for the industry, this is a satisfying performance. The stable performance in a seasonally weak quarter was achieved due to our impressive performance in data, focus on paid & profitable minutes and stabilization in our CDMA revenues and continuing leadership in our B2B businesses.

Let me now talk about the recent announcement of the de-merger of Sistema's Indian wireless business into RCOM

We signed the definitive documents for demerger of Sistema's Indian wireless business carried on by SSTL under the MTS brand into RCOM marking the 1st major consolidation in the Indian Telecom Industry. Key highlights of the deal are:

1. RCOM will acquire approx. 9 Mn customers who represent annual revenues of nearly Rs.1500 Cr
2. The merger will result in RCOM being the largest holder of the superior 800/850 MHz band spectrum aggregating 148.75 MHz
3. The merger will enable RCOM to extend the validity of 800/850 MHz spectrum holding in 8 circles by a period of 12 years from 20121 to 2023. The major circles that stand to benefit are Delhi, Gujarat, Kolkata, Karnataka, Tamil Nadu & Kerala
4. As a result of the demerger, SSTL will acquire and hold a 10% equity stake in RCOM
5. Prior to closing of the transaction, SSTL will pay off its existing debt
6. The closing of the transaction is expected in the second quarter of 2016 subject to regulatory and other required approvals

We are delighted to welcome SSTL as a partner and strategic investor. The alignment of proven strengths of SSTL, especially in wireless data will expand RCOM's capabilities and further bolster our ability to provide world class 4G services in the future.

I am also pleased to share that we are making good progress on the strategic process for creation of India's first truly independent Tower Company.

As previously intimated to stock exchanges, Company is in the midst of a formal process for monetization of our valuable 95% + stake in Reliance Infratel, together with change of management control. Based on progress made so far, and barring unforeseen circumstances, RCOM expects to sign and announce the transaction shortly.

Other potential transactions for monetization of valuable real estate owned by RCOM are also progressing well. These transactions will lead to substantial reduction of RCOM's overall debt, and greatly strengthen the Company's Balance Sheet, creating a robust platform for renewed growth in the years to come.

The last few months have been witness to some very important regulatory developments and I want to take this opportunity to share our viewpoints on the same

Spectrum sharing & trading

The Company welcomes the approval granted by the Union Cabinet to policies for Trading and Sharing of spectrum. The detailed guidelines for Spectrum Sharing and Spectrum Trading have been published on 24thSeptember-15 & 12th October-15 respectively. These policies spell several benefits for the sector

- Optimal utilization of the scarce resources of spectrum available with various operators;
- Removal of duplication of capex by different operators for rollout of services;
- Improvement in coverage and Quality of Service for customers

- Monetization of investments already made in acquisition of spectrum, leading to reduction in leverage of various players

DoT Recommendations on Call Drops

On 16th October 2015, TRAI issued the 'Telecom Consumers Protection (Ninth Amendment) Regulations, 2015' wherein operators are obligated to compensate the subscriber @ Rs 1 per call drop subject a maximum of Rs 3 per day.

All operators, including RCOM, represented by the COAI & AUSPI have expressed their reservations on the recommended regulation. Post Operators' meeting with the Chairman, TRAI on 29th Oct 2015, TRAI has directed that the regulation be implemented by Jan 01, 2016. Further joint industry action is under consideration.

RCOM's strategic partnership with Reliance Jio

As announced by our Chairman, Mr. Anil D. Ambani at the recent AGM, RCOM commenced on the journey of its strategic partnership with Reliance Jio in April 2013. The partnership already covers a large number of areas. -

- Sharing of Towers
- Sharing of Inter-City and Intra-City Optic Fibre
- Sharing of Bandwidth
- Sharing of infrastructure for Points-of-Interconnect (POIs)
- Sharing of Ducts

The recent announcement of Trading and Sharing policies by the Government has now set the stage to take our partnership to the next level of co-operation.

RCOM is the only operator in India to hold, on a nationwide basis, 5 MHz or more of the most valuable 800 - 850 band spectrum. This spectrum is ideally suited for the launch of the 1st truly world class 4G / LTE services in India, and has the ability to provide a distinct competitive edge in terms of quality, coverage and pricing.

The Company is at an advanced stage of discussions for finalizing nationwide Trading and Sharing arrangements between RCOM and Reliance Jio in the 800 -

850 MHz band, in line with the new policies of DoT. **Further announcements are expected to be made shortly.**

Now moving on to business highlights, we shall start off with the consumer space.

India's data story continues unflagging. Mobile Internet connections have doubled already in the last 2 years and given the trends shall comfortably further double in the next 3-4 years. We stand at nearly 25% internet penetration in the country and the headroom for overall growth is very significant driven by device pricing and affordability, network availability & explosive growth of the new economy.

Smartphone shipments continue to grow at a very healthy clip, having grown over 20% Y-o-Y. More than 1 of every 3 phones sold now is a smartphone. That is a critical enabler of the evolving data story. Also, significantly, LTE enabled handsets now account for 1 of every 3 smartphone sold, a clear indicator of growing market maturity and readiness for the next generation of wireless data services.

RCOM is well entrenched in terms of both its network & spectrum holdings to cater to this growth in mobile broadband. As you are aware, our 2100 MHz 3G footprint extends across 18 circles. We have the best sub GHz spectrum portfolio in the 850 MHz band with its inherently superior propagation characteristics and the only operator with a national footprint in this band. Our advantage has further been bolstered with the spectrum gained through the de-merger of Sistema's India's operations into RCOM.

Globally, this band has been found to be one of the best if not the best suited for commercial 4G deployments with a very healthy supporting ecosystem that is developing rapidly. It accounts for upwards of 21% of all global LTE deployments with over 1200+ compatible devices.

This enviable spectrum bank is supported by our best in class fiberised 100 Mbps backhaul ensuring the lowest latency and superior customer experience. This clearly is a significant edge as we usher in next phase of high speed data growth.

Your company is very well placed in terms of both 3G & future 4G services.

The pillars of our data strategy revolve around recruiting more smartphone customers, getting non-data users into the data fold and moving existing data users up the consumption value chain.

- RCOM has steadily been putting together a formidable data play, offering a range of smartphones across price bands with tie-ups with a number of Indian and Global brands as well as innovating around device propositions by bringing in the WiPod range etc.
- We continue to expand the wireless data universe through our joint initiatives with Facebook and also pursue lowering the barriers for high speed wireless experience especially for price sensitive customers with our extremely competitive 3G offerings.
- RCOM continued on its path of customer delight innovation with the launch of MyStore *129# portal, a OneStop Mall for subscribers to choose single/multiple packs from a wide range of choices and enjoy calls at best rates, get higher Talktime, higher data benefits along with personalized offerings.
- To address the info-entertainment needs of customers during the India – South Africa Cricket series and ISL, RCOM has made available relevant content on RWorld. Customers can stream and download match schedule, scores, videos of important match moments etc by subscribing to weekly data packs.
- RCOM joined its customers in celebrating the festivals of India through “MahaUtsav”. On the auspicious festivals of Ganeshotsav, Onam and Janmashtami, RCOM offered devotional and relevant popular bollywood songs, arti, shlokas, caller tunes, wall papers, live streaming ,exciting contests and more through its voice portal 543219, WAP and SMS short code.
- Customer experience is the most important pillar which shall define leadership in the consumer digital space. And a key ingredient of that is to be where the customer is. RCOM was the first operator in Asia to take customer care to Twitter with its Twitter care offering.

All in all, we are making significant strides in our participation in the exciting data story that continues to unfold in the country with our continuing innovations in product, service, device and customer experience backed by our unparalleled network assets

Our concerted data focused consumer strategy execution across segments continues to show impressive results with 3G data subs having grown 26.5% YoY to touch 19.1 Million subscribers. Additionally, our data usage per customer, already the highest in the industry, has further grown by 18.8% YoY to touch 894 Mb/Sub

Moving on to the Enterprise, Carrier & GCX segments

Our robust B2B business achieved another quarter of impressive performance. In addition to building on opportunities with existing customers over the quarter, GCX & RCOM (Enterprise) also added a significant number of new logos to our customer base.

During the quarter, we continued to see healthy growth in our B2B business as we continue to expand our infrastructure and enhance our strategic Cloud X portfolio. We are aggressively moving forward in rebuilding our business for long term sustainable growth across our new transformational Cloud ecosystem.

I would want to share some key highlights for the quarter

- We expanded our Singapore-India connectivity to meet soaring bandwidth demands of new cloud based applications and services. The acquired capacity on the TIC cable between Singapore and Chennai will be extended across the seven Indian Capital Cities. This terrestrial and submarine network will play a key role in Reliance's expansion of its Cloud Xchange (Cloud X) nodes which will be the terminal points across this new network.
- We announced a partnership with Jasper to enable enterprises throughout India to launch, manage and monetize Next-Generation IoT businesses.

This partnership pairs the capabilities of Reliance's 11 data center facilities and its Cloud X[®] platform with Jasper's global IoT services platform to support enterprises in delivering IoT services. This also marks another step forward in delivering the infrastructure and IoT platform required to facilitate the diverse array of projects under the Government of India's 'Digital India' initiative.

- We further enhanced the performance and scale of our network through a partnership with Zscaler. The integration of GCX's network with Zscaler's Internet Security Platform not only provides security for the 'Everywhere Enterprise', it also enhances GCX's existing portfolio of managed security solutions, adding an extra layer of security for organizations worldwide to deploy new, cost-effective cloud services in ever evolving IT environments.

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

In conclusion, let me reiterate the following.

- The 1st major consolidation in the Indian telecom sector b/w RCOM & SSTL is a huge positive for RCOM to extend 800/850 MHz spectrum validity in 8 important circles, deliver superior wireless data and bolster its 4G ready spectrum assets.
- RCOM and Reliance Jio are in advanced stages of discussion regarding the nationwide sharing & trading of spectrum in the 800/850 MHz band pursuant to DoT's notifications of guidelines.
- RCOM continues to bolster its presence in both consumer and enterprise space in a collaborative approach with world leading players.
- RCOM is actively pursuing its strategic goals around asset light expansion for business growth and deleveraging- including sale of controlling stake in

the tower business; to achieve continuous enhancement of value for stakeholders.

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

Operator

Sure, sir. First in line we have question from Mr. Sachin Salgaonkar, from Bank of America. You may go ahead, please.

Sachin Salgaonkar

Hi. Thank you for the opportunity. I have three questions. First question is your India revenue growth at 0.4% year-on-year was lower than the peers, namely Bharti and Idea. Just wanted to understand a bit more on this, can you explain the mix between CDMA and GSM and are we done with most of the decline in CDMA here? Question two is on LTE ecosystem. Currently most of the phones which are coming in India, which work on LTE, are 1,800 MHz band, and 2,300 MHz band compatible. So, any thoughts on, when we could see the 800 LTE ecosystem developing? And third question is a timeline on when we could hear on liberalization of your 800 MHz spectrum, and what happens to the CDMA subscribers on this band? Thanks.

Gurdeep Singh

Thanks Sachin. India revenue growth of 0.4% year-on-year is reflective of two things. A, it's a seasonally weak quarter and B, this quarter also has full impact of changes in the IUC and roaming charges. And third, out of the four preceding quarters, we have seen the CDMA revenue decline over the first two quarters, and then we have seen stability of the CDMA revenue, in the recent two quarters. I would say, yes, we are done with most of the CDMA plateauing of the revenue with having successfully arrested the decline and now we see a steady future forward, particularly riding on the back of the success of Wi-Pod as was elucidated in the earnings speech, so that's the answer to your first question.

Second, on the LTE ecosystem, I guess the devices coming till about two or three months ago, were largely compliant with 2300 MHz and 1800 MHz bands. But you'll be surprised to know that there are 64 models of various phones today available in India, which support 850 LTE. The information that we have from the device makers and the ODMs is that the devices shipped in for this quarter and the quarter from January onwards will support all the three bands of 2300 MHz, 1800 MHz and 850 MHz. Hence there is going to be no differentiation between particular bands of the LTE.

That also brings in good news, because going forward the ecosystem will quickly travel down to the entry level handsets. And probably, the way we see it in a year from now and may be lesser, which is to say in April-May-June quarter next year, probably LTE devices will be at a similar price level to that of the 3G entry level devices. So, in fact, there will be a complete morphing of the 3G and 4G ecosystem.

Coming to your third question of liberalizing 800 MHz, you are aware that we are in the discussions with Jio in terms of spectrum sharing and trading. So, the arrangement is currently being discussed, and we shall notify that in the due course of time.

Sachin Salgaonkar

Okay. So, Gurdeep what happens to the CDMA subscribers on these bands?

Gurdeep Singh

Well, naturally if you are on 800 MHz band today and you are moving to 850 MHz band, depending on the arrangement that we have with Jio in terms of spectrum sharing and trading, you may have two scenarios in the circles; where you have more than 5 megahertz versus just 5 megahertz. So, there could be a migration -- complete migration of CDMA into LTE coming on the back of the falling prices of LTE ecosystem in case of 5 MHz circles, or CDMA could concurrently run for a while in parallel in case of more than 5 MHz spectrum. So, this will depend upon a circle to circle strategy.

Sachin Salgaonkar

And are you looking to subsidize the handsets to help migrate consumers from CDMA to LTE?

Gurdeep Singh

Well it's too early to say. But I think gone are the days of subsidizing devices. I think ecosystem in itself is taking care of the affordability, and it's more to do with the experience of what technology can do. And we are very confident that every subsequent technology takes lesser time for adoption. I think we will see some leapfrogging happening here from 2G direct to 4G or maybe a few months in 3G and then migrating to 4G.

Sachin Salgaonkar

Okay. So, one small follow up on the first question. Now clearly even Bharti and Idea had the same seasonality impact, and interconnect rate impact. But still they did show a stronger revenue growth than you guys.

So, just wanted to understand a little bit more, is it completely because of the CDMA revenue decline and going forward we could see the growth for RCom to be in line with the industry growth or could be it two or three quarters more before the things start improving?

Gurdeep Singh

It will be in two parts and I will invite my colleague Bill to share a thought as well. Let me talk about the wireless business. CDMA's worst phase is behind us, and now it's stable. Going forward, it only adds to the growth, but yes, I may caution that CDMA growth may not be in the same line as our GSM business growth. GSM is now ~76% of the revenue and ~24% comes from CDMA. The 76% part of the business continues to grow much in line with the market. Coming in the festival quarters, you should see a better growth performance from our wireless business. I may ask Bill to add, because the Indian operations include the Enterprise as well.

William Barney

Thanks, Gurdeep. As you compare us to our peers, we have a fairly sizeable fixed line voice business and we did have an impact of the IUC charges that came from the fourth quarter last year play through the first two quarters this year. That impact will not be there going forward, and it will be equalized out. But that actually did impact us in the first two quarters of the year. And so you'll see that also has put a little bit of pressure on the numbers, especially in the Indian Enterprise business. That's a negative impact, but the positive is that our voice traffic has been growing in the last quarter and our data usage has also climbed and we've actually grown in the data portion of the business sequentially.

Sachin Salgaonkar

This is very helpful, Gurdeep and Bill. Bill, one short follow-up, are you seeing an impact of VoIP on your enterprise voice business or not so much?

William Barney

I'd say it's still in an early stage. We're also very strongly pushing into this space. We will actually be launching a new service in this quarter to compete with voice over IP. But it's not that significant in the grand scheme of things. We still see very significant growth in the enterprise space in the voice business going forward.

Sachin Salgaonkar

Thank you. And all the best for the future.

Operator

Thank you, sir. Next in line we have Piyush Choudhary from CIMB. You may go ahead please.

Piyush Choudhary

Thanks a lot. A couple of questions. Firstly just following up on this 800 MHz liberalization, could you update us on how many circles you've applied, and what's the likely payout for this, for the remaining period?

Punit Garg

We have already submitted application for 8 circles. We are submitting applications for another 11 circles. You know that we have bought spectrum in this 2015 auction in two circles of Assam and Northeast, in 800 MHz band. So that would make 21 circles totally liberalized. Out of the 19 circles, if I look at 18 circles, the life is up to September 2021. And in one circle which is J&K, we have life until 2024.

Piyush Choudhary

So what's the expected pay-out for this?

Punit Garg

It would be in the range of INR 6,000 crore.

Piyush Choudhary

Okay. And just to clarify over here, the three circles, which is Karnataka, Tamil Nadu and Kerala, where we don't have a price discovery in March 2015 auctions, would the liberalization be based on March 2013 spectrum prices?

Punit Garg

If you look at the guidelines issued for liberalization, it very clearly state that wherever the auction has taken place recently, the recent prices would apply or if the auctions are more than one year old, then the SBI base rate would be applied as indexation rate. In these three circles, auction has taken place in 2013. So government either may choose to apply the reserve price of this auction or may apply the SBI base rate for indexation.

Piyush Choudhary

Thanks a lot. And secondly, on the SSSL merger, could you help us what are the cost synergies which you have identified like the quantum or when will that company reach our company-level EBITDA margin, some timelines over there? Thank you.

Gurdeep Singh

We take over nearly INR 1,500 crore of revenue from SSSL, which helps us to improve our market share. Naturally, today both of them are run as separate networks and separate entities, so when we combine the operations there'll be network synergy. And since go-to-market happens to be in the areas where we are currently present, we can optimize on our distribution and retail channels. The way we look at it is that there should be 30% to 40% gain in terms of operational synergies.

Piyush Choudhary

Okay. And if I may ask one last question, the depreciation and amortization were down quarter-on-quarter. Any particular thing and how should we read it going ahead?

Anil Ladha

Depreciation is marginally down in this quarter, primarily because of some expiry of the utility equipments' life and customer premises equipment etc. So broadly going forward, the depreciation would be in this range.

Piyush Choudhary

Okay. Thanks a lot. And all the best.

Operator

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

Rajiv Sharma

Thank you for the opportunity. Just a few questions, one is that you know you were not able to renew 900 MHz in few circles. So what is the impact you see of losing that revenue? And in a few circles you have a backup 1,800 MHz, so what is the likely impact and what are your plans for the transition?

Gurdeep Singh

These are five circles, out of which in three we chose not to renew 900 MHz and in two we chose to swap the frequency to 1,800 MHz band. Clearly there was a well-planned auction strategy behind this. We made four new acquisitions of spectrum in Assam, North East we bought in 850 MHz band, Orissa and North East, we also bought 1800 MHz spectrum. We followed this strategy given that we have a continuing 3G and a continuing 800 MHz. And as we increasingly get into the data play, this is probably time to reinvent the system. So not undermining the fact that we have a continuing business and continuing ICR arrangements, we now have a renewed thrust on reinventing our business for the future. We are discussing various arrangements for making the best use of 850 MHz band or a Band 5 spectrum as we go forward.

Rajiv Sharma

So if you first could quantify the impact as to how many subscribers were there in 900 MHz and what is the revenue and EBITDA impact from this -post this expiry because I think it's the next quarter when you will see the full impact?

Gurdeep Singh

I may not have the numbers right now to talk with the details. All that we can say is that, as we move into reinventing our business proposition in these five circles, you will see us rolling our various initiatives post Diwali. We are very clear in our perspective that we want to place thrust on data. We are looking at industry as a universe to upgrade our data profile and data users who also happen to be non-interconnect and high margin customers, and in addition continue our thrust on

3G and underlying voice thereof. Taking the benefit of ICR arrangements, we see business continuity, business solidification and move towards going fast forward in terms of being many firsts in those areas.

Rajiv Sharma

Okay. My follow-up question is on this CDMA 800 MHz liberalization. So SSTL and DoT are in dispute with each other on the CDMA pricing, the 800 MHz pricing, whether it was for contiguous blocks or not. So how does that impact your liberalization payout in these eight circles because now that we've applied for 19 circles liberalization. Do you think 800 MHz liberalization could take time because the dispute between SSTL and DoT is still in courts and it is only post that you can get it or you can get it in a month's time?

Punit Garg

Number one, SSTL dispute is nothing to do with the liberalization of 800 MHz spectrum of RCom, these are two independent decisions of DoT. For liberalizing the RCom's administratively allocated spectrum DoT has issued a policy on 5th of November, which is very clear without any ambiguity, that's number one.

Rajiv Sharma

Punit, my question is that three circles Karnataka, Tamil Nadu, Kerala where there was no auction after 2013 and this pricing itself is under dispute, so in these three circles, can you liberalize, is there enough clarity?

Punit Garg

The clarity is 100% there, because the policy is very clear, which DoT has issued. Number two, in SSTL, dispute is not about the pricing, it is about the contiguity, and which has been challenged in the court. It has no impact whatsoever on RCom liberalizing its spectrum in 19 circles.

Gurdeep Singh

Just to add, in the three cycles, Karnataka, Tamil Nadu, Kerala, the DoT's policy is very clear. They may choose to either stick with 2013 auction price or on that auction price add-on to the SBI base rate for indexation to make it current. So, either of the two, is the option with DoT.

Rajiv Sharma

Okay. And just on the overall business, the wireless EBITDA, it's on a declining trend. We started with 17 billion and we are now at 16 billion. So, and with this whole MTS thing, we could see further dilution. So, what's the trajectory on the wireless EBITDA? And with the 1800 MHz coming in versus 900 MHz in few circles, will there be an increase in cost or near-term CapEx and what's your CapEx guidance for the full year?

Gurdeep Singh

Our CapEx guidance for the full year is in the range of INR 3,000 crore. But again, coming to rolling out of 1800 MHz versus 900 MHz, as I already said that we have continuing ICR, we have our own 3G, and we have a continuing 800 MHz. So, we will chose the most optimal and economical method of reaching out to our customers, and improving our top line and bottom line.

If you look at wireless EBITDA, we just had gone through a seasonally weak quarter. And we are now into the festivities period going forward. Our wireless EBITDA, in line with the revenue, in absolute terms, should only be looking up, as we are getting into the best of the season. In line with the seasonality, as the top-line moves up, we would only be looking at a healthier EBITDA versus peers.

Rajiv Sharma

Okay. And one last question on the continuing ICR arrangement. So, if you lose 900 MHz, can you still have an ICR on 900 MHz with anyone?

Punit Garg

In the three circles specifically, we have 3G over there. So the subscriber will be on the 3G plan and 3G network, and a 3G can do an ICR with 2G as backup. These norms have been established in the industry, and it is being followed by everyone in the industry.

Gurdeep Singh

Just to add this is the first precedent where you have a continuing 3G and an 800 MHz band morphing into the LTE. Unlike a pure play 2G operator in a market who has no other spectrum, we have consumers who use our 3G services and are incrementally taking up at a breakneck speed and they will continue to get voice and data from us as we go forward.

Rajiv Sharma

Okay. That's very helpful. Wish you all very happy Diwali. Thank you so much.

Operator

Thank you, Mr. Rajiv. Next in line we have Mr. Vinay Jaising from Morgan Stanley. You may go ahead please.

Vinay Jaising

Thank you for the opportunity. A couple of questions from me, most of them are partly addressed, so apologies for the repetition. We've been discussing a lot on how the rest of the industry has grown domestically. My question is on the data front. We've seen a bit of slowdown on the overall growth of data for the industry and RCom seems to have grown even a bit lesser in terms of volumes. This is not about voice, not about cyclicalities, this is about data growth. Why is this? You did mention CapEx in the last quarter. So, if you look at the CapEx in the last quarter and compare it to the other operators, it's much lower. So, is it that CapEx is driving lower growth and once we get the CapEx in or once the monetization happens, then we get better growth? That's my first question.

Second, you did mention lumpy growth or lumpy ordering in the global part of the business. What seems to be playing out here, not on the margin front, but the top line. And, any thoughts about how do we look at it out there? Third question on tower deal, last quarter, I think, you mentioned about some timelines of tower, what's happened there? We've heard about Viom and American Tower tying up, does that reduce or increase the likelihood of tower monetization? Finally, in terms of RJio, when do we see any quantum of money coming in? Or is it already coming in? Anything you can quantify there would be extremely helpful? Thank you.

Gurdeep Singh

Thanks, Vinay. I will take a couple of them, and then I'll request my colleague Bill to join in.

Firstly, on the data growth, you are right, our data growth is a bit slower than the way the market has moved, but the reason is not any lack of go-to-market, or market share. As you remember, two years ago, we had gone on 3G at 2G rates, and that was done to get a disproportionate share of devices on our network, and to attain a critical mass quickly. I think having done that, over the past six months, we have been moderating our tariffs between 3G and 2G, and that would have led to initial bit of a tapering down of the consumption, which I will take it as a healthy trend because then our yield and other parameters begin to look up. So, you will see no further quarter of data traffic slowdown because we've already taken the hit on account of moderating the tariff between 3G and 2G.

We have narrowed the gap in the sense that we have moved up the 3G price, and separated it from 2G. So that tariff does lead to a little bit of moderation on the consumption per customer.

But subscriber acquisition continues unabated, that's one.

Second is on the tower deal, well, as we have said and stated at the stock exchange and the other forums, we're well on our way to create the India's first

truly independent tower company. We are in advanced stages of discussion and we will certainly notify the outcome in the coming couple of weeks.

So that is second.

Third was on the R Jio, as we have stated multiple times and I will repeat once again, we have a strict confidentiality clause in our contract, although it is right to say that some amount of rentals and proceeds against R Jio towers has started coming in, but full impact and how much it is to exactly quantify can only be done once Jio goes commercial and they have launched.

Vinay Jaising

Just a small question out here, with something coming in, I'm assuming that would have reduced the cyclicity this quarter. Despite that the cyclicity this quarter was quite profound compared to the rest of the operators, that's the reason, why I asked the question. I'm happy to wait here for the next quarter to get the answer on R Jio.

Gurdeep Singh

Cyclicity is most seen because of the four quarters ago CDMA revenue table versus the last quarter. The CDMA revenue table is lower, because it was getting lower in the initial two quarters. So it will impact your overall revenue growth, but if you see the four quarters in future, probably we'll not be talking the same.

Bill Barney

On the Global business, the biggest change is in the form of IRUs. And right now roughly 40% to 45% of our IRU traffic comes out of the Middle East. And obviously, Ramadan came in the middle of this quarter, it did impact us. We actually did close quite a bit right at the end of the close of the quarter. So, we're pretty optimistic, as in Q3 we will be back online with the IRU guidance that we gave for the year both to our GCX bondholders, and also to the markets. So, I think you'll see that we're actually on track and actually we plan to be either close

or exceed last year's IRU numbers. These are typically one-time deals. Last year we had a bumper first quarter and then we have very slow second quarter as well and then that grew in the third. It's a cyclical business. Typically these contracts come in sort of US\$20 million blocks. And so they do tend to straddle different quarters. So far in this quarter we should be back on track.

Vinay Jaising

Okay. Thank you so much.

Operator

Thank you, Mr. Vinay. Next in line we have Mr. Aditya Soman from Goldman Sachs. You may go ahead please.

Aditya Soman

Hi. Most of my questions have been answered. I just have one question on the CapEx guidance. So you've raised the CapEx guidance to about INR 3,000 crore for the year. Do you expect this number to go up further if you need to rollout LTE faster or in the subsequent years as you sort of extend your LTE rollout?

Gurdeep Singh

The current CapEx numbers which are revised upwards reflect strengthening of our backend packet core and transportation in order to take up more data traffic as we go forward. Certainly they are not reflective of any LTE plans as yet, but some of the backend elements are irrespective and needs to be beefed up.

Aditya Soman

Okay. I understand. Thank you.

Operator

Thank you, sir. Next in line we have Mr. Srinivas Rao from Deutsche Bank. You may go ahead, please.

Srinivas Rao

Thank you very much. My first question is on the global business where EBIT margins have been quite low for a very long time. They're ranging between 2.5% to probably 4% which is quite low. So the first question is - is there a visibility around when these margins can maybe go up to probably a level of 10% odd because at least my guess is that at this margin it's not earning its cost of capital. So that's the first question.

Second, just wanted to clarify on your notes to accounts that are suggesting right now that the loss on account of the Forex variation on your assets or foreign currency impact has not been taken in your balance sheet also for this quarter. So I just want to double check, am I correct on that?

And the third question is, again just confirming, there is an increase in the pledge of the promoter shareholding as per your filing, am I correct in reading that and is there any visibility what has the pledge gone into? Thank you.

Manikantan Iyer

On first, let me take the foreign exchange variation, fluctuation that is not debited to the profit & loss account, as is given in the notes to the stock exchange. This amount, the company has been permitted by the scheme to withdraw from the reserves at the year end. So it is withdrawable as of September and hence it is not debited to the profit & loss account.

Srinivas Rao

Okay. And then what has been the accounting entry, have you actually debited the general reserve for this?

Manikantan Iyer

It is withdrawable, but we will keep this in abeyance because our board is empowered under this scheme to withdraw it in year-end. So we will keep it in abeyance, that's why the note is very clear on the withdrawable.

Srinivas Rao

And then second on -- just clarifying on that, I mean I'll rephrase my question on the global business. The EBIT, which is disclosed for the global operations, and of that -- that number for this quarter is about 304 million, translates into an EBIT margin on its top-line at about 3%. Now this looks low -- now one possibility is that the global business has a very large outgo and hence the net revenues are different. So, just want to understand the profitability of the global operations and is it likely to improve from the current levels?

Manikantan Iyer

For that we have to correct your position. The EBIT margin on the global business for this quarter is 6.9%.

It was 3% last year September 2014. Right now it is 6.9%. This has fluctuated by the IRUs which is coming in. The IRUs are coming in for the fiber tranche. We completely write-off the fiber tranche as and when we book the IRUs. Any additional capacity comes in on the same fiber, will be a direct accrual to our EBIT, as that particular asset has been written off and only the electronic is added, that increases the capacity.

Maybe by March it will cross around 9% to 10%. I'm not giving any forward-looking statement but I'm just trying to show that as and when we recognize the 100% of the revenue we also depreciate 100% of that particular fiber tranche. So, if you look at it September 14 versus September 15, EBIT has gone up from 3% to 6.9%.

Srinivas Rao

This is really helpful.

Rory Cole

Global operations include our international long distance voice business, which is about one-third of the revenue. Two-thirds of the revenue is data revenue, which

has a much higher margin. The lower margin voice business is running at about 10% to 12% EBITDA margins.

But we don't invest money in our international long distance voice business. It enjoys the connectivity that we have, because of our domestic wireless network across the country. We use that network to terminate international voice call traffic.

Srinivas Rao

Thanks. I will come back for more questions. Thank you.

Operator

Thank you, sir. Next in line, we have Mr. Sanjay Chawla from JM Financial. You may go ahead, please.

Sanjay Chawla

Hi. Good afternoon. Thank you for the opportunity. My question is on the spectrum purchase that you did in March 2015. How has that been accounted for in the first quarter; the INR 4,300 crore in total purchase cost of which INR 1,100 crore was paid up-front by the company. And also secondly, the remaining INR 32 billion it seems that you've taken that into the balance sheet now. It doesn't seem to be reflecting in your net debt number, so where is this showing up in the liability side and correspondingly on the asset side?

Manikantan Iyer

Spectrum is shown in the asset side, in fixed assets, and hence net fixed assets have gone up by INR 4,583 crore. It is in CWIP and includes the interest capitalized. INR 1100 crore which was paid upfront was included in the loans and advances in that quarter before being transferred to CWIP in this quarter.

Sanjay Chawla

But it's not reflecting in the net debt sir, is it in the current liabilities now on the debt side? And in your reported net debt which is INR 39,900 crore, do we need to add INR 3,200 crore or to get the effective net debt?

Manikantan Iyer

It is part of current liabilities and net debt of Rs39,900 crore does not include the same.

Sanjay Chawla

Ok, got that. And just one more question. In your CapEx numbers, you have reported INR 5,300 crore. Is it that the entire INR 4,500 crore included in this quarter?

Manikantan Iyer

Yes. We've paid Rs1100crore in the first quarter of FY16 while the other operators paid on 31st March in the previous financial year. Hence, there is a minor difference between other operators and us in the timing. The total amount has been capitalized during this quarter.

Sanjay Chawla

Ok, Thank you very much.

Operator

Thank you, sir. Next in line we have Mr. Pranav Kshatriya from Edelweiss. You may go ahead please.

Pranav Kshatriya

Thank you for the opportunity sir. I have two questions only. Firstly, on the acquisition of SSTL, in the press release it was clearly mentioned that any spectrum liabilities if they come up will have to be borne by SSTL. I just wanted

to ask that if you liberalized that spectrum because you're planning to launch LTE on that, the cost of that will be borne by SSTL or it will be borne by Reliance Communications?

Secondly, on Global business, how do you see the growth? If I adjust for the currency variation, then the revenue growth trajectory has been negative for a while. So, how do you see this going ahead?

Punit Garg

I'll answer your first question, and Bill will take up the second question. Let me just bring in some clarity about the SSTL spectrum. Number one, SSTL acquired this spectrum from 2013 auction. As per M&A policy, any spectrum which is acquired through the auction, there is no liberalization charge or any differential to be paid, for which M&A guidelines clauses 3i and 3m are very clear.

Number two, there is a court case pending with DoT, which is about the contiguity of the spectrum. So there is no liberalization applicable. And if the court decides this case in favor of SSTL, which I'm sure they would, because the DoT requirement / action right now of not providing contiguity to SSTL is unjustified and untenable. This is because; the NIA of 2013 is very clear and provide right for contiguity or rearrangement of frequencies without any additional charges.

So, this is like applying the retrospective charges like it has been done for the other telcos, which I'm sure that court will set aside as a demand. So, we believe there is nothing payable. In case if there is something payable, SSTL has reserved the right under their bilateral Indo-Russian Treaty to take it to the International Court.

Bill Barney

You mentioned that the Global business has declined but it has actually grown in four to six quarters on a currency adjusted basis. Typically in the second quarter, we do have lower voice traffic and this quarter we actually have lower IRU traffic. But we're pretty confident, we'll continue to see growth and we have seen growth

over the last six quarters. Also, there are multiple currencies that play into this, the rupee, the dollar, and the euro; all three impacted the Global business. But on a currency adjusted basis, we have been growing in the majority of the last six quarters on an average basis. We're pretty confident we'll see growth in this next quarter and the following quarter as well. But obviously, there will be headwinds in each quarter impacted by the rupee moves against the dollar and against the euro.

Pranav Kshatriya

Okay. Thank you. That's it from my side.

Operator

Thank you, sir. Next, in line, we have Mr. Harsh Agarwal from Deutsche Bank. You may go ahead, please.

Harsh Agarwal

I had two or three very quick questions. One, can you tell us of the foreign currency debt that you have about INR 26,800 crore. How much of that has been hedged as of 30th September, please?

Anil Ladha

We follow a policy of short to medium term hedging of up to 6 to 12 months. We also have the natural hedge in the form of U.S. dollar revenue in our Global business. Those revenues take care of part of this hedging requirement.

Harsh Agarwal

Second question I had was, can you tell us, in the first half, when I see your cash flows, your total outgo on your CapEx is about INR 4,000 crore. I am assuming part of that could be the spectrum payment that you made in April. And then your full year guidance is about INR 3,000 crore. It seems like almost all the CapEx for the year has been spent already in the first half of this year. Can you just help

clarify on the numbers in terms of what was the CapEx spend in the first half excluding the spectrum charges?

Manikantan Iyer

The INR 3,000 crore capex guidance is other than spectrum payment.

Harsh Agarwal

Can you breakdown the INR 4,000 crore in the first half into how much was spectrum versus non-spectrum?

Manikantan Iyer

Non-spectrum will be very limited less than INR 700 odd crore, but majority is spectrum. It is on the back-end packet core and all the other upgrades which are happening including fiberisation for gearing up the network.

Harsh Agarwal

Okay. The last question I had was, can you give us any color on what's happening with the planned sale of part of the stake in GCX, please? Thank you.

Bill Barney

We continue to have discussions on GCX with multiple parties and we continue to explore possibilities.

Operator

Thank you, sir. Next in line, we have Mr. Aditya Soman from Goldman Sachs. You may go ahead, please.

Aditya Soman

I just have one follow-up question please. Actually, in terms of your tax for this quarter, there seems to be some sort of a reversal. Can you explain what that was?

Manikantan Iyer

This reversal is in our foreign subsidiary wherein we had provided in the last quarter but we have reversed in the current quarter, upon the outcome of some of the earlier events. The amount is not significant; it is only INR 14 odd crore.

Operator

Thank you, sir. Next in line we have Mr. Sanjay Chawla from JM Financial. You may go ahead, please.

Sanjay Chawla

Thanks. Just a related question, I was trying to reconcile the change in your net debt, which has gone up by INR 1300 crore quarter-on-quarter, but you are generating a small amount of free cash flow. If I just look at cash profit and CapEx you have incurred. So, what really explains this increase in net debt, despite having it almost being free cash neutral to slightly positive this quarter?

Manikantan Iyer

Quarter-on-quarter, the net debt has gone up by around INR 1300 odd crore, predominantly due to the foreign exchange variation because foreign exchange rate for last quarter was INR 63.64, while in the current quarter it has gone up to INR 65.5. And there is minor rupee borrowing for working capital purposes.

Sanjay Chawla

Okay. Thanks. Just a final quick question from me. What is the number of 3G BTSs you have as of end September?

Anil Ladha

It's around 11,600 BTS units.

Sanjay Chawla

Okay. So, the CapEx that you are seeing, the increasing CapEx is mostly on the backhaul and transportation cost?

Anil Ladha

Yes. Going forward the 3G sites are going to increase, as we would be rolling out more 3G sites in the circles where we have discontinued 900 MHz spectrum.

Sanjay Chawla

Okay. Thank you very much and all the best.

Operator

Thank you, sir. Next in line we have Mr. Sriniv Rao from Deutsche Bank. You may go ahead please.

Srinivas Rao

Thanks, just wanted to clarify one more thing. You said that the tangible CapEx spend for the first half was around INR 700 crore and that the guidance is INR 3,000 crore. So, essentially talking about the balance INR 2,300 crore would be the CapEx for the rest of the year, would that be correct? And assuming majority of that will go into the India operations?

Anil Ladha

This quarter the CapEx is around INR 860 crore. And last quarter it was around INR 600 crore. Total first half effectively is around INR 1,400 crore which has already been incurred. And the balance of the INR 3,000 crore guidance will be incurred in the next two quarters.

And this will mostly be in the India operations business. Large part of this CapEx is for improving the backhaul capabilities of our network, and utility programs, et cetera.

Srinivas Rao

Okay. So, we are taking your CapEx for the first half at about INR 1,400 crore and seeing the total cash CapEx numbers in your cash flow is the balance number is spectrum, is that correct?

Anil Ladha

Yes, that's right.

Srinivas Rao

That's all. Thank you.

Operator

Thank you, sir. At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Vinod Sawhny for final remarks. Over to you, sir.

Vinod Sawhny

Thanks, Mamta. Well, we remain completely focused on enhancing our operational and strategic efficiencies through various initiatives that I have stated in my speech. And once again thank you all very much and we wish you a happy Diwali. Thank you.

Operator

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