



**RELIANCE COMMUNICATIONS LIMITED**

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**Transcript of Earnings Conference Call  
for the Quarter ended December 31, 2015**

**Conducted at 2.30 pm IST on January 25, 2016**

**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), 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 Third 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 January 22, 2016, our Board of Directors adopted the results for the third quarter of the financial year 2015-16 ending December 31, 2016. The Media Statement, Quarterly Report and the Results have been uploaded on our web site and I trust you have had a chance to go through the same.

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

- **PAT:** Profit After Tax for the quarter stands at Rs. 171 Cr, a Q-o-Q increase of 9.6 %.
- **Revenue & EBITDA:** Consolidated Q3 EBITDA is at Rs. 1,803 Cr, a Q-o-Q increase of 1.2%. Consolidated Q3 revenues are at Rs. 5,298 Cr, a decline of 1.1% Q-o-Q. India operations revenues are 4,651 Cr., a decline of 1.1% Q-o-Q. Global operations revenues are 1,106 Cr, an increase of 4.1% Q-o-Q. Revenue decline in Indian Operations is on account of 2G license expiry in 5 circles. However, we have successfully migrated the higher value profitable customers to 3G in these 5 circles. These circles have achieved significant improvement in network coverage & quality through ICR arrangements with Vodafone and Aircel.
- **EBITDA margin:** EBITDA margin has improved to 34% in Q3 from 33.3% in Q2
- RCOM generated operational cash flow (EBITDA) of Rs. 1,803 Cr in Q3, paid net finance charges of Rs. 681 Cr and invested Rs. 955 Cr on capex during the quarter
- **RPM & ARPU:** In Q3, overall RPM has increased to 45.2 paisa; a Q-o-Q growth of 0.9% .ARPU for the quarter is Rs. 142 up by 2.9 % Q-o-Q.

- **Data Subs & Traffic:** Total data traffic was 103.2 Billion MB in Q3, up 6% Q-o-Q and 35% Y-o-Y. Our data growth has been robust - overall data customer base has grown by 4.3% Q-o-Q and 23.6% Y-o-Y to 38.8 million.

***These results are satisfactory given the expiry of 2G licenses in 5 circles. With our ICR arrangements and successful High Value customer migration to 3G, the outlook is positive. Our performance in data remains impressive. Our focus on paid & profitable minutes, stabilization in our CDMA revenues and continuing leadership in our B2B businesses has held us in good stead this quarter.***

***RCOM has taken the lead in moving the Indian Telecom Industry towards consolidation and rationalization.***

***Last quarter, we had announced the merger of SSTL's Indian operations with RCOM to create an entity with the largest Sub GHz spectrum holding in the country marking the 1<sup>st</sup> major consolidation in the Indian Telecom Industry.***

We signed the definitive documents for demerger of Sistema's Indian wireless business carried on by SSTL under the MTS brand into RCOM in Nov-15. This merger will provide RCOM with the highest pan India holding of 800 MHz spectrum, add 9 Mn customers and add to our annual top-line by nearly Rs.1500 Cr. There shall be notable synergies in terms of Capex, Opex along with Network & Distribution reach. The merger process is on the right path with significant regulatory & legal milestones having been crossed.

***Now, taking the consolidation theme forward, let me speak about the recent announcement on the potential combination of RCOM wireless business with Aircel.***

Reliance Communications has entered into exclusive discussions with Maxis Communications Berhad (MCB) and Sindya Securities and Investments Private Limited, the shareholders of Aircel Limited, to consider the potential combination of the Indian wireless business of RCOM and Aircel to mutually derive the

expected substantial benefits of in-country consolidation, including opex and capex synergies and revenue enhancement. The potential combination will exclude RCOM's towers and optical fibre infrastructure, for which RCOM is proceeding with an asset sale, as announced on December 4, 2015. These discussions are non-binding in nature.

- The combined entity will be the fourth largest Telecom Operator with ~12% Revenue Market Share (RMS). It will be among the Top 3 by RMS in 13 of the 22 circles in the country.
- The combined entity will own approximately 20% of Industry Spectrum holding across 800/900/1800/2100/2300 MHz bands. This will allow the combined entity to have unique spectrum capability across bands for a Pan India Wireless broadband play.
- The combined network of RCOM, Aircel and MTS will also help in improving nationwide network coverage. The merger will also enable plugging the GSM coverage gap in West Bengal, Bihar, and Assam, where RCOM did not renew its 900MHz spectrum.

*In addition to leading the sector in terms of consolidation, we are also bolstering our strategic partnerships with significant positive ramifications for our financial health & future business growth.*

*Let me now dwell on the recently announced furthering of RCOM's strategic partnership with Reliance Jio.*

RCOM's strategic partnership with Reliance Jio already covers sharing in a large number of areas like Towers, Inter-City and Intra-City Optic Fibre, infrastructure for Points-of-Interconnect (POIs) and ducts.

RCOM & RJIO have now entered into an agreement covering 4G LTE services encompassing:

- Change in allotment of 800 MHz spectrum across 9 circles from RCOM to RJio.
- Sharing of spectrum in the 800 MHz band across 17 circles.

- As part of the enhanced strategic collaboration, both companies also intend to enter into reciprocal Intra Circle Roaming (ICR) arrangements wherein RCOM customers would benefit from access to RJIO's world class 4G network.

**The spectrum arrangements between RCOM & RJIO will result in network synergies, enhanced network capacity and will optimize spectrum utilization and capex efficiencies. Both operators anticipate considerable savings in operating costs and future investments in networks. Importantly, from a 4G launch perspective, it positions RCOM advantageously to offer best in class services to our customers.**

*In conjunction with the unparalleled execution of our strategies around consolidation and partnerships, we are making great strides in improving the health of our balance sheet through a slew of deleveraging measures.*

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

With a view to monetize RCOM's valuable 95% + stake in Reliance Infratel Ltd. , RCOM signed a non binding term sheet with Tillman Global Holdings and TPG Asia for the acquisition of RCOM's nationwide tower assets and related infrastructure. Under the term sheet, the specified assets are intended to be transferred from Reliance Infratel on an ongoing concern basis into a separate SPV to be owned 100% by Tillman & TPG.

RCOM will continue as an anchor tenant on the tower assets, under a long term MSA. RCOM intends to utilize the proceeds from this transaction to pare its debt. Tillman & TPG will also evaluate purchase of RCOM's extensive nationwide intercity and intracity optical fiber assets, in a separate and independent transaction.

We expect to make further announcements on this shortly.

*Other transactions for monetization of valuable real estate owned by RCOM are also progressing extremely well.*

RCOM sold nearly 150 residential flats situated at Sea Woods complex in Navi Mumbai. The transactions mark the commencement of RCOM's monetization program for surplus real estate owned by the Company. The sale consideration for the disposal of the flats at Navi Mumbai has been finalized at over Rs. 330 Cr. RCOM has already received more than 50% of the sale proceeds, and the balance amount will be realized during the current financial year, upon completion of documentation presently underway. RCOM also expects to finalize and announce plans very shortly for monetization of its valuable real estate measuring nearly 4 acres, situated at a prime location in New Delhi (just off Connaught Place, New Delhi). The entire proceeds from the monetization of real estate will be utilized by RCOM for repayment of debt, as part of its overall deleveraging plans.

**Our deleveraging plans are progressing very satisfactorily. 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.**

*Let me now touch upon some key regulatory developments over the last few months and our views on the same.*

### **Spectrum Liberalization**

Rcom had applied for liberalization of its administratively allocated spectrum in 800 MHz band in 20 circles. Accordingly, DoT raised the demand note of Rs 5,383 Cr for 16 circles, viz AP, Bihar, Delhi, Mumbai, MP, Maharashtra, Gujarat, HP, WB, UP (E), UP (W), Punjab, J&K, Haryana, Orissa and Kolkata. The same has been paid on 20 Jan 16. The Demand Notes for the balance circles are pending with DoT. RCOM now has liberalized 800 MHz spectrum in 18 of the 22 circles.

### **Consultation for Valuation of Spectrum & Differential Pricing of Data Services**

In Dec 2015, TRAI had initiated the consultation process for Pricing & Valuation of Spectrum including 700 MHz and Differential Pricing of Data services. The consultation process for both has been completed and recommendations to DoT will be sent in due course.

### **Call Drops**

On 16th Oct 15, regulations for Call Drop were issued by TRAI effective from Jan 01, 2016. AUSPI and COAI have challenged these regulations before Delhi High court. After hearing the parties at length, the Hon'ble HC has reserved the order.

### **Now let's move on to business highlights, starting off with the consumer space.**

Internet usage in India has gone up by 50% during the course of 2015 and by some accounts; the Indian online population surged past 400 Million by end of 2015. In 2015, 1 out of every 3 phones sold was a smartphone. 2016 might be the year where smartphones overtake feature phones on absolute numbers. The ASP (Average Selling Price) of a smartphone has dropped by close to 18% in under 2 years between 2013 & 2015. 3 out of every 4 smartphones shipped were priced at under Rs.10,000.

According to IDC, 4G smartphone shipments exceeded that of 3G for the 1<sup>st</sup> time last quarter representing a 3X rise in demand on an annual basis. Mobile internet is redefining the services landscape in India. The E-tail market in India is already overwhelmingly mobile dominated with over 70% of the traffic coming from mobile devices.

The next few quarters will see a paradigm shift in how services are consumed with 4G high speed access, further affordability of smartphones, better last mile connectivity and greater local content all contributing as critical enablers to the inexorable rise of digital consumerism and mobile internet services growth in Tier-2 and Tier-3 cities.



RCOM is well entrenched in terms of its network, spectrum holdings and strategic partnerships to cater to great Indian Digital growth story with an emphasis on the upcoming 4G revolution.

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 with MiFi devices like the WiPod which offer customers the inbuilt feature of both a data card and a battery bank. To enhance consumer adoption of these innovative devices, RCOM launched a 100% cashback offer bundled with 24 GB of data for high value data consumers.
- RCOM introduced a range of smartphones across brands with 4G, 3G & EVDO compatibility to enable our customers to experience best in class data speeds currently and ensure faster adoption of 4G services as and when they are launched.
- RCOM is continuously innovating through differentiated products and services with a focus on expanding data revenue base and enhancing user experience through innovative initiatives like “One India One Rate” plan, “Zero Plan”, “3G Speed @ 2G Rate”, etc. to develop ecosystem for data services to flourish.
- Continuing in the innovation vein, RCOM in partnership with Facebook launched a unique service called “Facebook Tap”. The service enables customers to enjoy Facebook without a data pack or data charges. A digital switch on customer’s Facebook page enables customers to toggle between ‘Go to Free’ and ‘View Photos’ mode. In ‘Go to Free’ mode customer can text messages & post without any data pack or charge . To view photos , customer needs to tap on the ‘View Photos’ mode for which he will be charged as per the regular data tariff. Customer behavior

analysis indicates that Facebook users have much high stickiness and ARPU than other customers

- 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 for each subscriber. During this quarter, The retailer version of \*129# was introduced to push them to recharge the customers proactively and in return, earn extra margins. This has helped further drive penetration of this segmented upsell portal
- In the festival period beginning Oct this year RCOM joined in the celebrations by introducing "Khushiyan Iss Tyohar" a pan - India contest, which offered Reliance GSM customers to participate and get a chance to win daily recharges, including mega bumper prizes of iPhone 6. To participate customer had to subscribe to any of the VAS content such as full movies, music or festive alerts which were designed in context to various festivals at special prices. This has helped develop customer engagement around content-based services..

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 38.3% YoY to touch 23.1 Million subscribers. Additionally, our data usage per customer, already the highest in the industry, has further grown by 8.5% YoY to touch 905 Mb/Sub.**

*Moving on to the Enterprise, Carrier & GCX segments:*

Our B2B businesses continued to display robust quarterly growth as we expanded our infrastructure and enhanced our strategic Cloud X portfolio. GCX& India Enterprise added a significant 22 new logos to our customer base during the quarter including the likes of PayPal and Dimension Data.

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

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

I would want to share some key highlights for the quarter

- In its first major international recognition since launch, Global Cloud Xchange won the Judges Award at the Global Carrier Awards, held on 3 November 2015, alongside the Capacity Europe in Paris, France. The award recognizes GCX for our strong presence and reputation in the emerging markets and for delivering one of the most advanced IP backbones on the market.
- Cloud X Fusion is now deployed in India to bridge the gap between public Cloud services and Enterprise networks, enabling direct connectivity between Reliance Communications/Global Cloud Xchange's global MPLS network and the world's leading Cloud platforms.
- Global Cloud Xchange announced a partnership with Broadcast Media Communications (BMC UK), following the successful broadcast of Spain vs England match on November 13 from Rico Perez Stadium in Alicante, Spain to ITV London studios. GCX's robust and expansive Global Network enabled the delivery of multiple live video feeds for ITV's coverage of the international football match to millions of fans in England while optimizing cost and network efficiencies.
- We completed significant upgrades across our global network resulting over 35% growth in IP traffic. In addition to adding more than 1 Tbps of

subsea network capacity, 110G technology is now available across all Global Cloud Xchange's cable landing stations and service PoPs.

- We further extended CLOUD X and CLOUD X Fusion to Domestic India and to Amazon Web Services in Singapore, enhancing our global coverage which extends across Asia Pacific, Europe and North America.

**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 1<sup>st</sup> major consolidation in the Indian telecom sector b/w RCOM & SSTL is well on track with the necessary legal and regulatory due diligence underway.
- RCOM continues to lead in industry consolidation. It has entered into exclusive discussions with the shareholders of Aircel Limited, to consider the potential combination of the Indian wireless business of RCOM and Aircel to mutually derive the expected substantial benefits of in-country consolidation. **This combination of RCOM , Aircel & MTS will create an entity that will be amongst the Top 3 by RMS in 13 out of 22 circles and hold nearly 20% of commercially allocated spectrum**
- RCOM & RJIO have enhanced their strategic partnership to incorporate trading of airwaves in the 800 MHz band in 9 circles and sharing of spectrum in 17 circles. RCOM also intends to enter into a reciprocal ICR arrangement with Reliance Jio which would immensely benefit RCOM customers in terms of access to RJIO's nationwide 4G network.
- Our Strategic initiatives around consolidation & partnerships will spell huge positives in terms of cost synergies, spectrum footprint, distribution reach, asset utilization and ultimately shall enable us to provide superior services to our customers with superior financial performance
- RCOM is actively pursuing its strategic goals around deleveraging and progressing well on various measures - including a controlling stake sale

in the tower business and real estate monetization; with the ultimate objective of value enhancement for our stakeholders

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

**Operator**

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

**Piyush Choudhary**

Hi, good afternoon to the management and thanks for this opportunity. I have a couple of questions. Firstly, on the Jio partnership, could you help us understand the trading arrangement, which you are doing in nine circles? What's the commercial value which RCOM would get? And for the remaining circles where there is a spectrum sharing arrangement what is the potential revenue for RCOM over a period of time?

Secondly, on the Aircel deal, if you can help us understand what could be the cost synergies? And on the spectrum side, who would be liable to pay government for the administered spectrum? Also, what is the likely debt which you are aiming for the resulting entity?

**Punit Garg**

As far as our agreement with Jio is concerned, we have done the change in spectrum allotment in nine circles from RCOM to Jio and the proceeds of nine circles has been used along with our internal resources and advances for paying up the liberalization charges for 16 circles.

As far as sharing is concerned, as per the terms, Reliance will keep its revenue and Jio would keep its revenue generated by using the shared resources. RCOM will essentially benefit from the network synergies and enhanced network

capacities resulting from optimizing the spectrum utilization, and it will also give us CapEx efficiencies. Overall it is a great advantage to RCOM from sharing across 17 circles.

**Piyush Choudhary**

You have paid to the government around Rs. 5,300 crore. So, what are the proceeds from Jio out of that?

**Punit Garg**

It is part of the confidential agreement between us and Jio and hence we cannot share this information.

**Piyush Choudhary**

Thanks Punit.

**Gurdeep Singh**

Piyush on the second one, on the Aircel merger, as you know we are in the stage of an exclusive discussion over a period of 90 days and obviously the objective of these 90 days is to figure out the synergies across the network spectrum and the market share opportunity to increase the business as a combined entity, as it becomes about 12% of market share on a combined basis. It is too early to talk about the quantum of cost and the other spectrum synergies coming out. Hence, I would suggest that you please wait till the next announcement from us in this regard.

**Piyush Choudhary**

Sure Gurdeep. And if I can ask on the MTS deal which we are pursuing, what are the next steps on the timelines, which you are looking at it now?

**Gurdeep Singh**

Piyush, as you know that we have received the approvals from the stock exchange. We are now at a stage where we have filed for the court approvals at both Mumbai and Rajasthan High Court. Along with the DoT approval, we hope to get all the necessary approvals in the next 90-120 days. So we are on track as per the schedule, and you should await the next news from us in this regard.

**Piyush Choudhary**

Okay, thanks a lot Gurdeep and all the best. I will come back to you.

**Operator**

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

**Rajiv Sharma**

Yes, thank you very much for the opportunity. I have a few questions to ask. Please help us understand the ICR arrangement with Vodafone. Is it for 2G and what is the kind of revenue share or what is the kind of structure of this arrangement? What is your CapEx guidance for this year and next year? What is the impact post the tower deal on your EBITDA??

**Gurdeep Singh**

The first on the Vodafone ICR, as you know that on the expiry of the 2G spectrum in those five circles we shifted our gear. In fact, we shifted our gear much earlier, to 3G and in the future as a 4G data company platform in those circles. We've been aggressively migrating our consumers starting September-October onto the 3G platform through various device bundling as well as tariff differentiation, which I am happy to share that it has worked well as our focus was to migrate all profitable customers on to 3G and retain all profitable towns, where the density of the 3G penetration is at a level where we could take this as an inflection point.

Naturally for a 3G consumer, when they move around within the circle and in case they hit a black spot they need an underlying 2G coverage as is being done by every other operator across the country. So keeping that in view for our 3G customers to fall back on to 2G, we entered into the 2G ICR agreement with Vodafone in these five circles and it is limited to that extent. That is one.

Second, on the CapEx guidance I think we are a bit buoyed by the migration that we did in these five circles and we are recently seeing a large off-take in the Metros and other 3G areas which are under license of Reliance Communications. I'm happy to share that we are increasing or enhancing our guidance for the CapEx spend this year, up from Rs. 3,000 crore to Rs. 4,000 crore. This CapEx will be invested in enhancing our 3G footprint and strengthening our footprint in MP-CG circle, and in fiberisation of our sites and in core network.

Third on the tower deal, what is the impact to the EBITDA and the balance sheet? I think as the discussions are at the culmination stage it will be too early for us to share the exact nuances at this moment. However, we will be happy to come back once we are closer to the announcement of the deal. Does that answer your questions Rajiv?

**Rajiv Sharma**

Yes, it does. The other question I have is that, we've seen some 9.5 million subscribers moving out of RCOM. I understand it is because of losing spectrum in 900 MHz in these five circles. But that triggered in the last month of the December quarter. So is there some more impact we've seen in January or is it all captured in these quarterly numbers and what would have been the revenue loss if this impact was extrapolated for the entire quarter, or do we see some more pain left due to this in the next couple of quarters?



**Gurdeep Singh**

Rajiv, as I shared a bit earlier we started the migration process in September itself. Much of the impact has been taken up in the last quarter. On the contrary, as we run through the month of January we are seeing a growth in the off-take of the minutes and the bytes. I would say that the pain is behind us. We are actually looking forward to the growth in the business from where we left it in December and that should be good news.

Now, we are expanding far more 3G all over the places wherever we have license, in fact, we have added 190 new towns to our 3G footprint in these five circles. So going forward the guidance remains that we are positive on the growth of revenue coming from these five circles, the pain is behind us and we are looking at consolidating our operations.

To add to this, if you look at our overall India operations performance, mainly the 17 circles, and the other businesses, they have shown a steady growth. Much of the impact is largely because of the five circles which I would say, having gone through this process, is behind us now.

**Rajiv Sharma**

That helps. Thanks a lot.

**Operator**

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

**Srinivas Rao**

Hi. Sir, I have a couple of questions. First, I just wanted to reconfirm that you have increased your CapEx guidance for this year from Rs. 3,000 crore to Rs. 4,000 crore and if that is correct, is that the level of CapEx we should assume for the next, one to two years? My second question is on the Vodafone ICR for 2G

fallback. Are you allowed to have an ICR arrangement if you do not have the same spectrum in that area? So how is the 2G ICR working out? Those are the two questions I have now, if I have more, I'll come back Sir.

**Gurdeep Singh**

Yes, the CapEx guidance for this year has been enhanced to Rs. 4,000 crore. As I said earlier, it will go towards the expansion of 3G and our footprint in MP-CG buoyed by the fact that, we're seeing a large off-take in 3G in our markets and, the device penetration is reaching at an inflection point for us to start investing for a profitable growth; and in fiber backhaul and core network. Thirdly, on your question on whether you're allowed to have a 2G ICR. Well, this is not a 2G ICR to sell to 2G services, this is a 2G ICR as a fall-back to our 3G customers should they hit a black patch in the coverage within the circle much like anybody else has.

So this is not an ICR which allows us to get a 2G subscriber on the network. We are a pure-play 3G operator in these five circles. Going forward, we wish to add 4G to our stable.

**Punit Garg**

The license, which we hold whether UL or UASL allows us to acquire the customer in the spectrum that we hold, on the technology we provide and the services we provide. So we provide voice and data service for which we are acquiring customers for 3G. However, they are allowed to use for roaming purpose and for back-up, the technology which is compatible with this. Just like a 2G customer acquired could roam on 3G, the judgement that TDSAT has upheld earlier, and which you all are aware of, this is also how the other companies are doing. The same thing is applicable for this arrangement; a 3G customer can roam on 2G. I hope this is clear, Srinivas.

**Srinivas Rao**

Yes, I just want to clarify this because I understand if I'm not mistaken the 3G agreement or the ICR which started with 3G does not allow you to acquire 3G customers actually?

**Punit Garg**

It only allows you to acquire the 2G customer, but it doesn't stop 2G customers to roam on 3G network. That has been allowed by TDSAT, and it has upheld that.

**Gurdeep Singh**

Once again, I will clear this here, because we should not have any doubts further. We are a 3G company in those five circles, as a 3G customer can fall-back on to 2G, we are only acquiring 3G customers and servicing 3G customers and their needs within the framework of the regulations.

**Srinivas Rao**

I just want to clarify one thing because there is no 2G, 3G, 4G definition in the licenses actually. Your customers are normally on 2100 megahertz, and then you have a fallback on other spectrum for voice services, will that be the correct way of thinking about it?

**Gurdeep Singh**

They have a fallback on the other voice services only when we are not able to service within the same license area.

**Srinivas Rao**

Thanks sir.

**Operator**

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

**Vinay Jaising**

Thanks for the opportunity. Sir, I have two questions. First, Punit did mention that the funding for the spectrum liberalisation, which has happened in January has been taken care by internal accruals and other proceeds or tie-ups you have with Jio. I just want to reconfirm that, the net debt has not been touched, it is the internal accruals from general operations, and net debt numbers would not change on account of this. I think the answer is obvious, but I just want to check it up. Second, I see a lot of reduction in depreciation and interest costs this quarter, just wanted to understand why this has happened. Thank you.

**Punit Garg**

It is not the internal accruals but internal resources that we have used, which means we have taken advances against various contracts, which we have signed with the customers, and the trading amount, which we have used on 20<sup>th</sup> January to pay for liberalisation. You're absolutely right about net debt that, we have not raised any debt for paying the liberalisation charges and net debt figure from this perspective remains unchanged.

**Gurdeep Singh**

Vinay, three things, the ongoing agreement with Jio, advances against the trading contract and internal arrangements has paved the way for payment towards liberalisation.

**Anil Ladha**

On depreciation, the amount has come down slightly during the quarter primarily because we have increased the useful life of some of the electronic assets in the Global business.

And interest cost has come down because of reduction in some bank charges during the quarter.

**Vinay Jaising**

Great, thank you so much. I'll come back in the queue later.

**Operator**

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

**Pranav Kshatriya**

Thanks for the opportunity. I have a few questions. Firstly, can you guide us what was the organic volume growth and the churn excluding those five circles? Secondly, there has been decline in the number of sites by around 10,600 quarter-on-quarter. Is everything related to this cancellation of licenses in five circles or there is something else as well? Thirdly, you have increased the CapEx guidance for 3G but I just wanted to understand, since we're talking so much about 4G and liberalizing the spectrum for 4G, do you think it is wise enough to invest in 3G at this point of time? And lastly can you provide any sense on how exactly should we see the growth, the Gross and EBITDA margin profile, where ICR arrangement is applicable? That's it. Thank you.

**Gurdeep Singh**

Thank you for your questions. First one on the revenue, well the overall India operations performance includes the de-growth of the five circles because of 2G license expiry. As I said earlier rest of the businesses has shown a steady growth. And since we do not provide a circle wise or business wise breakup I'll not be able to share that. Yes, it is right to assume that the site count has come down because of the 2G shutdown owing to the license expiry. Is it wise to invest in 3G at this stage when the 4G is coming up? Well, yes, we have taken a calibrated approach, we've looked at the markets where the returns on the investments can be as short as possible and we are only considering those areas today for our expansion, including the Metro of Delhi and Mumbai and Kolkata,

where due to geographical expansion of the municipal and the NCR areas, one needs to augment the networks.

The last question on the Gross margin and EBITDA impact because of the ICR, well, any ICR to a level cannot equate the margins that you get from your own business, especially depending at what stage are you taking the ICR. If you are taking the ICR at an introductory stage of your business, ICR will throw a larger profitability or will contain losses versus the own network. When you take at a maturity stage, when you are already in the market for over a period of time like we have been in those 5 eastern circles, where your revenue per geography or BTS has already reached ahead of the breakeven point, ICR is a good trade-off versus your own network, if the cost of the spectrum is also taken into account. I'll not be able to share the exact mechanics of what it is but, all I can share with you is that, it's profitable to do this ICR.

Especially against the increase in the 2G capacity being made available in the ecosystem and some price rationalization between the operators on the ICR on a per megabit and per minute basis, that is helping move the cheese on ICR.

**Pranav Kshatriya**

Okay. Thank you so much.

**Operator**

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

**Aditya Soman**

Hi, just a couple of questions on my end. Firstly, you mentioned that the site reductions that we saw this quarter were largely on the 2G expiry and we've seen some site additions in 3G, again are these new sites in the new geography, or in those geographies where your licenses are canceled?

**Gurdeep Singh**

Yes, a large part of that expansion of 3G is in the five eastern circles and now we are taking up the expansion in the balance circles in line with the growth plans that I just shared.

**Aditya Soman**

And in terms of your CapEx guidance increase, is there anything that changed between the last couple of calls and this quarter's call that the CapEx guidance increased or has this just been planned and you are just seeing a better execution? Thanks a lot.

**Gurdeep Singh**

It's coming on the back of a better execution, an evolved ecosystem and now we find it feasible to expand the 3G with respect to strengthening our overall data leadership and portfolio, keeping in view that we want to still move into the profitable areas which give a quick return on the capital employed, keeping in view that we will be launching 4G in some time to come.

**Aditya Soman**

Okay. And on this, would you have any specific guidance for the number of sites or something over the next year or a couple of years or it's too early to specify that?

**Gurdeep Singh**

It's too early to specify that.

**Operator**

Thank you, sir. Next in line we have Naveen Kulkarni from Phillip Capital. You may go ahead.

**Naveen Kulkarni**

Hi, thanks for taking my question. Could you explain the arrangement with Reliance Jio in terms of network integration whether, there will only be the sharing of active infrastructure, whether there will be an end to end integration of even the backhaul, or we will be even utilizing the backhaul of Reliance Jio for providing LTE services?

**Gurdeep Singh**

Well, at this moment we have stitched up the ICR arrangements, so let's leave it at that level, that it's an ICR arrangement between the two organizations. The exact contours will be shared at the time when we get closer to the launch. I'm sure you will agree with me that we need to keep this confidential.

**Naveen Kulkarni**

And secondly, with our 4G network and with our voice network will we be providing fallback assistance to Jio?

**Gurdeep Singh**

As I said that any details of the ICR arrangement will be shared when we get closer to the launch. Please allow us to keep it confidential till then.

**Naveen Kulkarni**

Okay. Thanks a lot, Sir.

**Operator**

Thank you, sir. Next in line we have Amruta from Morgan Stanley. You may go ahead please.

**Amruta Pabalkar**

Hi, thanks for the opportunity. I have two questions. First, during the quarter, your customer base has declined by about 9.5 million. So I just want to confirm, is this



the total decline we expect to see on account of these five circles and if you could attribute an EBITDA number to it as to what would be the impact from this in the following quarters. And secondly, you have seen that your 3G towns under coverage have gone up substantially while the 3G sites on the network are just up by around 300. So if you could tie that up and could we see any Capex attributed to this? One final question, is there any update on the tower deal if you could give and what can we expect? Thank you.

### **Gurdeep Singh**

First one, on number of sites added. They have been added in the five circles and as you know that we already had a good presence in these five circles through our 3G network which we deployed about four years ago, this was more into the towns which required either two, three or a single base station for expansion. So that's why the number of sites count is 336.

Second question on the profitability impact of the five circles and the consumers going away. Yes, we did lose subscribers in these five circles but they were at the bottom of the rank in terms of utilization and profitability. Our objective was to retain all profitable customers, profitable towns, profitable geographies, which we did through the 3G expansion. Most of these subscribers that we have retained nearly stack up to the profit or EBITDA margin that we received from these five circles. So much of the marginal impact of the profitability has already been taken in the last quarter. And as we go forward, in the month of January we are already seeing the up-take in the volume and we hope to continue with the guidance that we've had earlier on this account.

On the Tower deal, the discussions are at a very advanced stage and we hope to update in the next few weeks. So please standby till then.

**Amruta Pabalkar**

Sure Sir. Just one follow-up. On the loss of the EBITDA, if I may confirm, the number that you had earlier quoted was roughly 4% to 5% EBITDA impact annually, just on account of these five circles. Are we correct with that estimate?

**Gurdeep Singh**

It'll be less than that. But we have more than recouped by getting quality 3G customers through our aggressive acquisition that we've been following in the last three months in that area. If you look at our MNP numbers in those five circles, they are very encouraging, where we are getting high ARPU customers holding into our 3G network. This far outweighs the numbers that have gone by. Mani, you would like to add something?

**Manikantan Iyer**

On the EBITDA front, if you notice, the Indian operations EBITDA has gone up in this quarter from 34.2% to 34.8%. Also taking into account the impact mainly on account of the topline customers, the long term 2G customers and data customers, it has gone up in these circles. And the impact on EBITDA for this is already taken into account in the current quarter.

**Amruta Pabalkar**

Thank you, sir.

**Operator**

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

**Rajiv Sharma**

Hi, thanks for taking the follow-up questions. Just two questions from my side. One is this MTS merger that you mentioned, is DoT also time bound to approve this in 90 days or they could take a longer time to approve this?

**Punit Garg**

It is not the DoT which is taking longer time, it is the demerger and merger process which would take around 90-120 days time. We already have SEBI and Stock Exchange approval in hand and CCI has provisionally given clearance and the final approval is also expected in the next 30 days or so.

**Rajiv Sharma**

Okay. Second, Will the reduction in sites mean that you will have to go and revisit the numbers in your tower discussion with Tillman?

**Gurdeep Singh**

Well, we have already factored this into our discussion that is ongoing. I will not be able to share the exact contours now. But, while on one side there is reduction, on the other side, there is an enhancement through tenancies and we are expanding. If you look at RCOM as an entity, I'm talking about wireless as a business, we've been CapEx constrained in the past because of the balance sheet and the position in the market share that we hold, and that's why if you look at it some of the steps that the company is taking whether it is with respect to the MTS merger into RCOM or possible discussions that is undergoing with Aircel, we are actually trying to create a platform of about 12% market share which allows us the bandwidth to invest in the business to support the aggressive footprint and the network quality that we're likely to get as a part of our ICR arrangement with Jio. This is to make the business healthy, profitable, rebound back, and begin to perform better than our fair share in the market, which individually as companies probably we couldn't do or afford till now. Hence, looking at some of the buoyancy that we're seeing, we have upgraded our CapEx guidance. Part of the CapEx as I informed to all of you will also go towards implementing or augmenting our core which is a requirement for LTE, which itself is currently underway, so that we are in a position to take a complete suite of things to our consumers as and when we get to launch LTE in the couple of months from now. I hope that clarifies.

**Rajiv Sharma**

So just one follow-up Gurdeep on your answer that you've increased your CapEx guidance, so this is for 4G or this is for 3G?

**Gurdeep Singh**

This is for 3G and in all our 13 telecom license areas including MP-CG expansion, and some part of it will go towards enhancing the transport, backhaul and the core which are required to be augmented before our 4G launch.

**Rajiv Sharma**

Yes, so I guess this was asked earlier but I guess I missed the answer of that but, on one hand you have this whole 4G thing and the big resource pooling with Jio, while on the other hand you're investing in 3G. So is there a disconnect between what we are understanding on the strategy?

**Gurdeep Singh**

No, as I said in the interim, for some time to come there is a scope to continue to get consumers on both as long as they give you a faster return on capital. Will 3G fade out faster than we imagine? The answer is yes, but it isn't happening within short term. Also, let's not forget, there are millions of consumers who are at a 2G level, who will also need to be migrated to 3G, whereas our preferential migration will be to leap-frog them to 4G in the future. But that is too much of an execution on the ground. So we will have to keep both the things in view.

**Rajiv Sharma**

Okay. And lastly a question on Jio, on the spectrum sharing, trading and that internal resources would be used for funding of liberalization payments.

**Gurdeep Singh**

As I said that the entire exercise is being met through the advances against the ongoing agreements, in-coming trading agreement, and internal arrangements.

**Rajiv Sharma**

Okay, okay. Thanks a lot.

**Operator**

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

**Srinivas Rao**

Thank you very much for taking my call again. First on the tower sale, do we anticipate any change in the existing MSA which RCOM has with its tower subsidiary or what RJio also has with Infratel? That's my first question.

Also on the tower I just want to understand, you have mentioned in your report that – quarterly report that you are operating on 85,000 towers. Our understanding is that RCOM has somewhere around 44,000 towers. So where are the balance towers you're using, I mean where have you rented it from. So that's the second question.

Third is that you had launched an iPhone plan sometime back, almost I think six to nine months back and that was pretty aggressive plan where we were expecting subscriber additions. Now, if you can throw some light as to what has happened and what has been the feedback from that plan? That's my third question.

And finally SSTL, how should we think about the EBITDA impact of the potential merger? Should we expect the revenues to kind of come to RCOM with a fairly minimal incremental cost? These are my four questions. Thank you.

**Gurdeep Singh**

First on the 86,000 towers. 86,000 were the base stations earlier on the network, which is combined of our own towers as well as what we take from the IP-colos.

Now it is around 76000 base stations, right? So what you are referring to as the towers are base stations that we have on RITL towers and on others as tenants. So I hope that clarifies.

**Srinivas Rao**

Yes, so that number is all your sites 2G plus 3G plus 4G, or CDMA plus GSM. Is that what we should understand?

**Gurdeep Singh**

That's right.

**Srinivas Rao**

And could you tell us how many sites have you actually hired from outside entities?

**Anil Ladha**

We don't provide this break-up Sriniv, we only disclose total sites. This is the total sites including RITL and others.

**Srinivas Rao**

Understood. Okay.

**Gurdeep Singh**

On Tower deal, as and when we announce and come closer towards the announcement of the tower hive-off we will explain all of the nuances and the contract details that are associated with this transaction. For the confidentiality reasons, at this point in time we will not be able to share the details.

Coming to the iPhone plan, yes, we had launched the Zero plan which met with a great success. We didn't want Zero plan to be only with Apple iPhones so we extended it to all the smartphones. So now we sell Zero plan across our online

and offline platforms to the entire smartphone category. And this is one of the strongest pillars of our program that is helping us grow our wholesale business. We are now seeing a dramatic turnaround in our postpaid business for the last five quarters running and it is largely running on the back of the zero plan and the MNP associated with it that we do.

The last one being on SSTL, well, any merger of this nature where the businesses have overlapping footprint, similar geographies, similar license and the revenue area, certainly give you a huge opportunity in minimizing the OpEx, minimizing the number of cell sites. And once you organise it to one network, one organization and one execution, the OpEx synergies are tremendous including the cost of interconnect, et cetera that we pay. So to expect that MTS will help improve our EBITDA margin by retaining the top line of MTS will be a correct assumption.

**Srinivas Rao**

Understood Sir. Thanks a lot. Thank you very much. This is really helpful.

**Operator**

Next in line we have Mr. Sanjay Chawla from JM Financial. You may go ahead.

**Sanjay Chawla**

Hi, good afternoon. Thank you for the opportunity. I have two questions. First is, what is the license fee and SUC payable or paid on the spectrum trading proceeds? Secondly, what are the costs and penalty incurred, payable to third-party or external tower provider companies in the five circles where 900 band related shutdown has happened? And thirdly, how will these two items that I mentioned would be accounted for?

**Punit Garg**

This is part of the AGR for the quarter and as we are paying the quarterly charges for January, February, March, along with that this amount will be paid and the accounting will be same as any other license fee and SUC that is done because it is the proceed as per the license.

Currently the SUC is calculated differently, it is based on the quantum you actually own as a spectrum. And it is differently applicable for different circles, it is not uniform across the circles, because we have administratively allocated spectrum in this.

Going forward due to trading of the spectrum, the total quantum of spectrum comes down. So our overall SUC would slightly come down from January 21<sup>st</sup> until end of this quarter and going forward.

**Sanjay Chawla**

Thank you for this clarification. So we are seeing on a net basis, the SUC percentage will come down but because on the shared amount there will be some extra payment?

**Punit Garg**

Yes, we will have to pay 0.5% extra, but that's only for 800 MHz band in which we are sharing. That's not for the overall spectrum. But you know in the past when the spectrum amount increased, the SUC increased, right? So overall, despite 0.5% increase on 800 MHz there will be a reduction in SUC charges.

**Gurdeep Singh**

Coming to your question on penalty, the answer to that is No, because largely the sites were coming from RITL, our own subsidiary and keeping in-line with our other expansion plan that I just elucidated we were able to have an understanding with other IP-colo vendors. So, no negative impacts to that extent.



**Sanjay Chawla**

So, whatever negative impact to that extent it is not material in terms of the amount payable to external tower providers?

**Anil Ladha**

Yes, that's right.

**Sanjay Chawla**

Okay. Just a clarification, you mentioned a figure of 76,194 BTS as your number of BTSs but I thought it is more than 85,000, I don't know whether I picked it up correctly?

**Anil Ladha**

So, this quarter, if you see the quarterly report, we have reduced the sites by about 10,000 and the number is now 76,194.

**Sanjay Chawla**

Got it. Thank you and all the best.

**Operator**

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

**Vinay Jaising**

Thank you again. My question is largely on the industry. What's happening to the data revenues, we are not seeing as exciting data volume growth happen on a quarterly basis, not just for you but also from the rest of the players whose results are out, as compared to obviously expectations of what is happening two years ago. And the other side, we are seeing ARMBs come down. So what is a good expectation for the data revenues of the industry considering Jio is coming in 4G and you guys also launching with them a lot more in 4G? That's my first question.

The second question, you partly addressed it in the last two questions of my peers, but of this 10,000 number which has come down for BTS, my question is very simple, how much would be external? Will there be a number which you can give us of how much is gone from the external thing that you're paying earlier to? Thank you.

**Gurdeep Singh**

Okay. Thanks for your question, Vinay. On the first one, I think let's look at two things, on the left hand side we have the smartphone ecosystem rising. We are getting now all the shipment across 3G. Going forward in two to three quarters well above 80% to 85% is going to be 4G enabled.

What is happening is that we are putting more power in the hands of the consumer, there is more possessing power, larger screen size and so on and so forth, right. And that is going to match against the data that we are going to provide through 2G, 3G and 4G and moving slowly towards 3G and bulking up towards 4G in the future.

So data off-take and consumption is given even when you look at our own good use of utilization of data versus the other markets globally that we are halfway down the mark, that's one. I would say that on the back of last 12 to 18 quarters of consistent growth of data, where we beat all our previous records, please take this quarter as an aberration. I would not base the future on the quarter that is gone by. We are also trying to decipher what exactly could be the reason. There could be multiple of those, but I would stay very optimistic about the data growth. RPMB is a point that you cannot debate at this moment. There is a likely launch of a competitor. We can only handle this question once the launch has taken place and we believe there is a material impact on the ground for either positive side to RPMB or a negative side to RPMB. I would say it is premature at this point.

**Vinay Jaising**

Sure.

**Anil Ladha**

Vinay, about 10,000 sites' reduction is the overall site reduction. And mainly it's on RITL, with a small part on others.

**Vinay Jaising**

Okay. Thank you so much, sir.

**Operator**

Thank you sir.

**Gurdeep Singh**

So, Mamta, before we hang up, all I want to say is that we are entering into a very buoyant, and a positive space now and we begin to put a lot of our structural go-to-market issues on the ground. We are already beginning to see the buoyancy. The 2G expiry of license is behind us and our uplift in CapEx guidance, future foray into 4G in coming few months, Tower deal update in the next few weeks and the impending MTS deal progressing well and being in the exclusive discussion phase with Aircel is kind of re-strengthening the foundation of Reliance Communications. Most importantly from our wireless business perspective I would say, we are very buoyant about the future.

**Vinod Sawhny**

To conclude, as my colleague has just said and what I said earlier, we at RCOM remain firmly focused to drive all synergies through consolidation, through partnership, including all our deleveraging goals. Our businesses will continue to provide enhanced value to our customers and through disproportionate focus on data services both in the consumer space, as well as in our enterprise space. Thank you very much.

**Operator**

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