RELIANCE COMMUNICATIONS LIMITED
Corporate Identity Number (CIN): L45309MH2004PLC147531
Registered office: H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai - 400710

Transcript of Earnings Conference Call for the Quarter ended 30th June, 2016

Conducted at 2.00 pm IST on 15th September, 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. 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. Suresh Rangachar (President – Commercial and IT), 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. Gurdeep Singh. Thank you.

Gurdeep Singh
Thanks, Mamta. Good Afternoon and welcome to our First quarter FY2017 earnings conference call. I have with me other members of the senior management team of Reliance Communications. On behalf of us all, Thank you for joining the call.

On September 14th, 2016, our Board of Directors have announced the momentous transaction of signing of definitive documents for the merger of RCOM's Indian wireless business with Aircel and have also adopted the financial results for the first quarter of FY2017. The Press Release, 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.

Today's proceedings are going to be in two parts. First, there will be a presentation on the Aircel merger and its Q&A, to be followed by our quarterly results and Q&A thereof. I will request my colleague Punit Garg to give an update on the Aircel merger transaction to be followed by Q&A from analysts on the Aircel merger transaction.

Punit Garg
Thank you, Gurdeep. The merger of our wireless business with Aircel is the largest ever consolidation in the Indian telecom sector and will create a strong operator clearly

ranked amongst India's top 4 telcos by customer base and revenues, also ranking amongst the top 3 operators by revenues in 12 important circles. As part of this transaction, RCOM will transfer its wireless business to Aircel through a court approved demerger process.

RCOM and Maxis group each will hold 50% equity in the new MergedCo with equal representation in the Board and committees. The MergedCo will have the second largest spectrum holding amongst all operators, aggregating 448 MHz across the 850, 900, 1800 and 2100 MHz bands, and will enjoy enhanced business continuity through extended validity of spectrum holdings till 2033-35.

MergedCo's subscribers will have access to nationwide 'Gold Standard' 4G LTE services on the sub-1 GHz band, under RCOM's existing nation-wide spectrum sharing / ICR arrangements with Reliance Jio Infocomm. The combined 2G, 3G and 4G networks position MergedCo for further strategic collaborations, and provide MergedCo the unique capability to offer a robust platform of services across all customer segments in all 22 telecom circles, including the mass market, leading to a superior customer experience at affordable price points, and bringing the Internet to All.

The combined entity will enjoy substantial benefits of scale driving significant revenue growth, capex and opex synergies with an estimated NPV of ~ Rs. 20,000 crore. As part of this transaction RCOM's overall debt will reduce by Rs 20,000 crore (nearly 40% of its total debt) and allow RCOM to continue to own and operate its high growth businesses in the domestic and global enterprise space, Data Centers, optic fibre and related telecom infrastructure. With this, let me stop here and take the questions.

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 and congratulations for this big merger. I have three questions. First question is clearly in India when one company merges with the other, the spectrum needs to be liberalized. I presume out here that RCOM spectrum will be liberalized. Just wanted to check what is the cost for liberalization and how do you intend to fund it?

Punit Garg
As you all are aware, we have already liberalised our spectrum fully in 850 MHz band. Our spectrum in 2100 MHz band which we acquired in spectrum auction of 2010 is also liberalised.

Also our spectrum in 1800MHz band bought in the auction of 2014 and 2015 is liberalized. Apart from that, we hold 4.4 MHz in 14 circles in 1800 MHz band that may be required to be liberalized based on the need of both the companies, because in those circles Aircel also has a spectrum valid for much longer period than Reliance's spectrum and they have a spectrum anywhere between 4.4 MHz to 6.2 MHz in most of these circles.

Hence, based on the customer density, which is the number of customers and the overall business requirements, we would be liberalizing it but, to say what would be the amounts today would be premature because the assessment would be done between now and closing of the transaction. The price of 1800 MHz band may also be reset in the forthcoming auction, which starts in October 2016.

Sachin Salgaonkar
How do you intend to fund it, will there be a possible equity infusion?

Punit Garg
We are looking at almost $1 billion of equity funding in the MergedCo.

Sachin Salgaonkar
So possibility of $1 billion equity injection; got it.
My second question, you mentioned Rs. 200 billion debt will go into new entity, which means around Rs. 230 billion is left in the core RCOM. Wanted to understand what is the threshold or the overall net debt to EBITDA, considering the bond covenants, because from my calculation it does imply that wireless entity will have 3 times net debt to EBITDA roughly, but what you are left in core RCOM, the EBITDA is too low, and so the ratio turns out to be a ten times net debt to EBITDA. So if the tower deal doesn't go through, then it looks pretty highly geared company. We just wanted to understand what are the debt covenants in both entities?

Anil Ladha
Sachin, as far as the overall deleveraging program is concerned, the Company is, besides the Aircel transaction, well on its way for the tower deal. And after the tower deal, the remaining debt on the Company is going to be substantially lower and the net debt to EBITDA levels would be far lower than the current levels and it will be very much in-line with the industry levels. In the bond covenants specifically we don't have any covenant related to net debt to EBITDA.

Sachin Salgaonkar
And what about the interest coverage or any other covenants?

Anil Ladha
No. Those are general customary loan covenants; they are not applicable for the bonds.

Sachin Salgaonkar
So Anil, what if tower deal gets delayed or for a certain reason is not happening for next one or two years, then the entity looks very high in terms of overall net debt to EBITDA.

Gurdeep Singh
I think we had mentioned earlier and I will repeat again, we were waiting for the Aircel transaction to consummate and be announced. And we had stated that we have done all the necessary due diligence and we are in the advanced stages of closure of the tower transaction, which we hope to conclude in the month of October. So it was just a question of phasing and prioritization, in the first priority, the Aircel merger transaction is now done in the sense that we have a definitive agreement and now our focus shifts to consummate the tower transaction by October.

Sachin Salgaonkar
Got it. Okay. My last question is, if we look at a merged entity, then can you actually give us a little bit more details; is there going to be a new brand, which brand will be out there, any guidance in terms of how should we look at CapEx, EBITDA margins, synergies. And more importantly, I think, because it's going to be an unlisted entity, will you be providing KPIs of this including a wireless entity P&L going forward?

Punit Garg
Yes Sachin. As and when this transaction consummates sometime in early 2017 we will provide the usual KPIs for the wireless business as part of its results.
Second question of yours relating to branding and naming et cetera of the company, Yes, the merged Company will not have any of the legacy name per se, but would look for a fresh brand, which means, the services would be rebranded and would have a new name, which would be announced as we progress into the deal, and we're working on that.

Sachin Salgaonkar
Okay. And anything on synergy benefits, CapEx? I understand you have given some broad NPV of synergy benefits, but if you look for next couple of years, can you quantify synergy benefits, what we could see?

Punit Garg
The NPV of our capex and opex synergies is estimated around Rs. 20,000 crore, roughly around $3 billion.

Suresh Rangachar
Actually as part of the synergy over the last six months we had AT Kearney and Booz Allen work on what are the areas of synergy and how we can put it together both on CapEx as well as revenue and OpEx management. The broad areas, as in any such in-country consolidation, would be in the network harmonization, customer service, people, sales and distribution, as well as go-to-market and revenue synergies that exist, because we are also not competing with each other in like markets. The CapEx synergies would come in the areas of better utilization as well as expansion that we would manage better. On an annual basis, we're looking at synergies of up to Rs. 2,500

crore, but as we work through now, through the next level of detailing, we would have more details which we will share at a later time.

Sachin Salgaonkar
All right. Thanks Suresh, and all the best to you guys for the future.

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

Srinivas Rao
I have two to three questions on the merger. First, the debt which Aircel is bringing is lot less, so is it fair to say that the total debt of the entity will be Rs. 24,000 crore? Is that a fair assumption? That's number one. Secondly, would you like to give what is the current equity position of the merged entity or what it would look like, so that we can get a sense of the debt equity for the merged entity?

Third, I have a question on the NPV which you have mentioned of CapEx and OpEx synergies which looks significantly high. The current annual operating cost base of Reliance is somewhere around Rs. 15,000 crore, and that includes access and license fee, which are essentially variable costs, and I'm assuming these would be similar for Aircel as well. So given these facts, isn't it a bit aggressive to assume a Rs. 20,000 crore NPV for CapEx and OpEx. If you can throw some light on that, that'll be helpful.

Finally, does Aircel own any towers as of now, and would they also get integrated into the merged entity. Thanks, I'll come back for more questions.

Punit Garg
Let me start with your first question on the debt. The debt in the merged company that will start with on day one, which would be refinanced by the lenders, would be to the tune of Rs. 28,000 crore where both are equally contributing. However, in addition to that, there are deferred spectrum payments to be paid to DoT for the auction purchase of spectrum, which were done in the years 2013, 2014 and 2015.

RCOM would be transferring that part of DoT liability as well including what we would acquire from SSTL as part of that merger, all to the tune of roughly Rs. 6,000 crore, into the new entity. Hence the loan base would be Rs. 28,000 crore plus the additional deferred payment of Rs. 6,000 crore plus Aircel's deferred spectrum liability, it would total around Rs. 7,000 crore. The networth is expected to be around Rs. 35,000 crore. So if you really look at debt to equity ratio, it's going to be at a very healthy level of around 1:1.

When we're really looking at CapEx and OpEx synergy, given that this is an in-country consolidation between the two companies operating in the same geographies, having similar coverage, hence there would be very high synergies. In Opex, the saving will come from the IP colo charges, fuel and electricity charges, the network equipment, and the AMC charges; and IT & billing systems, sales & distribution systems.

Looking at the CapEx, essentially both have very good voice networks, and it only gets redistributed in terms of the enhanced coverage. You do not have essentially the additional CapEx to be spent in a legacy voice network, but whatever CapEx investment would happen going forward, it would be largely in the area of data strategy, data focus, Digital India Program, and hence, when you're really looking at two companies spending standalone for CapEx for a similar coverage, and the data strategy in future, then huge capex synergy is possible. Infact, it would be much more than what we have indicated.

And your last question about towers, Aircel owns around 2,000 towers. Those 2000 towers will not be part of the merged company as they would be deleveraging their balance sheet by Rs. 4,000 crore through sale of their BWA spectrum and by sale of towers.

Srinivas Rao
Okay. So the debt reduction of Rs. 4,000 crore which you mentioned in your media release is different, it's not on account of this transaction, right?

Punit Garg
No. It is on account of this transaction as part of the conditions of the deal. So they would be doing that through some of the deleveraging initiatives i.e. by asset sale, which is spectrum and towers.

Srinivas Rao
Okay. So this transaction is contingent upon them bringing down their debt by about Rs. 4,000 crore, by sale of spectrum which is already done, and then towers, is that correct?

Punit Garg
The current shareholders of Aircel are committed to bring the debt to Rs. 14,000 crore irrespective of whether they are able to hive off their towers or not, or whether it is through the fresh equity infusion in the company.

Srinivas Rao
Understood. This is really helpful. Thanks. I'll come back for more questions on the queue.

Operator
Thank you sir. Next in line we have Mr. Gaurav Malhotra from Citigroup. You may go ahead please.

Gaurav Malhotra
Yes. Hi, thanks for the opportunity and congratulations on this merger. Just few points, firstly in terms of revenue and EBITDA for Aircel, can you give us some numbers?

Punit Garg
The revenue and EBITDA numbers of RCOM in the current fiscal are not changing. This transaction is more for the fiscal year of 2017-18 so at an appropriate time then, close to the consummation, we would be working out on the financial numbers including revenue and EBITDA and all other KPIs of MergedCo, and would duly inform all of you.

Gaurav Malhotra
Just qualitatively, the India business for RCOM which has your mobile business has around 30% margins. Is it the ballpark for the MergedCo, is it significantly lower and any qualitative numbers?

Punit Garg
Well, I think if we are looking at both the companies combined, it would be a very strong Company. We would be at the industry benchmark as far as those numbers are concerned.

Gaurav Malhotra
The next question on debt, so Rs. 20,000 crore is what RCOM is bringing in, Rs. 4,000 crore is what Aircel is bringing in, Rs. 6,000 crore is your deferred spectrum liability, which is over and above, so it's Rs. 20,000 crore plus Rs. 4,000 crore plus Rs. 6,000 crore plus you said there is another Rs. 4,000 crore of debt which the entity itself will take in, am I correct?

Anil Ladha
No, Gaurav, RCOM is bringing into the MergedCo Rs. 14,000 crore of its bank debt, plus around Rs. 6,000 crore of its deferred spectrum liabilities. Aircel is bringing in its Rs. 14,000 crore of bank debt and its deferred spectrum liabilities, which could be around Rs. 1000 crore to Rs. 1,500 crore range.

So the MergedCo is going to have total Rs. 28,000 crore of bank debt plus spectrum liabilities of around Rs. 7,000 odd crore, which will make the total debt of MergedCo at around Rs. 35,000 crore. The Rs. 4,000 crore figure which you're mentioning from Aircel side, is only the amount of debt reduction, which they are going to achieve through deleveraging.

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

Pranav Kshatriya

Hi, thanks for the opportunity. If you look at spectrum holding of Aircel and Reliance Communication especially on 2100, there is lot of overlap and you have around six to seven circles where there is 10 megahertz spectrum you have. So will you be looking to monetize in any which ways?

Punit Garg

Yes, we have an overlap in eight circles, which makes 10 MHz for both. We would be able to provide the 10 megahertz 3G service in eight circles.

Globally, in the 4G market, 2100MHz is the second most used spectrum band for 4G, as the ecosystem is already in place. Going forward this spectrum could be used for 4G at minimal or zero incremental investments.

Pranav Kshatriya

And second question is, will the MergedCo debt have recourse to Reliance Communication?

Punit Garg

No, the MergedCo will debt will be supported by its own balance sheet and security will be on its own assets and there would be no recourse to either of the shareholders.

Operator

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

Vinay Jaising

Thank you for the opportunity. I have two questions, both of them we've already deliberated earlier, but just needed a little bit more light out here. Firstly on the debt front again, we did mention what each of the entities get, but on the first question asked in the call today. When we are looking at liberalizing the spectrum for RCOM and more importantly Aircel, which has a lot more to be liberalized in terms of pricing, who bears that cost, is that not going to be included in the debt of the overall company, that's my first question.

My second question, we spoke about the tower deal being the next priority, but what is going to happen now in the 30% EBITDA margin as you will have to give a lot of EBITDA to the TowerCo. And how do we get a 50-50 ratio between Reliance Communication and Aircel in the new entity, how does one look at the merged EBITDAs or individual EBITDAs, what is going to go to that company, how do we look at that? Let me stop here.

Punit Garg
Your first question on the spectrum liberalization, as per the M&A policy, the spectrum liberalization will take place for RCOM when it is merged with Aircel, and none of the spectrum of Aircel has to go through the liberalization.

All of 800 MHz spectrum holding of RCOM is fully liberalized, and 2100 MHz spectrum of RCOM which was acquired in auction held in 2010 is fully liberalized. In the 1800 MHz band, we have spectrum holding of 4.4 MHz in 14 circles, which is non-liberalized, rest of it, above 4.4 MHz in these 14 circles as well as in other circles, is auction purchased, hence that is fully liberalized.

As far as these 14 circles are concerned, in these same circles, Aircel roughly owns spectrum between 4.4MHz to 6.2MHz. Based on our requirement of spectrum, we would take a call that how much spectrum quantity would be required to be liberalized, and determine at the time of combination what has to paid as liberalization fee. So it would be paid by the merged company, not by any of the shareholders.

Vinay Jaising
So basically that fee will come in or that debt will come in, if and whenever you decide with the merged entity. So that's clear, what about that second question?

Anil Ladha
The MergedCo would meet the liberalization payments through the equity funding plan.

Vinay Jaising
Sure, whatever means of finance, I didn't mean debt or equity but that'll be the MergedCo's issue to check the means of finance, so that's reasonably clear.
So now moving to the other part of it, on the EBITDA front, obviously, you're going to transfer some EBITDA from RCOM and you're expecting some from Aircel as well. And there is also the tower deal you need to be doing sooner than later. So how do we look at these three issues?

Anil Ladha
As far as the 50-50 ratio is concerned, it is based on the fact that both the companies are bringing, almost equal share of RMS, CMS and spectrum capabilities, while we have valuable 850 spectrum, Aircel has much longer valid 1800MHz spectrum. So effectively, on all these accounts and network, which is also in a similar range, so on all these four accounts, both the companies and shareholders are bringing in equal aspects to the deal.

Now over and above, please appreciate that RCOM is able to transfer debt in excess of Aircel by an amount of about Rs. 5,000 crore. And that is an additional benefit to RCOM. So that takes care of the aspect that if 850 MHz is considered more valuable than longer validity 1800 MHz, then that effectively balances the whole equation. Coming to tower EBITDA, once the tower deal is done, yes, Tower's EBITDA will go out. But please appreciate that the residual RCOM entity excluding wireless and excluding towers has significant EBITDA levels, from India Enterprise, IDC and OFC businesses. And there, the EBITDA margins are higher than the towers or wireless businesses, and those EBITDA levels will effectively support the Company and its credit profile.

Punit Garg
Just to add, specifically on 50-50 ratio, that SR Batliboi & Company was appointed as the independent valuer and based on their recommendations, the Boards of the respective companies decided on the 50-50 ratio.

Vinay Jaising
So we are talking about not 30% margins because as we said tower EBITDAs would be kept in the TowerCo, and will not go into the wireless entity. So that margin will not be 30% or higher but, probably lower when it goes on day one. Also the revenues, which we're talking about which are going, they do not include any revenues of NLD, it's just pure wireless revenues as would be reported by TRAI with some changes. Is that a fair comment to make for RCOM?

Punit Garg
Our EBITDA can be benchmarked to the industry EBITDA at that time. The simple math of subtracting the tower EBITDA, et cetera would not work here but that's obvious that Tower Company will keep its tower EBITDA, whatever it is.

Vinay Jaising
Sure. And on that small point of long distance, I'm assuming only the wireless revenues are going there.

Punit Garg
It is the wireless revenues, NLD & ILD voice revenues which are moving to Merged Company.

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

Sanjay Chawla
Hi, good afternoon. Thank you for the call. Just a couple of questions, first is a very fundamental question, we are talking about the merged entity having Rs. 35,000 crore of net debt at the start and you are still looking at a net debt to EBITDA ratio of around 6 times, if we account for the tower rentals that may have to be paid to the tower company. So how does it solve the debt problem, especially given the fact that there is lot of investment which may be required in terms of 3G expansion and possibly 2G expansion

as well if we are entering the situation of price war on the voice side. How do you propose to address these issues?

And second question is, can you comment on this CapEx surge which has happened in the first quarter of nearly Rs. 21 billion spending compared to what we have seen in the previous quarters?

Punit Garg
Let me just answer your first question while your second question will be taken up later after the earnings speech. On the first part, the merged entity will receive fund based refinancing from the banks of Rs. 28,000 crore. On day one, the balance sheet would have a total debt of Rs. 28,000 crore. The Rs. 7,000 crore of spectrum liability appears in company's balance sheet in sundry creditors where it is shown as a payment to DoT, because that's due to DoT. So, that's not a funded debt and we are not raising any debt for that. So, on day one, debt in books of MergedCo would be only Rs. 28,000 crore.

Your second point which is a very pertinent question, about how the funding will happen for expansion of 2G, 3G, 4G with the hyper competitive scenario in the voice market, et cetera. As far as the expansion is concerned it is a challenge and opportunity for the business. We talked earlier that there is enough interest we have received from international investors in the merged company. As the deal has been announced, between now and closing, we would be working with them and we are looking at around $1 billion of investment into the company. So the MergedCo will have a reasonable war-chest for the future CapEx expansion. And when you talk about the voice expansion, number one, as I said, both assets would be put together, which would help us in determining where more coverage is required or where we need to decongest the network.

Anil Ladha
Sanjay, once you take the synergy benefits into account, the EBITDA margins of the MergedCo will be in-line with the industry standards and the net-debt-to-EBITDA levels will be much lower than the ones you have mentioned.

Sanjay Chawla
Okay Anil, understood. Since you'll be taking my second question later, can I just squeeze in one more question on this? Can you just share the number of 2G and 3G sites for the combined entity? And also how many subscribers you have in your customer base who own smartphones?

Punit Garg
As a MergedCo, the total number of sites, for 2G and 3G put together would be in excess of 90,000 sites. And you would know that our 4G is in cooperation with Reliance Jio as part of the spectrum sharing arrangements. So MergedCo would be in a very strong position as far as the number of sites are concerned.

Sanjay Chawla
Okay, great. What would be the smartphone penetration in your customer base and their customer base?

Punit Garg
I think that would come as part of our earning call later.

Operator
Thank you sir. Next in line we have Mr. Kunal Vora from BNP Paribas. You may go ahead.

Kunal Vora
Thanks for the opportunity Sir. First on the breakup of EBITDA, you had EBITDA of around Rs. 7,400 crore in fiscal 2016. Can you help us break that up into, what will be the wireless EBITDA, what will be the tower EBITDA and what will be the residual EBITDA? Some insight there will be helpful because only then we can get some idea about what kind of debt to EBITDA we should be expecting in the new entity.

Punit Garg
Kunal, as you know that RCOM's India operation is one segment and hence we have not been providing the split. And, I do not have those splits to provide today, but as we consummate this transaction that would be available to you at that time.

Kunal Vora
Okay. And you also mentioned that the Rs. 28,000 crore debt that will remain in RCOM core will go down post the tower deal. So against that, what kind of EBITDA would go out? So is that a fair way of looking at it, any insights you can provide there?

Anil Ladha
Kunal, at this stage, given that there are tower deal is in progress we would not really like to comment on the EBITDA levels. And as Punit mentioned, as far as the breakup of Rs. 7,400 crore EBITDA is concerned you can't really apply simple arithmetic because there are various overlapping aspects in these businesses. So we will come back as we go along on this transaction.

Kunal Vora
One last question, RCOM and Jio are sharing 850MHz spectrum, of the total capacity generated on this network, how much belongs to RCOM and how much freedom do you have in terms of 4G pricing. And do you have to pay Jio anything for the use of 4G network?

Punit Garg
Kunal, we will take up your question during the Q&A process after the Earnings speech. RCOM's current capabilities would be transferred to MergedCo as well and MergedCo

would enjoy the same, the facility for our customers, a nationwide 4G LTE network in co-operation with Jio, where we both share our 850MHz spectrum. In addition to that, we have access to Jio's 1800MHz and 2300MHz spectrum band as well under the ICR facility, where our customers could roam on their network.

Operator
Thank you Sir. Next in line we have Mr. Bharat Shettigar from Standard Chartered. You may go ahead.

Bharat Shettigar
Thanks for the call. Couple of questions, firstly, you mentioned that Rs. 14,000 crore of debt will move into the new entity, just trying to understand which exact debt will it be, will it be the bank loans or will the bonds, the U.S. dollar and the INR bonds, move to the new entity?

Anil Ladha
Bharat, as far as the USD bonds are concerned, they will continue to be there in RCOM, i.e. they are not moving to the MergedCo. It's mainly the bank debt and part of some rupee debentures that may move to MergedCo.

Bharat Shettigar
But wouldn't you need some kind of consent from the bond holders to move the rest of the debt there, what is your thought process there?

Anil Ladha
As part of the overall transaction process, lenders and bondholders' consent would be completed and we will appropriately be reaching out to lenders and bondholders for their consents.

Bharat Shettigar
The other question is, if I look at your end FY16 debt number, that is about Rs. 47,000 crore including the spectrum payables, now Rs. 20,000 crore will go out with this deal, then there is, of course, the potential tower deal, just trying to understand how much debt reduction would happen?

Anil Ladha
Out of Rs. 47,000 crore, transfer of Rs. 20,000 crore would result in residual debt of Rs. 27,000 crore. And out of that, the tower proceeds will reduce debt further. At this point in time, it's not possible for us to give you an exact valuation parameter on the tower deal.

Bharat Shettigar
Okay. Final point and this is something which a lot of people have tried to ask in different ways. Some sense of EBITDA for the different businesses will be helpful. I understand

there are a lot of moving parts, but can you give us some sense of last 12-month EBITDA?

Anil Ladha
FY18 is the first full year where the impact of this transaction will come into play as far as the financials are concerned. In FY17, the numbers stay as they are because both the businesses will continue to operate as they are, and at this stage it will not be possible for us to give you a complete break-up of EBITDA. We will come back to you during next six months on another earnings call or at another interaction point. And at that point in time, we will give all these details.

Operator
Thank you sir. Next in line we have Mr. Vivek Anand from Ambit Capital. You may go ahead please.

Vivek Anand
Yes. Hi, thanks for taking my question. Some of them have already been answered. So just wanted to understand that you mentioned Sistema's assets will also be pooled with this entity, so do you mean to say that the 800MHz footprint that Sistema has in seven, eight odd circles that will also be part of this deal, the merged entity?

Punit Garg
Yes, our RCOM wireless business with its assets is moving to Aircel. Obviously, on consummation of RCOM SSTL deal, all the wireless assets as part of the SSTL demerger moving to RCOM will become part of RCOM wireless business. This deal would be completed after the SSTL and RCOM merger. So at that time, all of RCOM wireless asset would move, which would include all the wireless assets acquired from SSTL.

Vivek Anand
Right Sir. On a related note, will any debt from SSTL also get included in this MergedCo?

Punit Garg
We had mentioned this earlier during the SSTL merger announcement that, SSTL demerger is happening without any debt liability from SSTL to RCOM. So we are not moving any debt from SSTL to RCOM.

Vivek Anand
So only the spectrum obligations will be there, there'll be no separate debt, which will get included in the MergedCo, right?

Punit Garg
You're right, and the spectrum liability, which is basically the deferred payment, will move along with the spectrum to us, both cannot be separated as per the DoT M&A policy.

Vivek Anand
And sir, the last question is with respect to 1800MHz spectrum. As you pointed out earlier that you will look at it on a case-by-case basis and decide to liberalize the same but, there are circles, where we have administered spectrum while Aircel has bought spectrum in the auctions, which is liberalized, as circles like Tamil Nadu, so in such cases, would it mean that we'll have to liberalize the spectrum in 1800MHz band to use LTE or we will need to use GSM if the two entities combine?

Punit Garg
If at all any spectrum liberalization is required or part of it is required we will take the appropriative steps and it will be used for GSM. I think in the due course towards the next earnings call, we would update you further as we progress towards the consummation of this deal.

Operator
Next in line we have Mr. G.V. Giri from IIFL Capital. You may go ahead.

G.V. Giri
I have only one question, what will be the revenue of the combined company because Aircel revenue are visible in the TRAI numbers and as far as RCOM is concerned, for your India business, you are reporting Rs. 53 billion per quarter approximately. And in the TRAI number, it's a much lower number, so what will be the merged company's approximate revenue. Can you just add up today's revenues of the two companies?

Punit Garg
Well, TRAI numbers for both do not give you the full picture because, for RCOM as part of the wireless business its NLD voice business and ILD voice business will also be transferred over there. We would share the combined revenue in future as we progress on this transaction, but I think for now a summation of the two revenues would be a good starting point.

G.V. Giri
Sure, let me just ask in a slightly different way, which might be easier for you, you would be confident that the merged company would have a double-digit revenue market share upon being added up?

Punit Garg
Yes, it is coming to around 12% RMS for the MergedCo.

Operator
Now I'll hand over to Mr. Gurdeep Singh for Q1 performance.

Gurdeep Singh
Yes. Thank you, Punit. Moving on to the key financial highlights for the quarter. The Company has adopted Indian accounting Standards (IND-AS) from 1st April 2016 with a transition date of 1st April 2015. The figures for the quarter ended June 30th 2015 has also been converted as per IND-AS for a like for like comparison.
Let me now summaries our key financial & operational highlights for the quarter:

- **Consolidated revenue** was at Rs. 5,361 Cr and **EBITDA** at Rs 1,560 Cr and this reflected a decline of 3.8% and 17.7% on a Y-o-Y basis. Overall EBITDA margins were at 29.1%
- **Net Profit after Tax** was up 6.3% on a Y-o-Y basis at Rs. 54 Cr.
- **India operation** revenue was down 2.5% at Rs 4,693 Cr, and generated Rs 1,353 Cr. of EBITDA, also down 20.8% Y-o-Y.
- **Global operation** revenue was up at Rs 1,185 Cr. up 5.3% Y-o-Y and generated Rs 207 Cr. of EBITDA, up 10% Y-o-Y.
- RCOM's **net finance charges for the quarter** was at Rs. 796 Cr. (up 11% Y-o-Y) and **capex for the quarter** was at Rs. 2,086 Cr driven by our investments in liberalizing our spectrum and certain 4G LTE investments.
- **Operational highlights**
    - RPM was at 45.2p, up 1.6% Y-O-Y and ARPU was at Rs. 148, up 5.7% Y-O-Y.
    - Total MOU at 100 billion, down 4.8% Y-O-Y.
    - The total data customer base has grown 9.9% Y-o-Y to 38.9 million including 25.4 million 3G/4G customers.
    - The total data traffic on the network during the quarter was at 102 billion MB, up 10.4% Y-o-Y.

While our financial performance this quarter was impacted by the ongoing migration of CDMA customers, we remain confident of being one of the stronger positioned incumbents in the sector. We have successfully liberalized our valuable 850Mhz spectrum, completed the sharing and trading agreements with Reliance Jio and now offer truly revolutionary high speed 4G internet services on a pan-India basis. Having launched our pan India 4G services, **RCOM has leapfrogged from being a challenger operator to becoming the incumbent data operator**. We have successfully completed the process of upgrading our valuable erstwhile CDMA and data card customers to 4G LTE, retaining profitable and valuable customers. We are very pleased with the response we are seeing for our 4G products across various customer segments, including the large and SME corporate sector.

We have the **first mover advantage** in offering Pan India commercial 4G services on the most powerful sub 1Ghz band. Globally it has been seen that the early movers in the 4G space set the trend with their go-to-market strategies and exploit the market share payoffs. We believe that RCOM, as an early mover in the pan-India 4G space would be able to gain disproportionately higher incremental market share by providing superlative customer experience.

Our 4G offering, due to the spectrum advantage for the indoor coverage and speeds, can be easily benchmarked as the **Gold Standard for 4G**. By virtue of our pan India 850Mhz spectrum holding, combined with our network sharing and reciprocal agreements with Reliance Jio, Reliance 4G customers can access the best quality high speed data networks across India. Today nearly 75% to 80% of all data consumption happens indoors and this consumption can be best served by the coveted 850Mhz band which has the best in building penetration properties. We have successfully demonstrated that our 850Mhz band offers blazing speeds even when being used deep inside a building, away from windows or even in the basement.

Based on our existing network and spectrum capabilities we are a Pan India 4G player, a 3G player in 18 circles and our approach is to become the most preferred operator for data customers. In the 5 circles where we do not have voice spectrum we are positioned as the data provider of choice to customers who use dual SIM phones or pure data dongle customers. To our 4G customers, in addition to good network coverage across the country, we continue to offer voice services on the tried and tested circuit switched fall back (CSFB) mechanism. CSFB ensures uninterrupted coverage across most parts of India as it's built on the 2G networks. CSFB also allows customers to use their existing handsets that do not have VOLTE capabilities, thereby allowing them to experience high speed internet without any additional spending requirements. The number of devices available for VOLTE has only recently begun to improve and we expect this to take a few more quarter before it become as a default option in 4G phones.

Our 4G customers can continue to retain their existing phone numbers and upgrade easily from their existing 2G/3G plans. Once upgraded to our 4G network they can enjoy the benefits of the Gold Standard of 4G – HD voice clarity, instant connectivity, blazing speeds and better indoor coverage.

I will now spend a few minutes sharing our perspective on the Indian telecom industry.

Indian telecom sector is undergoing a large structural shift, from being a voice dominant market to a more data-centric market. The era of digital revolution has clearly arrived and would be boosted by high quality customer experience driven by 4G offerings. We are now at stage in the evolution of telecom services where 4G is expected to become the new 2G – i.e. near ubiquitous coverage across the country and universal adoption.

In India while we have seen rollout of 4G networks by some of the operators, but we are one of the only two operators currently offering Pan India 4G services, with a distinctive competitive advantage of the sub-1 GHz band. The sector dynamics is geared towards getting the customers to use higher amounts of data through 4G and 3G offerings and we are very optimistic with recent market developments. We believe that Indian consumers have significantly higher latent demand to consume data services, enabling the sector to grow. The **AAA of the success of any telecom product, i.e. Affordability, Availability and Adoption are clearly tilting in favour of 4G success in the coming years**. Affordability and availability of devices has been becoming easier and the trend is clearly established as a catalyst for growth. Encouraging Adoption is the main challenge facing the operators.

On the devices ecosystem front, as analysed by the various industry research reports, the smart phone manufacturers and related component eco system participants are working very closely towards ensuring increasing availability and affordability of devices. For example, as per IDC estimates, the smart phone market has revived after declining for two successive quarters and has registered 27.5 million units of smart phones shipments in April to June quarter which is a healthy 17.1 percent growth over previous quarter[1]. In addition to the availability of smart phones we are witnessing a number of domestic and international vendors offering phones with high quality specification at very attractive price points. A basic 4G smart phone now is available at less than Rs 3,000 which should only help improve the penetration of smart phones in the country.

To increase Adoption, one important area we have been developing at RCOM is the online sale channel for handsets and making it easier for customers to upgrade to a 4G handsets. Using modern online channels such as e-commerce has allowed us to partner with players such as Paytm to offer attractive discounts and cash back offers, payment over installments etc to make it easier for customers to upgrade to 4G.

The next component in improving the digital penetration within India is around improving the level of awareness and providing locally relevant content. We along with other operators have been closely working to educate our customers on the benefits of the internet. We have introduced a number of customer friendly price plans, trial offers etc to allow customers to experience the benefits of being connected and sampling the variety of digital services and entertainment. We have setup kiosks at our stores that allow for live trials, thereby increasing the propensity to convert from existing 2G/3G to 4G. We will be shortly launching easier processes to onboard our customers using **E-KYC based on Aadhar cards**. Such steps should allow consumers to get connected and consume services faster and also remove bottlenecks around current paper based fulfillment methods which are not only time consuming but also more expensive to implement.

Moving on to the availability and affordability of data services, we continue to see improvements. Today nearly 80% of India's population is covered by 4G networks and

[1] IDC : http://www.idc.com/getdoc.jsp?containerId=prAP41685916

pricing of data tariffs continue to remain at very attractive levels. We have taken necessary steps to improve the communication of our bill plans and tariffs to make it easier for first time data consumers to understand their spending habits better. Offering a single recharge for data and voice services allows customers to better control their spending habits, and allow them to best spend their money on services they actually consume.

Tackling the devices availability and affordability, improving the digital literacy for our customers, and availability of locally relevant content and services, will be the key to bring on the next wave of data customers.

I will now spend a few minutes on some of the key business developments at RCOM on the wireless side of the business.

We now have 4G services Pan-India and are noticing a sharp improvement in usage metrics. In certain cases we are witnessing certain customers increase their consumption of data services by more than a factor of 2 when compared to earlier 3G data consumption. Our strategy and focus in 4G will remain to be an operator of choice in both the mobile phone as well as data dongle (wifi hotspot) category.

At RCOM we are focused on driving the adoption of 4G services and have initiated a number of specific initiates. We believe increased 4G adoption will not only be beneficial for us as the incumbent data operator but also be beneficial to our customers and other channel partners such as retailers. We have invested significant resources in educating our retailers and on-ground selling agents to help them better understand the capabilities of 4G and how it would benefit their customers. We carried out certification courses for such sales people and held demo sessions where customers and retailers could come and experience the true speeds and capabilities of the Reliance 4G network. Our growth of 4G services is built on the premises that "**Experiencing is Believing**" i.e. only once customers experience the benefits of 4G will they continue to use it and more importantly pay for it. We believe with the launch of trial packs as well offers for our partners' friends and families and other such novel offers we will be able scale our 4G services quickly.

To drive adoption we have launched a number of consumer centric offerings that will help improve the value add of our data services and transition us from being a provider of a dumb pipe to a more intelligent carrier of content and services.

Our content-bundled data offer—'MoviNet Plan'—combining movies, music and Internet access is one innovative step towards this. With the MoviNet Plan, subscription to the library of Hungama Play's 'Entertainment-on-Demand' services comes free of cost, along with 'Any-Use Data'. The MoviNet Plan blends data and content seamlessly, providing an easy interface and maximum entertainment quotient. The MoviNet Plan starts at an MRP of Rs 235 per month and gives 2.5 GB of high-speed 'Any-Use Data', including 1.25 GB of ‘Any-Time Data’ access and 1.25 GB of night data. Further, subscribers can also enjoy subscription-free unlimited access to a library of 8,000 movies, over 50,000 music videos and 3.5 million sound tracks—valid for 28 days. We will continue to offer the most relevant content and build partnerships to be able to offer content across all local languages to increase our engagement with our customers.

Taking the lead in offering a better consumer experience we have recently launched the “Calling Ka Naya Tareeka” offer for existing and new customers. With this a customer will experience significantly better app-to-app voice calls with high-definition (HD) quality and instant connections. Continuing with the theme of providing high value services for our customers we have launched “Call drops se Chhutkara” which is our new 4G LTE offering HD app-to-app calling at an introductory price of just Rs 1. With each new Reliance 4G LTE SIM, customers in Delhi-NCR to start with will get an India-first offer of 300 minutes of app-to-app talking, valid for a period of 30 days—for just Rs 1, at 10 minutes per day for 30 days. These single recharge packs for both voice and data are one of the many steps we have launched to improve 4G adoption.

All our strategies are geared towards increasing data penetration within our customer base as well as offering new products and services that makes us the preferred choice for the millions of Indians who are slowly coming on to the “Digital India” platform. We have pack ranges from as low as Re 1 to induce data consumption and slowly build up consumers’ confidence to use the full power of the internet without being shocked with large bills. Our efforts to educate customers to use newer methods of communication such as app to app calling significantly reduce the boundaries and our customers can now make local / STD / ISD calls all without worrying about the costs of such services while continuing to develop deep bonds with their friends and family.

We have also developed a number of attractive propositions for our corporate client base. Our earlier CDMA based WiPods and internet dongles were the mainstay of Corporate India. It allowed business users to be connected to their office across the country at any time. We have successfully launched 4G LTE compatible mi-fi devices that have helped retain our corporate customer base. These customers seek quality of service and reliability over any free offerings. They understand the value of our strong networks and reliability of service as experienced over the last decade and continue to build strong relationships with us.

With these product launches our customers having access to one of the world’s best 4G LTE network—will get to experience blazing data speeds on their mobile phones and other connected devices and will truly appreciate the power of the internet.

On the corporate side we continue to work towards successfully closing out the other transactions we have planned.

Our merger of SSTL’s Indian operations with RCOM to create an entity with the largest Sub GHz spectrum holding in the country and marking the 1st consolidation in the Indian

Telecom Industry is now in the final stages. The DoT approvals are expected within a few weeks after the auction's conclusion. Post that, we will begin to integrate SSTL's Indian operations with RCOM and migrate the customers to Reliance 4G services.

We are making good progress in improving the health of our balance sheet through deleveraging measures such as a stake sale in our towers business. We continue to remain in dialogue with a number of suitors for our tower assets. These discussions are at advanced stages we will make an announcement in the coming months.

I will now hand over to Bill for any update on developments in the Enterprise and GCX side of our business. Over to you, Bill.

Bill Barney
Thanks, Gurdeep. Good afternoon.

Telecom services providers and data center operators are in a race against time to keep up with new mandates of digital transformation and we are pleased to be involved in leading this digital transformation. The industry today stands at a very interesting juncture and must look at how and where to focus its effort in order to maximize leverage and business benefits. We believe we are well placed with our investments in cloud technology for the emerging market corridor of the world. We operate a next generation network reaching from New York all the way around the world back to California, linking up key Asian markets such as Hong Kong, India and Japan, and Middle East markets such as UAE, Kuwait and Egypt; all of which are key markets driving the global growth in data traffic. Our focus is to connect these emerging markets to established markets in Europe and North America, offering ultra-high bandwidth services up to 100Gbps; all of which facilitate the mass movement of Internet traffic, OTT content, and enterprise data and Cloud computing services that are fueling the Internet revolution and inexorable shift in economic gravity.

As a global subsea network operator, Global Cloud Xchange (GCX) is at the heart of the digital revolution where the network is critical for end-to-end connectivity and application performance in the new era of globalization. Over the past year, Global Cloud Xchange (GCX) & Reliance Communications (Enterprise) has reached significant milestones in our global cloud strategy with the deployment of our next generation Cloud Delivery Network – GCX's CLOUD X Ecosystem, in key global markets and across the Emerging Markets Corridor -- where we expect to see the biggest growth in Internet usage and content consumption over the next decade.

India remains at the heart of this growth and India has passed the USA to become the #2 Global User Market behind China[2] – India is a key market where global enterprises will focus on in the next decade. With the Indian enterprise now using more applications,

[2] source: KPCB/Mary Meeker Internet Trends 2016

computing, and data storage services on the cloud, data centres will continue to transform as the work load increases. This will spark a new generation of cloud-based innovations that merge server, storage, software and networking. As one of the largest owners of Cloud computing facilities in India, with our data centers inter-connected through the furthest-reaching terrestrial fiber network in the country and the world's largest privately-owned subsea cable infrastructure, the Company is truly becoming 'the force behind digital'.

Our Cloud X platform with infrastructure available in Hong Kong, Palo Alto (California), London, New York and Mumbai, with further coverage in deployment to cover the whole of India (starting with Chennai and then covering Bangalore and Hyderabad) plus Australia (Sydney) and beyond in the coming 12 months we are truly bringing global technology platforms for our enterprise customers.

Since the launch of CLOUD X Fusion in April 2015, the adoption rate has been significant, signing up strategic partners including Amazon Web Services, Microsoft Azure, IBM Softlayer, Google Cloud Platform and Equinix. Our CLOUD X Fusion, customers can now deploy SD WAN-based hybrid connections at their remote sites and access leading public Clouds over our extensive CLOUD X Fusion ecosystem, with the virtualized aggregators and controllers hosted on our CLOUD X Platform and managed via our CLOUD X Orchestration layer. And unlike the majority of our competitors, we offer enterprise-grade private connectivity into all the leading Cloud platforms with multiple interconnects in every region worldwide.

We are excited with the future for our enterprise and GCX offering as communications is one of the largest portions of enterprise IT budgets, we see enterprises building on the macro trend of making enterprise communications more accessible and productive. The rise of mobile work forces will need information anytime and anywhere and this will lead to the creation of more opportunities for enterprise communication tools and platforms.
I would now like to highlight a few key achievements during the quarter

RCOM & GCX announced the deployment of Fast Edge, the country's first "Make in India" Content Delivery Network (CDN), which comprises a Content Delivery Network of content caches around the edge of Reliance's Indian network, connecting back to 9 state-of-the-art Tier III+ data centers in Mumbai, Bangalore, Chennai and Hyderabad. The content caches, in turn, are seamlessly connected onward to our network of data centers situated in key hubs along the Emerging Markets Corridor, all interconnected by our wholly owned global subsea fiber network.

We launched CLOUD X WAN – a global SD WAN Solution for Enterprises. Cloud X WAN, the latest addition to the CLOUD X portfolio, is a Cloud-centric network platform designed to help overcome many of the challenges facing today's global enterprise networks, offering an affordable solution which embraces flexibility, scalability and enhanced security. Cloud X WAN is an evolution of GCX's existing hybrid WAN service which already connects more than 20,000 locations to a global MPLS network via the Internet.

I am pleased to announce that GCX was named "Best Managed Services Provider by Telecom Asia". Now in its 19th year, the Telecom Asia Awards are the region's longest-running and most prestigious telecom industry award which recognizes outstanding performance by service providers and industry executives.

Furthering our technology partnership with leading industry participants and academia in May 2016 GCX announced a partnership with Cornell University's Electrical and Computer Engineering Department to test and implement a breakthrough technology for dynamic, optimal routing, providing Cornell with a live production environment for deploying and testing the new traffic control solutions. The environment includes the GCX Cloud X nodes and Layer 2 / Layer 3 networks across multiple locations in North America, Europe, and Asia. We believe this pioneering partnership will provide real-time network analytics that track how the new routing solutions dynamically load balance and quickly converge to the optimal traffic distribution. Going forward we will look to expand this partnership across a larger production network.

In conclusion with connections worldwide spanning Asia, North America, Europe and the Middle East we are equipped to support businesses and their growth through the deployment of next generation Enterprise solutions across our Cloud Delivery Networks.

Gurdeep Singh

In conclusion, let me reiterate the following:

- RCOM is transforming **from a challenger to become the Incumbent Data operator** in the country, and our recent M&A transaction only reinforces our position.
- With Aircel merger, we will be a strong operator clearly ranked amongst India's top 4 telcos by customer base and revenues, also ranking amongst the top 3 operators by revenues in 12 important circles.
- We are well positioned to ride the 4G-fuelled growth curve as the incumbent and our sub 1Ghz spectrum pool provides the most competitive edge to our services.
- We have undertaken one of the largest customer upgradation programs in the country and have successfully upgraded our value accretive CDMA customers to the 4G LTE platform.
- Our Pan India 4G services going forward will **help us leapfrog in subscriber and revenue market share.** Our 4G strategy will be to increase our 4G market share by continuing to offer innovate plans and offers.
- On the Enterprise and GCX side of the business we are well positioned at the crossroads of emerging market data traffic growth and exponential growth in Cloud services to make us a leading Next Generation Technology Service Provider.
- Our partnerships and strategic sharing and trading agreements make us one of the most asset light operators in the country. We are well invested across spectrum and

network capacities and can now focus on delivering better returns on our invested capital as well as deliver great value to all our 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. Viral Shah from Credit Suisse. You may go ahead please.

Viral Shah
Thank you sir. Actually, I had questions with respect to the Aircel deal. Can you just give us some sense of what would be the net debt-to-EBITDA that we can be looking at for the residual RCOM business, both ex the wireless business and ex the TowerCo business?

Gurdeep Singh
So, as my colleague Punit mentioned earlier, the financials are more applicable in the financial year that is coming because it will take ~six months for the transaction to consummate. We are looking at transaction to consummate by end March. And I think we will share all of those financial details at an appropriate time.

Operator
Thank you sir. Next in line we have Mr. Manish Adukia from Goldman Sachs. You may go ahead please.

Manish Adukia
Yes. Hi, good afternoon. Thank you for taking my questions.
My first question is on your tower subsidiary, Reliance Infratel, I was just looking at your FY16 Annual Report, and I think revenues for that subsidiary are down 20% Y-o-Y to about Rs. 47 billion and after being already down by about 24% in FY15, so could you please throw some light as to what is happening there?

My second question is on your subscriber base. This quarter, I think your VLR subscribers are down about 20 million sequentially and I understand a large chunk of this is because of the 4G migration. So have we now reached a stage where VLR subscribers are likely to stabilize at current levels for RCOM or even start rising.

And my last question is on your 4G sharing with Jio and I'm sorry if I have missed this in the past, but RCOM is using Jio's 4G for its own 4G roll-out. So what is the kind of agreement that you have with Jio in terms of, are you paying Jio in terms of the data carried on the network of Jio or is it like a fixed fee kind of transaction? If you can provide any color on that, that will be very helpful. Those are all my questions. Thank you.

Gurdeep Singh
I'll answer the last two questions first and then I'll hand over to my colleague Manikantan to talk about the tower financials. First is on the VLR, well, if you see, our sequential last two quarters, first in the month of December we had an impact in those circles where we chose not to renew the 900 spectrum and moved to a pure-play 3G operator. That led to one set of subscriber loss, which was as per the plan and we could not migrate a large chunk of our customers and upgrade them onto the 3G platform.

In Q1, we have undertaken a large scale CDMA upgrade to GSM and LTE thereof, which has led to the subscriber moving out. The subscriber, which we wanted to retain, which were profitable to serve, high value accretive and EBITDA accretive, have been retained.

Having said that, the migration exercise started early May and have continued till the later part of August. So as we go forward, you will see some more impact of that coming in the future reporting, but October to December will be the full scale stable quarter where you will see the benefits of these migrations and the 4G induction both leading to the rise in revenue and subscriber uptake.

Manikantan Iyer
On the tower business, variation in the revenues on the tower front is on account of IRU being recognized in the earlier year while comparing with the end of 2015 and 2016. The quantum of IRU in 2015 is higher than the quantum of IRU in financial year 2016, that's why the impact.

Manish Adukia
Right. So even in FY15 for example, revenues were down, right. So that is also due to the IRU impact?

Manikantan Iyer
FY15 would also be impacted by the closing down of Etisalat etc

Manish Adukia
Sure. Okay. And my last question on Jio?

Gurdeep Singh
So post our spectrum sharing and trading with Jio, we entered into an ICR arrangement with Jio to make and use and provide LTE services to our consumers and there is a commercial arrangement that is between us and Jio, due to confidentiality reasons, it may not be appropriate for me to share whether it is rates per megabit or terabits but yes, this is a commercial ICR arrangement with Jio.

Operator
Thank you sir. Next in line we have Mr. Kunal Vora from BNP Paribas. You may go ahead please.

Kunal Vora
Thanks for the opportunity again, sir. First is how is the Jio free voice and data offer impacting RCOM this quarter, it seems like some of your customers which includes those who are holding data cards or those who are on unlimited calling plans would find this new offer attractive. So how are you looking to protect these customers and are you seeing any impact as yet, that's question number one?

Gurdeep Singh
Well to be very honest with you, we are not seeing the impact on RCOM so far and nor do we foresee. We have established channel acquaintances, relationships on the ground, be it Corporate, SME, through our stores or through multi-brand outlets or through the modern trade channels. From RCOM's perspective, this is an addition to its services to our customer base whether it's individual or corporate and that is really appreciated on the ground. It may not be fair on my part to comment on a competitor's go-to market strategy but all we can say is that consumers are over excited with the quality of our service. The quality that 4G delivers in terms of speed outdoor and indoor is excellent and they are more than happy to continue relationship with Reliance Communications and which eventually leads to a higher wallet share of the customer.

Kunal Vora
Second question is on your license fees payment is down 15% this quarter from Rs. 196 crore to Rs. 168 crore. Is it in line with the decline in your adjusted gross revenue because you haven't disclosed that to TRAI as yet, but the 15% cut in the license fee, is it in line. And also on your Access service there's an increase from Rs. 700 crore to Rs. 800 crore, is it because of some payments to Jio, that's question two.

Manikantan Iyer
Answering the first one, the license fee is down on account of settlement with other operators. License fee is paid on net of settlements of all other operators, and we have settled higher amounts in this quarter to all the operators. Second, access fee increase is not an account of Jio, it is an account of ICR agreements.

Kunal Vora
But one of them would be Jio or like a sizeable increase could be because of Jio or it's actually the other operators?

Manikantan Iyer
Access charges on a quarter-on-quarter have not been impacted much. Are you comparing it year-on-year?

Kunal Vora
Yes, year-on-year.

Manikantan Iyer
Year-on-year comparison for access charges is not correct.

Kunal Vora
Understood, Okay. And last question was on RCOM and Jio sharing its 850MHz spectrum. The total capacity which is on Jio network, since you have a sharing agreement, is there a distribution of the capacity or the entire capacity belongs to Jio? Or will RCOM have to pay for the capacity RCOM uses on that network?

Gurdeep Singh
Well, we have an ICR arrangement with Jio on LTE service, and this is a commercial arrangement. So it is certainly based on the quantum of the data that we consume with Jio. Now whether that relationship is, on per megabit or a quantum of chunk or accelerated cost or a decelerated cost, it is a matter of confidentiality, which I'm not able to share.

Kunal Vora
Sure, so entire capacity basically belongs to Jio and you will have to pay for whatever capacity you utilize, the charges could be a variable or fixed, but the thing is that entire capacity belongs to Jio on that network, right?

Punit Garg
As we said, 850MHz is a shared spectrum, both the parties have equal capacity on 850MHz. Our ICR arrangement is to ensure that our LTE customers access the full suite of spectrum, which Jio has. It is like, if you are a 3G customer in 2100 and some other operator has launched in 900, you can go to 900, i.e. you can be in 900 and 2100. Similarly like in 2G, you had 900 or 1,800 when you do the ICR, you gain access to both. So similarly in 4G, irrespective of band, we are actually accessing all the spectrum bands of Jio, but in 850, we both are sharing capacity and we both equally hold the capacity.

Kunal Vora
Okay, so 800MHz band is based on 50-50 sharing, and you don't have to pay anything to Jio as long as you're within that 50%. So you also have a lot of freedom to price your services, like so your prices can actually be even lower compared with Jio, is that right?

Punit Garg
There is no fixed capacity sharing mechanism. Customers of both can equally use the capacity as per actual traffic requirements.

Pricing strategies are irrespective of whether you have a free access or a charged access, that is your go-to-market strategy. And as I said that we are currently very happy with the plans that we've offered to our customers and renewed or strengthened our relationship and that is already leading to a more-than-expected uptake on the 4G.

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

Srinivas Rao
Yes. Hi. Just one question first on your cash flows, it seems there is, at least on the reported number, a positive number. Can you clarify how we're getting that?

Manikantan Iyer
It is on the sale of spectrum, as you would know that we had traded some spectrum, that traded spectrum will come there. It is a net number basically including Rs. 1,263 crore paid for liberalization during the quarter, and normal CapEx of Rs. 700 crore to Rs. 800 crore incurred in this quarter which we have booked. Then there is sale of spectrum to the tune of Rs. 2,870 crore. So the net impact is a negative number. And hence there is an inflow as per cash flow from operation.

Srinivas Rao
So just can I clarify, you said about Rs. 700 crore of normal tangible CapEx, Rs. 2,700 crore of inflow from spectrum sales and what is the balance? is it the liberalization amount?

Manikantan Iyer
Yes.

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

Vinay Jaising
Thank you once again for the opportunity. As we've been saying, we moved from CDMA to 4G, the transition has been impressive. But what I wanted to understand out here is what it cost us, what did we lose, because obviously the customers would have had to move to changing their dongles or their routers. Who spent for that, did we subsidize them, is that part of this tangible CapEx, which was just mentioned or was it that the customer was happy to just change and take the service just for a faster speed. So that's my first question on CDMA to 4G transition.

My second question is again on CDMA to 4G, but not on the data cards, rather on the handsets. Obviously, the CDMA subscriber would have needed to shift his handset and move to a 4G handset. So any subsidies coming in out there, which you'll have done or you just let go the customers you did not want and the people who had the smartphones shifted. So that's my second question.

Gurdeep Singh

Yes. To answer the first question, when we took-up the CDMA migration to LTE, we were very clear that we will demarcate our customers into high value and profitable. That was the first objective and within that the corporate was given the priority. So in the process of migration, we did lose the customers who are below cost to serve and whom we were only happy to get on our network, but we did not specifically focus on their migration.

To the customer base, that we focused and sharp shooted for migration, we were more than happy and satisfied with the migrations process as we were able to protect the EBITDA arising out of the erstwhile overall CDMA customers but migrated the chosen customers and retained that EBITDA. In this process, there are some marquee corporate and other accounts where we had to offer them the dongle and at a price, which is recovered through the billing plan. So there is an investment in migration but it is recovered over a period of time. In order to put it in simple terms, there is no subsidy given which is non-recoverable.

Second, on the handsets plan, customers were asked to upgrade to or buy a handset of their choice. We have facilitated working with the all the device manufacturers and the finance service providers to make this process for the customers easy and provide affordable options and I reaffirm that we have not given any subsidy to any customer on the handset or on the dongle.

Vinay Jaising

Just on the same thing, is this the reason why when I look at your EBITDA for the India business, if I knock out the one-offs which should have come last quarter because of the real-estate sales and probably higher IRU sales, it seems to be very similar to the last quarter, that means the EBITDA has been protected.

Manikantan Iyer

EBITDA has been protected except for a cost increase of Rs. 70 odd crore, which is an account of 4G migration. However, it will be recovered within the ongoing billing system. The cost of 4G migration has been taken into account in this quarter and that's a one-off.

Vinay Jaising

So very simply put, if I look at last quarter and this quarter, apart from this small one-off, no real-estate and no additional IRU sales and no incrementally big IRU sales from Jio. The quarters are very similar to the last quarter, I'm not talking about the future quarter.

Manikantan Iyer
In the last quarter there was real estate, but that is in the other income part.

Vinay Jaising
So, were there any real estate sales this quarter?

Manikantan Iyer
Yes, very small.

Vinay Jaising
One last question, we've spend a lot of time in the last couple of quarters talking about R-Jio, what I see coming in the last couple of quarters coming in from R-Jio has been partial payment for liberalization and some tower revenues, which I still don't know what the number is, I'm still waiting to hear about that. Now you talk about the CapEx being lower and you are sharing the Jio network for 4G. Is there anything else we can tangibly identify which we can see coming in from Jio, or is it just your 4G network which will run on theirs and whatever you get will be the additional gain in your tie-up with Jio?

Anil Ladha
So whatever transactions or liberalization of spectrum, which has happened and we have discussed this in the earlier calls, we have funded the liberalization payments through various transactions, including payments from Jio for the trading of spectrum. So there are no further proceeds on that account going forward.

Vinay Jaising
So whatever we were expecting from Jio now incrementally is a function of using the 4G network on their network as partners? Is that fair?

Anil Ladha
Yes, and now, we have a shared network and shared spectrum. So we will be providing our 4G services on their network under this arrangement, and transactional relationship we have with Jio on this is that we will be sharing OpEx on the network depending on traffic.

Vinay Jaising
So no additional revenues coming in from fiber sales or usage of fiber for inter or intracity fiber, incrementally, coming up in the future?

Manikantan Iyer
We can't conclude that way, we still have the fiber capacities and we can't confirm this at this stage.

Vinay Jaising
Okay. Thank you so much.

Operator
Thank you sir. Next in line we have Mr. Vivek Anand from Ambit Capital. You may go ahead.

Vivek Anand
Yes. Hi. Thanks for the opportunity. Just a couple of small questions on the network capacity, so we saw usage of 102,000 terabytes during the current quarter, what would be the capacity utilization of our network right now in terms of data throughput?

Punit Garg
As you know on the 4G, it is ICR arrangement, at an overall level on 2G and 3G the capacity utilization varies from circle to circle, but we're currently running at around 48% to 50% capacity utilization.

Vivek Anand
Right, and you are saying that the 4G capacity that you have created along with Jio, that is not yet on stream, is that a correct assumption? I mean, that came on stream now, right? Or is this 48% to 50% utilization just on 2G and 3G?

Punit Garg
Yes, that's on 2G and 3G, and 4G we've just begun.

Vivek Anand
Right. And secondly, a related question, on 4G, the spectrum sharing and trading deals that have happened with Jio, you said that the network capacity is shared between the two of you in 800MHz band. Now is it fair to assume that you have paid for spectrum liberalization while Jio has incurred the CapEx on active network rollout? Is that a fair assumption?

Gurdeep Singh
I think we can say that we have paid for our spectrum liberalization and it was essential for us to do the 4G on that and it's essential for us to do the sharing. And as far as the sharing terms go, the RF is managed by one partner, so we have not expanded our RF, but as far as our core network is concerned that has been invested by RCOM for the RCOM business.

Vivek Anand
Sir, can you please elaborate on this? I didn't understand.

Gurdeep Singh
The sharing allows, sharing of RF, which is the radio frequencies, which is like you call it the 2G BTS, 3G BTS, as sharing BTS is allowed, but when it comes to switching or going forward that is core network that has to be individual. So I'm saying the RF is shared, but as far as core network is concerned, RCOM has invested for its own

network, and its own subscribers and Jio has invested for its own subscribers. So we have invested into the core network.

Vivek Anand
And for the overall network rollout, I presume that by core network you mean the Internet gateway, the SGSN and the PDSN, those elements, right?

Gurdeep Singh
Yes, and also the switching and aggregation.

Vivek Anand
Right. Understood. This is very clear. Thanks for the clarification and all the best.

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

Pranav Kshatriya
Hi. Thanks for the opportunity Sir, I have two questions. I missed out your point on CapEx and how it panned out in this quarter. So can you please repeat that? And secondly, in this quarter, there is a very sharp increase in the working capital requirement. So what exactly is causing that?

Manikantan Iyer
As far as CapEx is concerned, I guess there are two to three elements of the CapEx in the quarter. Normally CapEx is between Rs. 700 crore to Rs. 800 crore and in the current quarter we have incurred a CapEx of Rs. 823 crore. In addition to that, we have paid a spectrum liberalization fee of Rs. 1,263 crore. This puts together is a total of Rs. 2,086 crore of CapEx.

In the same quarter, we have done spectrum trading, wherein we have received an amount of Rs. 2,870 crore from sale of spectrum. The resultant CapEx and the cash flow because of that show a negative figure, because sale is more than the investment, and that is the reason for difference.

Pranav Kshatriya
Yes, that is very clear sir, can I just ask that liberalization of spectrum is it the 800MHz spectrum, which is liberalized?

Manikantan Iyer
Yes, you are right.

Pranav Kshatriya
And on working capital?

Manikantan Iyer
If you see the cash flow, both the cash flows are not directly comparable, because these are two different periods. You are aware in the last quarter, we had received an advance from the customer for working capital, these are kept as working capital, now that sale of spectrum has been completed and that will move actually from operating activities to the next line item in the working capital. Our cash flow from operations are stable at about Rs. 1,700 crore for both the quarters, Rs. 1,713 crore in this quarter, last quarter it was, Rs. 1,719 crore. There is no variation over there.

Pranav Kshatriya
Okay. Got it.

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

{End of Transcript}