RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call

for the Quarter ended 31st December, 2016

Conducted at 4.15 pm IST on 13th February, 2017

Moderator

Thank you for standing by, and welcome to Reliance Communications Global Earnings Conference Call on Reliance Audio Conferencing Platform. This is Deepesh, 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. Please be advised, this conference is being recorded today.

Today, we have the senior management team from Reliance Communications, namely **Mr. Gurdeep Singh**, Co-CEO-RCOM and CEO-Consumer Business; **Mr. Bill Barney**, Co-CEO-RCOM and 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. Gurdeep Singh. Thank you.

Gurdeep Singh

Good Afternoon and welcome to our third quarter FY17 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 February 11th, 2017, our Board of Directors adopted the results for the third quarter FY17 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.

This has been a difficult quarter for the entire industry with all operators registering decline in top line and bottom line, on account of -

a) Unprecedented competitive intensity with discounted tariff plans by operators, resulting in financially difficult operating conditions. Nowhere, even globally in any telecom markets, such a fierce competitive environment has been seen. On global standards, India was already the lowest ARPU market; and with the present hyper-competition, Arpu levels for the industry have been further declining.

This was first **ever quarter wherein the top-line deteriorated** over the previous quarter for all operators, resulting in a cascading effect on bottom-lines. And,

b) **Demonetization**, though a beneficial long term initiative, has resulted in short-term adverse impact for all operators by affecting the recharge behavior during the quarter.

RCOM's profitability has also been impacted due to the following factors.

1. This was first full quarter after Company's transition, through complete shutdown of its profitable CDMA operations in Q2, impacting both top-line and bottom-line. This was in line with our **asset light strategy** to become a pan India 4G LTE operator by freeing up 800 MHz band spectrum for 4G LTE operations, enabling RCOM to execute sharing deals with Reliance Jio.
2. There was substantial increase in the amortisation and interest expense, aggregating Rs. 278 crore on account of capitalisation of 850 MHz 4G LTE spectrum liberalisation fee during the quarter. This was necessary as 850 band liberalisation was required for offering 4G LTE operations.

All these factors resulted in net loss of Rs. 531 crore for the quarter. However our India operations' revenues have seen lower impact than other industry players and have declined only by 4.9%.

If the impact of CDMA business shutdown and spectrum liberalization is taken as a one-time cost then RCOM has performed better than the peers, and we are strategically well prepared to meet the future – with our 850 MHz 4G LTE spectrum and access to state-of-the-art nationwide network of Reliance Jio.

During the quarter, **our Global business performance** was strong and stable with revenue up 4% Q-o-Q at Rs 1,132 Cr. and Rs 249 Cr. of EBITDA, up 1.6% Q-o-Q. This is a consistently performing business and provides stability to our financials in current environment.

Our other key financial & operational highlights for the quarter are:

- **Consolidated revenue** was at Rs. 4,922 Cr and **EBITDA** at Rs 1,206 Cr and this reflected a decline of 4.3% and 21.8% respectively on a Q-o-Q basis. Overall EBITDA margins were at 24.5%.
- **India Operations** revenue was down 4.9% Q-o-Q at Rs 4,267 Cr, and generated Rs 957 Cr. of EBITDA, also down 26.2% Q-o-Q.
- Total MOU was at 102 billion, up 4.3% Q-o-Q.
- Our 3G/4G data subscribers' base is quite stable at ~23Mn.

<u>Let me now talk about trends and perspective about the telecom industry.</u>

The spectrum auction concluded in Oct 2016 was a big event for the sector as it offered substantial amount of more than 2,350 MHz across bands. Such a mega auction was a positive step by Government for the sector. While various operators acquired spectrum in the 1800/2100/2300/2500 bands, however no one bid for 700 MHz spectrum. It **effectively resulted in continuing leadership of RCOM in holding sub GHz spectrum band,** a critical differentiator in the data business. This benefit to RCOM would continue to be a critical success factor in the 4G sweepstakes.

RCOM did not need to bid for any spectrum given the adequacy of our current holdings and expected enhancement in holdings through merger with Aircel. We only acquired 5MHz spectrum in 1800 band in J&K, resulting in a small outlay of just Rs 65 crore, to strengthen our 4G business plans.

4G Data is THE growth frontier: In all the major markets globally, 4G uptake has been taking place at an exponential pace. For example, in China the total 4G subs base, in just three years of 4G launch, is now around ~760mn, representing 4G penetration of around 60% and around 70-80% of data traffic happening on 4G.

Enhanced outlay by all operators on 4G business to speed up coverage and create capacity proves our belief, as enunciated a few quarters back, that future lies in 4G. **RCOM had prepared itself well in advance** for this era through proactive and strategic initiatives like spectrum sharing deal with RJio and migration of valuable CDMA customers to 4G.

Consolidation: The current hyper competition has also forced even some incumbents to seriously look at options for consolidation. CY2017, we believe, will be the year when the entire telecom industry consolidates into large 5 pan India scale operators. In this market, operators with scale only will be able to survive.

RCOM is playing a major part in this consolidation trend by integrating SSTL's wireless business into itself and merging the integrated wireless business with Aircel to become a large & strong operator to compete effectively with the incumbents. In-country consolidation provides best synergy benefits in capex and opex.

On the Government policy front; with hyper competitive scenario, government revenues from the sector are getting adversely impacted. It might be a good time for the government to relook at government policy driven components of the industry's cost structure. In a changing scenario of Arpu led plans, per minute Interconnect Usage Charges itself, let alone a staggering rate of 14 paise, should be reviewed and scrapped by the Government.

Now, talking about the current environment, we believe that,

The full-scale impact of free services, continuing discounted tariff plans and overall consequent competitive intensity will continue through this quarter. The overall play has become a capacity and volume led play rather than tariff based businesses. The pricing structure is getting transformed from per minute or per MB to Arpu led structure. Thus focus would continue on retention of subscribers and growing the base further through competitive Arpu plans.

RCOM is focusing on a set of **three distinctly positioned products** to drive customer acquisition and traffic growth.

(i) A Rs.149/- voice oriented product which we recently launched, offering our customers, unlimited calling talk-time to any phone on any telecom network across the country, including STD calls. The plan also offers 300MB of data for free. Our revolutionary Unlimited Plan is set to change the dynamics of mobile recharges in India.

(ii) A Rs. 19/- product that offers all calls at 20p, which is targeted at migrant subscribers and STD users

(iii) A Rs.99/- product that has 1 GB of 4B data built in addition to all calls at 20p, which is targeted at youth, college students and young executives.

We are seeing a good traction in the recently launched initiatives. These are helping us in arresting the churn and also enabling us to acquire post-paid and corporate customers in the 4G data space.

I will now request Bill to give you an update on the developments in the Enterprise and GCX businesses.

Bill Barney

The RCOM Enterprise and GCX side of our business continues to show positive growth while gaining visibility across key markets globally. In fact, this has been a turnaround year for RCOM Enterprise and GCX as our frontline continues to deliver new logos and expand on revenue opportunities with existing customers. Since launch of Fast Edge, the first "Make in India" Content Delivery Network (CDN) and our global SD-WAN solution (Cloud X WAN) in 2016, we have further enhanced our product portfolio to address the growing mandates of speed, cost savings, flexibility, scalability and enhanced security for enterprises worldwide. Our Cloud X portfolio, network enhancements across India and worldwide, and our Customer Advocacy Team (CAT) initiatives have contributed to the retention and growth of top global customers across the regions.

We continue to receive validations across the industry. This includes positive inclusion in industry whitepapers with key analysts validating our strategic approach. Most recently, Ovum Research showcased our approach in becoming the best network supplier and orchestrator for Cloud services.

Here are some highlights of our Achievements in Q3:

- We announced the deployment of our Cumulous Network, which will boost connectivity in the seven Indian Capital cities across the Indian subcontinent while providing connectivity between international gateways in Chennai and Mumbai –both powerhouse cities and gateways for the major tech and financial institutions doing business across the Indian subcontinent. The new Cumulous Network, based on 100G technology, will complement our digital backbone as we complete deployment of our Cloud infrastructure across India.

- We completed the sale of Yipes customer base to GTT. Simultaneously, all of the outstanding interests held by the Company in Yipes were transferred to GTT Americas LLC, a wholly-owned subsidiary of GTT Communications Inc., an established, publicly listed U.S. carrier that provides domestic and international communication services.
- We also enhanced our Telecom Italia Sparkle partnership with new international routes. Sparkle is acquiring significant Spectrum capacity across GCX's Flag Atlantic (FA-1) system. In addition, Sparkle and GCX will close a strategic capacity deal on the new Europe-to-Asia system, SEAMEWE-5. We will continue to explore additional areas of cooperation into markets across South America, the Middle East and Asia Pacific.

Now I handover to Gurdeep for further update and summary.

Gurdeep Singh

I will now like to update you on the deleveraging and corporate transactions.

Deleveraging: We are committed to reduce our debt significantly, about 70% during FY18. For both the key transactions which would achieve this objective, namely Tower and Aircel merger transactions, definitive agreements have been executed during Q3 and regulatory processes are underway as planned. This deleveraging would be the largest such exercise in the Indian corporate sector.

Tower Deal: During Q3, RCOM signed the Definitive Agreements with Brookfield in relation to the proposed sale of RCOM's nationwide tower assets and related infrastructure.

RCOM will receive an upfront cash payment of Rs. 11,000 crore from the proposed transaction. RCOM will also have 49% future economic upside in the Towers business, based on certain conditions. RCOM expects significant future value creation through this arrangement, based on growth in tenancies arising from increasing 4G rollout by all telecom operators and fast accelerating data consumption. We have applied for CCI approvals, and have also filed the business demerger and transfer scheme in NCLT.

Aircel Merger: The merger of our wireless business with Aircel will create a strong operator. As part of this transaction RCOM's overall debt will reduce by Rs 20,000 crore i.e. nearly 40% of its total debt. We have applied for the Stock exchanges and CCI approvals, to be followed by filing of a scheme in NCLT.

SSTL integration: Merger of SSTL's wireless operations with RCOM, marking the 1st consolidation in the Indian Telecom Industry, would be concluded by March. The DoT approvals are expected shortly. Post that, we will begin to integrate SSTL's operations with RCOM with migration of the customers to Reliance 4G services.

To Summarise:

1. Consolidation is the only way forward in the industry. We believe that the Indian telecom industry will be a circa 5 pan India scale operator market.
2. RCOM is playing a front-running role in consolidation of industry through its SSTL and Aircel transactions because we believe that in-country consolidation can provide highest synergy potential.
3. RCOM has withstood the current market conditions comparatively well with proactive strategies through freeing up of 800 MHz spectrum and sharing deals with Reliance Jio. Our best-in-class pan India 4G LTE services will help us in enhancing incremental subscriber and revenue market shares.
4. Our deleveraging initiatives are on track to reduce our debt by almost 70% in FY18, with Tower sale and Aircel transactions progressing well on track.
5. GCX business continues to show strong and stable performance while gaining visibility across key markets globally.
6. In the changing scenario with Arpu led market, we believe that per minute Interconnect Usage Charges should be reviewed and scrapped by the Government.

Thank You. Over to the operator for the Q&A.

Moderator:

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

Question-and-Answer Session

Moderator

First in line, we have Mr. Sachin Salgaonkar from Bank of America. Mr. Salgaonkar, you may ask your question now.

Sachin Salgaonkar

Hi Gurdeep. I have three questions; first question is, can you update us on your deal with Aircel in the context of Supreme Court's warning of spectrum auction at Aircel, so just wanted to see whether you see any risks to the deal or any change in terms. A related question is an update of selling of towers to Brookfield. I understand it's based on certain conditions. If there is a risk to the Aircel deal, do we see risk to tower deal as well? The second question is, if you could give a little bit more clarity on how has been the uptake of services of Rs. 149, 299, 499 plans you launched, in particular, if you have some numbers in terms of what kind of your subscriber base is using that, and lastly, there was a media article saying that RCOM may be potentially in talks with Telenor, so just wanted to have an update on that.

Gurdeep Singh

Okay, Sachin to answer your first question on deal with Aircel, at this moment, all I can say is the matter is *sub-judice*, so we would not like to comment any further. Second, your update on tower, as I just stated in the speech, it is progressing well, and we already set out a media release at the time of signing of the definitive agreement, and we are currently in the process of taking all necessary approvals from the requisite bodies.

Sachin Salgaonkar

So, Gurdeep, a quick follow-up on this. When do you expect the upfront cash to come on to your books, based on this?

Anil Ladha

The overall time period for the approvals and regulatory process is expected to be anywhere about 4 to 5 months from now i.e. by the middle of this calendar year, we expect to complete the transaction and on completion of the transaction, the cash inflow will be there.

Gurdeep Singh

Your third question was on how our Rs 149 and Rs 249 unlimited plans are doing? We launched these plans aiming at the consumers who have large voice needs and have a smaller data requirement. This is the mid valley of the customer base. We estimate that over 50% of consumers fall within the bracket of circa Rs. 150 monthly ARPU bracket in the Indian telecom market and our product was completely and clearly aimed at those consumers. I would say that this plan has really helped us to find a niche in the market, and we are getting the acquisitions across 2G, 3G, and 4G which is helping us improve on our subscriber base against the backdrop of intense competitive pressure coming from all the other sources that you are well aware of.

The next question on the Telenor assets, well, we continue to examine various market opportunities and remain open to combinations so long as they are value accretive and there are synergies which reduce the overall cost-to-serve or can deliver an additional set of customers which contribute positively to overall margins.

Sachin Salgaonkar

I got it, Gurdeep. This is clear. Thank you.

Operator

Thank you, Mr. Salgaonkar. Next in line, we have Mr. Kunal Vora from BNP Paribas. You may speak Mr. Vora.

Kunal Vora

Thanks for the opportunity Sir. I wanted to understand your non-voice revenue. There is a decline in data volume. There is also likely to have been a steep decline in data realisation. However, the non-voice revenue in India has increased. Can you explain various components of this revenue stream and what is driving this increase?

Anil Ladha

Kunal, as far as the non-voice revenue component is concerned, this includes mobile data revenues and also other components like India Enterprise, Data Centers, and OFC revenue components. It is a mix of these various items, so because of that, the overall impact is that there is a marginal growth in this revenue during the quarter.

Kunal Vora

Okay. So, what's happened in mobile data actually, because in mobile data, I would assume, would have seen a steep decline this quarter.

Gurdeep Singh

Well, in general, your question is correct, but given the fact that we launched this superlative 4G Pan India services under sub 1 gigahertz spectrum has helped us to continue to garner more data customers in the 4G space which is a kind of an offset against whatever transition we have seen or a temporary loss of data usage we have seen from the existing customers who would have taken other offers from the competitors. So, that is helping us keep in check.

Kunal Vora

Okay. Second question is on the Brookfield deal, will it be a cash inflow of Rs 11,000 crore because if I look at the release, there is talks about debentures of Rs. 6,900 crore, Redeemable Preference Shares of Rs. 100 crore, debt assumed of Rs. 4,000 crore, so will this be a cash inflow or how does this work?

Punit Garg

Okay. Those are just some of the financial instruments which are being used to make it more structurally optimal. The entire proceeds will be used to reduce debt.

Kunal Vora

Understood, and my last question is on the Rs 149 and Rs 249 plans; how profitable these plans are? Assuming that the interconnection rates are not lowered and if the customers continue to use high proportion of off-network calling, do you see these plans as profitable?

Gurdeep Singh

Well, yes. We see these plans as profitable at the current IUC level even though the margin could be lower. You have to see it in the backdrop of the fact that if you continue this as the principal product for acquisition and if you really build a community over a period of time, then they become more profitable. Otherwise, like all of us know, on any of such attractive plans initially only the busters come on to the category who are never profitable, but as you build the community over a period of time, now that we have done it for over three months, it is turning to the positive side.

Kunal

Understood. Thank you, Sir.

Operator

Thank you, Mr. Vora. Next in line, we have Manish Adukia from Goldman Sachs. You may ask your question Sir.

Manish Adukia

Hi, good afternoon and thank you for taking my questions. I have two questions. First one, is just a follow-up again on the tower transaction question that was being asked earlier, so again, based on your press release, I think, I just wanted to seek clarification; it mentioned that R-Com will have a 49% future economic upside from the tower co and I think, on the second page, it also mentioned that Brookfield will hold 100% of the entity after this transaction completes. So, just wanted to reconcile these two statements that on one hand the release said that Brookfield will hold 100% but on the other hand, it also mentions that you will have 49% upside, so just wanted to understand that, and the second is just a housekeeping question, I think, in terms of your D&A expenses this quarter, it show a sharp uptake versus the previous quarter, so just wanted to understand what is driving that; thank you.

Anil Ladha

Okay. As far as the first question is concerned, the overall 100% stake in the tower SPV will be held by Brookfield through the voting shares, and R-Com will get a share in the non-voting shares through which we will hold this 49% future economic interest.

Manikantan Iyer

The D&A expenditure is up on account of two reasons; One, additional amortisation on spectrum capitalised during previous quarter, and depreciation on account of fair valuation of certain PPE pursuant to first time adoption of Ind AS.

Manish Adukia

Okay. Thank you.

Operator

Thank you, Mr. Adukia. Next in line, we have Mr Srinivas Rao from Deutsche Bank. You may speak.

Srinivas Rao

Hi. I have couple of questions. First on the mobile side, you mentioned this Rs. 149 plan as an acquisition plan and you commented that over time they become profitable. We have seen in the past couple of years that, tariff based competition clearly is not sustainable, and Reliance Communications itself has gone through bouts of this, and then in fact your last cycle of shedding unprofitable minutes probably got over just about two quarters back. Why are we repeating this process again, especially when clearly the ability for the company to actually pursue a slightly lower profit strategy is difficult?

Related to the above question is that, today your EBITDA at this stage is almost equal to your interest cost, so it's in that context that I am asking these questions. Second, Yipes was acquired at about $ 300 million a couple of years back; what is the value you have received for the sale of the customer base that will be helpful to get?

My third question, again on the Enterprise side, is on the CDN platform. Typically, we have seen that operator-linked CDN platforms generally don't scale. Why do you think your CDN platform is likely to scale and we have fairly large global players in that space who are investing quite significantly even within India? I will stop here and I will come back for more questions later. Thank you.

Gurdeep Singh

Okay. Let me just try and answer the first one on why we are pursuing a strategy which gives a lower profitability. You will have to view this on the backdrop of the fact that the way the market is going in Q3, there is an unprecedented competitive intensity and the market clearly seems to be now shifting from rate per minute and a rate per MB to an

ARPU-led structure. This is also evident in all the other competitive offerings by the other telecom operators in the recent past and if you have the network capacity, if you have the requisite spectrum portfolio, this probably is the transition time, where you need to put the best use of that portfolio. And, we have clearly seen that as long as you can get over the hump of the busters, any plans that you may offer are profitable as long as they are commensurate with the volume that you expect. And, I am happy to state that 149 plan that we launched has crossed over that hump. It is helping us to generate volume of acquisitions in the market and we seem to have found a niche which we could perhaps actually run it for a longer period. So, I would say that in this transition stage of the shift of the industry, this was probably the one best fit plan that stood out amongst all the plans in the market in this unprecedented competitive intensity. Hope that answers your question.

Srinivas Rao

Sir, if I may come back, I mean as I said, the Rs. 149 voice plan could be replicated by pretty much everyone in the industry, both stronger and weaker players than you, but your sub-gigahertz spectrum does not offer any significant advantage, especially on the voice side. In the past, in the last, at least, literally over decade, we have seen that, price based plans don't have any long-term impact on either revenue shares or otherwise, and if you just do the math, then the plan would have a potential outgo which is quite significant, based on the current IUC regime of course. I repeat but you know, do you really think that this plan will become profitable in the next say, two quarters?

Gurdeep Singh

No, you always have the options of doing either more of the same or trying to steer the conversation away to have a unique and differentiated product, that is readily acceptable by the consumer in this transition stage because there is a lot of noise being made. So, if you look at it, at a company level our ARPU is around Rs 154 and when you peg your principal plan around the ARPU level that the company is able to get from its 2G and 3G, the primary customers, where 4G is still a smaller part of the whole business, it actually gives a whole new meaning and a dimension to the business. We are just into the third month of running this Rs 149 plan. We are confident to continue to run this because it is now stable. Now we have all mix of the customers, the buster category has now become a miniscule part of the whole proposition. We believe as we go over to the fifth and sixth month, this proposition with the creation of a community will help us to create an overall sticky base where a customer will just have to link his or her purchases to an ARPU rather than to worry about per minute and a per MB structure. We are seeing a shift in the consumer behaviour and I think our plans are helping us to encash that.

Srinivas Rao

Helpful. Thank you very much, Sir.

Bill Barney

So, let's first address the Yipes question. Yipes, as a matter of background, was part of three acquisitions made by Reliance in a course of about 24-36 months between 2006 and 2008. At that point, there was almost a billion dollars put to work across three assets, which were Yipes, Vanco, and FLAG. And, yes you are correct, in Yipes, we invested roughly US$ 300 million and we just received US$ 28 million to sell that asset. Obviously, that would look like a negative situation but the reality is if you look at all the three assets together, they're valued much more today. The other two assets have accreted in value over the last 10-12 years and are highly valuable and we exited the business that was not working for us which was mostly Ethernet in that business.

Your third question was the content delivery networks in India. I would tell you, I know there are other investors and other companies coming in the CDN space. But we are actually better positioned than anybody. CDNs typically are the most important building blocks; you need fairly large IP network, you need fiber and you need data centres. We have all three of these components. We are actually well positioned to play in that space and the operators within the past have actually tried to get into the CDN space, have largely not had a fibre footprint or didn't have a data centre footprint when they did that. If you look, what's happened in the last 8 weeks, if you have been following some of these earnings calls, obviously, the influx of data and video in particular in India is astronomical and I think if you start looking at it, these media companies getting CDN by us allows us to actually approach those media companies as they come into the market very quickly, with the product that they understand, and we believe that you know many of these media companies over time will actually be buying fiber and data centres. If you look at today in the OTT market, most of these companies have their own CDN themselves. So, CDN is just an entry point with which we go after these customers and then we sell them fiber and other services, so that's basically our strategy in India. It's part of a much broader based plan that we have for the Enterprise in the OTT markets. Hope that answers your question.

Srinivas Rao

Yes, it does. It is very helpful.

Srinivas Rao

I was alluding to the fact, that the interest costs now are almost close to the level of EBITDA, and if the current pricing pressures persists and your plan currently to run a price base strategy for acquisition of customers, it is possible that your interest cost may actually exceed the EBITDA, so how would we think about that kind of a scenario.

Anil Ladha

We are currently completing two key deleveraging transactions and while interest cost in the last quarter has gone up slightly, but going forward given the fact that both these transactions are well advanced in the regulatory process and it's a matter of some months by when we expect to conclude these transactions, so on conclusion of these transactions, overall interest cost is going to drop significantly.

Srinivas Rao

Understood. This is helpful.

Operator

Thank you, Mr. Rao. Next in line, we have Mr Viral Shah from Credit Suisse. You may ask your question Sir.

Viral Shah

Thank you Sir. I have one question, at the time of announcing the Aircel deal, there was calculation which was given that some Rs 14,000 odd crore of debt would be transferred from both the companies in to the merged entity, so what would be the likely status based on what has been going on in the Supreme Court and apparently, the banks have come in and said that the assets of Aircel needs to be protected, so what are the different scenarios that you are looking at and what will be the outcome.

Anil Ladha

As far as the overall transaction is concerned, we signed a definitive agreement in Q3 and we had initiated all our regulatory processes which are under process currently. The CCI approval process and stock exchange approval process is undergoing, and, once we receive that, we will go ahead with the NCLT process, so as far as the process is concerned, it is well on track.

Punit Garg

As far as Supreme Court current order is concerned, that has no impact on the merger of RCom and Aircel, and obviously, RCom is not party to that litigation at all. However, we are monitoring that but as of now we do not see any impact, so everything is on track.

Viral Shah

Thank you Sir.

Operator

Thank you Mr. Shah. Next in line, we have Mr. Vivekanand Subbaraman from Ambit. Mr. Subbaraman, you may ask your question.

Vivekanand Subbaraman

Thank you so much for the opportunity. I have two questions. One is on the ARPU trends. I noticed that we have managed to hold on to our ARPU levels and we are at Rs 154 ARPU which is not materially lower that what our ARPU was in the past quarter. This actually if I look at it from the standpoint of how ARPU is vis-a-vis incumbents, the gap between your ARPU and those of incumbents has significantly narrowed. I just wanted to understand (a) does this ARPU also include certain non-wireless revenue items, such as Data Centre, Enterprise revenue and (b) is this narrowed discount between your ARPU and the ARPU of incumbents, is that sustainable?.

Secondly, on the tower deal with Brookfield, what are the key conditions for you to get 49% economic interest in those towers, in the towers that you are divesting and what is the minimum economic interest that you will have in this entity and a related question is what is the rental that you will be charged for use of these towers for your own tenancies? Thanks.

Anil Ladha

As far as the tower deal is concerned, the overall economic interest is primarily linked to some of the conditions which we are not detailing at this stage due to confidentiality reasons. As far as the rentals are concerned, it will be as per the normal industry standards rentals.

Gurdeep Singh

Coming to the ARPU question; there is an unprecedented competitive intensity in the prepaid part of the business, but our Pan India 4G sub-1 gigahertz spectrum is really helping us shore up post paid and corporate segment volumes. It is helping us harden the ARPU. Added to this, the Rs 149 plan which is just about at the ARPU level that we have, and with its own share rising as a part of the subscriber base, it will help us to stay at a similar level of ARPU.

Vivekanand Subbaraman

Right. Thanks.

Operator

Thank you, Mr. Subbaraman. Next in line, we have Ms. Anna from HSBC. You may ask your question.

Anna

Hi, thank you for the opportunity. My question is with regard to the US dollar 300 million bonds - the towers business, as you proposed to sell is actually part of the collateral security with the bond. Beside the US dollar bond, do you have other term loans sharing the same collateral package and what's the amount. And also if you are to sell the tower asset, what would be the asset security available to the bondholders? Thank you.

Anil Ladha

The bondholders currently have charge on all the assets of the Company, so once the tower assets are sold, and when the wireless business is also demerged, then the remaining assets, which are optical fibre business, India Enterprise and India Data Centres business, all these assets will continue to be there as a security, and on an overall valuation basis and the book value basis, the security will be much more than adequate for all the remaining debt holders including the bond holders.

Anna

Okay, so what's the amount of the other debt sharing the same collateral package?

Anil Ladha

In the remaining entity, after these two transactions, RCom will have these bonds as well as some other bank debt, and all these debt holders will have this security on the remaining assets of the Company and on a combined basis, the overall asset cover will be more than adequate.

Anna

Okay. Thank you.

Operator

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

Bharat Shettigar

Yeah, thanks for the call. Three questions from my side. Firstly, if I look at your cash flow statement, there were significant working capital outflows in the first two quarters. In the third quarter, it's a slight positive number, just trying to understand why this huge fluctuation and how should we look at it on a steady state basis? Second question is with respect to the timeline for the two transactions, somewhere you mentioned that you hope to complete Aircel in this quarter and tower deal by the middle of this year, so does that mean that the bondholder consent for change in covenants as well as change in security will happen sometime in Q2. And, the final question is with respect to the remaining entity post the two transactions, if you see, both Moody's and recently Fitch have downgraded the ratings of RCom, so going forward what are the steps that you will undertake to improve the credit profile of the surviving entity. There has been some talk about combination of GCX and the India Enterprise business of RCom or potentially GCX being merged back in to the surviving entity, so any colour on that will be helpful.

Manikantan Iyer

Let me explain the cash flows to you. The operating profit mainly reflects the EBITDA. Whereas, when you compare the working capital of the last two quarters, they were fluctuating because we received some advance which was converted into receivables. That is why you see a difference in the working capital in the last two quarters versus the current quarter. Going forward, it will be in-line with the current level as reflected in Q3, which also includes the improvement on account of collection, mainly from debtors to the extent of additional of Rs 378 crore during the quarter. I hope you are clear.

Bharat Shettigar

Just to understand, you are saying that going forward every quarter, we should probably see a working capital inflow, which is what has happened in Q3?

Manikantan Iyer

Yeah, because in the last two quarters what has happened, first in March, we got an advance from Jio, then the completion of this was confirmed in 2Q, right, so that entry from the advance moved to the working capital, that's why you see a negative working capital in cash flow. Coming back to your question, you are right; we expect positive cash flow from operations, going forward, also from working capital.

Bill Barney

Both these businesses are doing extremely well right now and partly that's due to the explosion and data demands over the course of the last few quarters, and also the fact that both those businesses compete in a much narrower competitive landscape versus our wireless business. Wireless business is highly competitive whereas the Enterprise market is much narrower in India and around the world. So, I think, both these businesses have been very sought after businesses and that we are constantly getting enquiries about what we could do strategically in these areas and I think one of the key deliverables is the FIPB approval which we are trying to get. As soon as that actually happens, we will be able to talk about other possibilities that we can do with this business but until such time we really have to continue to run them as separate businesses under the single management.

Anil Ladha

As far as the remaining part of your question, the consent process is concerned, and just to correct the transaction timelines, what we have been saying that both Aircel and tower deals are currently under the regulatory approval process and both these transactions are expected to be completed by middle of this calendar year, so Aircel is not happening in this quarter, but both are slated sometime in the middle of this calendar year. As far as the consent process from the bondholders is concerned, we will follow the procedure in the offering circular and the debenture trust deeds and we will revert to bondholders accordingly. On the remaining point of credit rating of the company; once these transactions get concluded, the remaining entity is going to have more annuity like cash flows, the overall credit quality of the entity will be strongly improving, so we expect that once these transactions get completed, the overall view from the rating agencies should become far more positive and a positive rating action should follow.

Bharat Shettigar

And just one follow-up on that, how much debt will the remaining entity have, assuming both these transactions go through?

Anil Ladha

So, the current net debt of the company is around 42,800 crore and once you account both the tower cash flows and Aircel transaction debt transfer, the remaining debt would be anywhere about Rs 17,000 odd crore and that further is proposed to be reduced or deleveraged through real estate monetization.

Bharat Shettigar

Okay, thanks a lot.

Moderator

Thank you, Mr. Shettigar. Next in line, we have Mr. Pranav Kshatriya from Edelweiss. You may ask your question.

Pranav Kshatriya

Thank you for the opportunity. I have three questions, firstly Sir, you alluded to this real-estate monetization, so what are the assets currently, which you are looking to monetize and how much can be the value which we should be looking at from those monetization? My second question is with regards to the 49% economic interest in the tower company, so what exactly would be the target for this; would you be looking at this economic interest in the coming year or quarters or how should we see this? And lastly, since your ARPU which is indicated in the KPI is not exactly the representation of the retail consumer base, can you give us a sense how exactly the retail ARPU, I mean the wireless ARPU has really moved over the last quarter, that's it.

Anil Ladha

As far as the real estate monetization is concerned, we have about 135 acre property in DAKC, Navi Mumbai, which is the most significant real estate monetization going forward. There have been other small properties which we have been monetizing during the last two quarters; that process has been going on. That effectively shows the intent on our part to use the real estate assets monetization to reduce debt. On the overall timeline and valuation of the DAKC property, it would be premature to comment anything on that. As and when we have further details and further plans on that, we will come back.

Gurdeep Singh

To answer your ARPU question; our ARPU is at Rs 154, which includes, the revenue from other sources, but since we don't publish those numbers separately, all I can say is most and majority part of this ARPU is coming from wireless.

Pranav Kshatriya

Sir, should we say that ARPU decline for RCom in the retail space would be almost similar to what the other operators have seen or there is some change?

Gurdeep Singh

It is better, in the sense that, our ARPU decline is not in the line with that of the other operators, the reason being there is an upside coming from 4G business and the postpaid and corporate segment. There is a small decline, but it is nowhere closer to the way you would see for the peers.

Pranav Kshatriya

And for 49% economic interest, what would be the long-term plan for this? Would you be looking to monetize as soon as possible or how should we see it?

Anil Ladha

We are currently doing the tower business demerger and working towards its completion. Our whole focus is on completing the transition, so to comment anything further on the stake monetisation would be very premature.

Pranav Kshatriya

Thank you so much, very helpful.

Moderator

Thank you, Mr. Pranav Kshatriya. Next we have Mr. Vivekanand Subbaraman from Ambit, you may ask.

Vivekanand Subbaraman

Hi sir, thank you so much for the follow-up. Just a couple of questions, one is on the data business KPIs; I understand that you share voice revenue per minute, is it possible for you to also help us with the average realization that you get on an MB from wireless customers, that's one.

Secondly, if I look at the network operating cost for you, despite the overall MB on network going down significantly on a sequential quarter basis, I see that the network cost has increased by around 1%. This is despite you having a deal with Jio on network capacity, so how should we look at the cost structure movement for you, is it largely fixed, or is it on a per MB basis?

Gurdeep Singh

Okay, just to answer your first question on the RPMB, since we don't publish the these separate numbers for 2G, 3G, and 4G as yet and it is only meaningful to see in that context because the current RPMB are a reflection of the combination of 2G, 3G, and the 4G technology and that may not give you a right picture, but I am sure, going forward, we will surely have a look at it and consider at least to publish on the 4G data.

Manikantan Iyer

On the network cost trend, this includes both Global and Indian business. There is one time cost in the current quarter, excluding that there would have been a decline.

Vivekanand Subbaraman

Yes sir, thank you so much.

Moderator

Thank you, Mr. Subbaraman.

As there are no further questions from the participants, I would like to hand the floor back to the management for final comments.

Gurdeep Singh

Thank you all for being on the call.

Moderator

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

{End of Transcript}