RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter ended September 30, 2009

Conducted at 2 pm IST on November 2, 2009

Operator:

Thank you for standing by and welcome to Reliance Communications global earnings conference call on the Reliance Audio Conferencing platform.

This call is hosted by Deutsche Bank.

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.

Now, I would like to hand the conference over to Mr. Srinivas Rao of Deutsche Bank, over to you sir.

Srinivas Rao:

Thank you. Good afternoon and evening ladies and gentlemen. I am Srinivas here and we at Deutsche Bank are very pleased to host this call for the second quarter FY2010 results for Reliance Communications.

Today, we have the senior management from Reliance Communications led by Mr. Satish Seth who is the Group Managing Director, leaders of company's strategic business units, Mr. Mahesh Prasad, from the wireless business, Mr. Punit Garg, who heads the Globalcom business, Mr. George Varghese who heads the Enterprise Broadband business, Mr. Inder Bajaj who heads the Infratel business, Mr. Sanjay Behl, who heads the Home business, and Mr. Arvind Narang from the corporate office and head, investor relations.

The call will begin with some key observations by Mr. Seth and the management team followed by a Q&A session. I must remind 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. Satish Seth. Thank you very much sir, for taking time out.

Satish Seth:

Thank you Srinivas.

I welcome all of you to this earnings call organized today to discuss Reliance Communications' financial performance for the second quarter ended September 30th 2009.

Let me start with a brief update on the Indian telecom sector. While the momentum of subscriber acquisition continues unabated, over the past few months we have seen many operators launch services across the country. This has led to heightened competitive activity and build-up of over-supply in the industry leading to significant tariff rationalization. We believe that in the near term such competitive activity will only increase and the overhang of these developments over the next few quarters will accelerate the process of industry consolidation in the next 18 to 24 months.

In this competitive landscape, Reliance Communications is well positioned as a fully integrated and converged telecommunications service provider. Our extensive network with deep coverage, significant new capacity, and low cost position, allows us to bring best-in-class services at the most affordable price points to a wide range of retail and enterprise consumers.

However, during the second quarter, margins have been impacted primarily on account of increased network and operational costs following our nationwide GSM rollout, intense competitive activity in the market place, build up of excess capacity and aggressive nationwide tariff restructuring in the industry.

At present, the nation-wide GSM network and operations cost is provisioned in full in our financials. Incremental minutes generated on this platform are at very low incremental cost as the only variable element is regulatory and interconnect expenses, therefore contribution to profitability from increasing usage will be high.

In this scenario, we have recently made some significant initiatives that are expected to drive business growth in the future. Along with the launch of nationwide GSM services, we have consolidated the CDMA business by expanding presence in fixed wireless and PCO segments, where we maintain leadership position. Our high speed data service offering has been well received in the market and is further driving users in the CDMA segment.

More recently, as many of you may already be aware, we have announced the introduction of 'Simply Reliance' plan to our customers nationwide. 'Simply Reliance' subscribers are now connected at a very affordable tariff of 50 paise per minute. The plan is available to all 86 million subscribers. We give the best value proposition backed by the best customer experience to India's 450 million wireless subscribers without any voucher or condition.

Plans launched by other operators in the past have been either limited use Special Tariff Vouchers (STVs) or monthly vouchers attached. Our simplified offering, lack of any gimmickry and absence of hidden charges or conditions is the center of our new proposition. We believe this transformational plan is different from any product that the market has seen so far and will help us drive minutes traffic to our network and increase our revenue market share in the Rs. 80,000 crores Indian GSM market. My colleague, Mahesh Prasad, will cover this in more detail, but the evidence of a spate of hurried reactions and me-too offerings is already there in the market.

Per-second billing is another option that we have evaluated internally. While 'Simply Reliance' is delivering positive traction for us at present, we are keeping all of our other options open.

Reliance Communications is now in the unique position of an incumbent as a CDMA operator and a new entrant as a GSM operator. Having already achieved widespread coverage of rural markets which contribute a significant proportion of our revenues, we are now beginning to fully participate in every segment of the market. While other operators are currently focusing on protecting their existing revenues from profitable urban subscribers, we are now witnessing increasing revenue contribution from the country's leading urban centers. In this respect, even the increased incidence of dual-SIM users that is exerting additional pressure on the revenues of some incumbent operators is an opportunity for us allowing mobile users to experience our value proposition on a superior, congestion-free network.

On the regulatory front, we believe, the evolving regulatory regime is working towards easing some of the concerns of the market and investors. TRAI's consultation process on spectrum allocation and merger and acquisitions is currently ongoing. This looks at a number of key aspects that will facilitate M&A in the years ahead. It also is looking at options to lower cost of operations for operators through offering clarity on allocations of contracted spectrum for all operators and access to 900 MHz spectrum.

A key aspect of what the consultation is examining is the issue of how to charge operators for excess spectrum or spectrum beyond 6.2 MHz of contacted spectrum that has been assigned to operators at no cost. This move will level the playing field - reduce our operating costs across all circles but one, where we have more than 6.2 MHz, though of course this will be a huge one-time cost to some of the incumbent operators, which of course some of you have estimated to be in thousands of crores.

The mobile number portability opportunity is near. The TRAI has been rejecting excuses for delay and we believe MNP will be reality within the next two quarters. We are looking at the opportunity offered with immense interest and strongly believe it will have a significant impact on customer value offerings which we will tap to hugely expand our postpaid and HNI pre-paid base.

We look forward to the 3G and Broadband Wireless Access (BWA) auctions. This offers RCOM a unique opportunity to further enhance its high speed data offerings as well as use its skills as a media-telecom converged operator to the fullest. However, we would like to assure that like any responsible operator, we will be diligent in our bidding.

In short, the regulatory regime continues to be pro-market and pro-consumer. We believe we are among the most strongly placed to take full advantage of the regulatory evolution the market will see in the next few months.

Now to share with you a brief update on the telecom infrastructure business, which we believe is going to be a significant contributor to the growth of our integrated operations. Following the announcement of the Rs.10,000 crore deal signed with Etisalat DB, we have concluded an agreement with another new operator, S-Tel, to provide telecom infrastructure in their six licensed circles. In addition, we have signed up contracts with a number of other leading players including Aircel, Tata, and MTS, for tenancy on our passive infrastructure and a few more contracts are in the pipeline. These contracts come with full legally binding commitment from customers on a 'take and pay' basis and represent a significant incremental revenue line for Reliance Communications with growing visibility of business engagement over the next several years.

At the close of the second quarter, we had over 92 million customers. This number includes over 86 million wireless subscribers with usage across mobile, PCO, fixed wireless phone and data services. In addition, we have over 5 million retail subscribers including long distance calling customers internationally, DTH and broadband subscribers in India. We also have over

2,100 enterprise customers and relationships with over 800 global, regional, and domestic operators.

Our non-wireless businesses contribute 45% of revenue, driven by stable, robust, and growing Globalcom and Enterprise businesses in line with our position as a leading integrated operator.

Our Globalcom business continues to see strong growth visibility. In the NLD segment we have signed significant long-term usage contracts with multiple new and existing operators. In the data business, our new business pipeline continues to expand with increasing contribution from managed services contracts with multinational enterprise customers.

In our Enterprise business, we have been able to restore growth with significant number of repeat orders from existing clients reflecting the quality of service and delivery. During the last quarter, we also acquired new orders from large corporations in IT/ITES, technology, financial services, and government verticals.

I would like to share with you another important development during the last quarter which was the pre-payment of high cost rupee-denominated debt of Rs. 6,500 crores, nearly three years ahead of schedule. In the largest pre-payment exercise of its kind in India, we have used our strong cash positions and internal accruals to prepay this debt leading to a stronger balance sheet. Currently, three-fourths of outstanding debt is low-cost foreign debt with repayment schedules spread over the next several years. Going forward, we see significant reduction in capital intensity, enabling us to deliver sustained free cash flows.

There have been comments and speculation in relation to the revenues reported in the financial statements and to TRAI. For 2QFY10, wireless revenue as per financial statement reported is Rs. 4,010 crore and reported to TRAI is approximately Rs. 3,200 crores comprising of Reliance Communications Rs. 2,700 crore and Reliance Telecom Rs. 500 crore. Over and above, revenues reported to TRAI, RCOM group gets revenues from various other sources which are not subject to revenue share and are of recurring nature. For instance, in addition to the revenues reported to TRAI for this quarter, RCOM has nearly earned revenue of approximately Rs. 400 crore from CDMA 1x data services, High Speed Data services, WiMax wireless data services to enterprises, and internet services under ISP license, and the balance represents VAS and miscellaneous income, etc., from subsidiaries relating to wireless segment.

In concluding my remarks, I would like to cover our views on findings and observations made in the report on the special audit instituted by DoT. Having completed a preliminary review of the report, we reiterate that there is no irregularity or discrepancy whatsoever in the accounts of the company and we anticipate no additional financial liability towards license or spectrum fee. An amount of Rs. 160 crore representing over 50% of the alleged additional liability of Rs. 316 crore is blatantly incorrect as TDSAT and CESTAT have already passed judgments on those issues in favor of Reliance Communications. Our accounts have been duly audited by two statutory auditors, M/s. BSR & Co. (KPMG) and M/s. Chaturvedi & Shah (Nexia International); the accounts have been subjected to peer group review by auditors appointed by SEBI as recently as May 2009. We have made all relevant disclosures and are fully compliant with the BSE and NSE listing agreements and all SEBI disclosure guidelines, and we adhere to all applicable provisions of the telecom license and general industry practice.

We have observed that extracts from the audit report have been leaked to the media and covered by some market participants based on unauthenticated sources of information. We take strong exception to the publication of such reports and will take appropriate action against all those that are working on maligning our image and reputation.

With this I conclude my initial comments. I now hand over to Mr. Mahesh Prasad to talk about wireless business. Thank you.

Mahesh Prasad:

Thank you Satish.

Greetings to all on this conference call.

The last two quarters have been the most exciting and challenging quarters for Reliance Communications. It was indeed an exciting quarter. We fully deployed our GSM network as planned and became operational to serve our customers. The customers we have acquired as part of the Customer Experience Program in January through March started experiencing the quality of our network, call quality, coverage across the country, with our network covering nearly 90% of Indian population.

At the same time, as Satish alluded to, it has been the most challenging quarter for the telecom industry. The industry is going through a phase of hyper-intensive competition and is expected to continue for some more quarters with one or two new entrants entering the mobile industry. The new entrants without the support of a recognizable brand, robust network, and an expansive distribution network have resorted to irrational pricing, huge unsustainable bundled minutes, and reduced pulse rates. With increased operators vying for the same set of customers in the urban markets, Indian consumers have found tariff arbitrage with the use of multiple SIMs. New innovations such as dual-SIM phones, dual-technology CDMA and GSM phones, and even new accessories to attach multiple SIMs to the same mobile phone have all made it too easy for customers to use multiple operator connections to satisfy their calling requirements at a lot lesser spend. This has reduced the ARPU earned by each operator as multiple operators are sharing the overall customer spend. RCOM has been able to thwart the irrational tariff charges using the strength of our on-net community with special on-net monthly packages and bundled local and long distance minutes.

The macro-economic factors with delayed monsoon, exacerbated the matters for the industry with fewer subscriber additions and low usage coming from rural India.

We expect the impact of the new operators' launches getting neutralized and in fact, to diminish with incumbent operators matching the new tariffs or the introductory plans of these new entrants getting marginalized. With the new operators having a much higher operating cost base, the business model would become even more unviable for the new operators with continued high marketing spends, unrealistic trade channel incentives, and price-based entry strategies to overcome other shortcomings within the network and the distribution channels.

An integrated and converged operator with a strong brand such as RCOM can effectively bundle multiple services to provide a unique value proposition to its customers. With access to the entire wireless network without the dependence on partner networks, and the ability to leverage its wireless and wireline, pan India and pan-global networks, RCOM will have the strongest cost position in the long term.

In order to break the clutter and confusion of various tariff plans of incumbents and new entrants which are strewn with several conditions, various vouchers and complexity combined with customer's inability to differentiate between off-net verus on-net, local versus STD calls, RCOM launched 'Simply Reliance' initiative on October 5th. Simply Reliance plan offers a flat tariff of 50 paise per minute for all calls, be it local, STD, national roaming, and SMS across any network from any phone to any phone both for on-net and off-net calls, and that too with no fine print or conditions whatsoever. The initial response from customers and our trade partners alike has been very positive. The early trends on all the relevant KPIs are promising.

The Simply Reliance initiative of RCOM is aimed at targeting the vastly ignored customer base of GSM incumbents, essentially the postpaid customers. The objective is to churn this high usage and high ARPU customers with immense value and unparalleled network experience. This initiative should position RCOM well in the wake of the mobile number portability. Another vast base of high value prepaid GSM customers who are traditionally mobile within the country. These customers have saddled with monthly vouchers, popularly called rate cutters, in-roaming and out-roaming charges while traveling within the country.

With Simply Reliance platform, unmatched in the industry, we aim at becoming a preferred telecom operator for customers with multiple SIMs.

We have further synergized our newly launched GSM circles with other older circles under Reliance Telecom both in terms of the IT systems, e-recharge systems, distribution channels and marketing.

Concurrently, our focus on the CDMA technology platform has only gotten further enhanced in 2009. Reliance Netconnect Broadband plus as mentioned earlier, the high-speed wireless internet service launch in the year utilizes the unique capabilities of our CDMA platform. The customer uptake in the last two quarters for this new service remains robust in 35 cities where the service is now available. We have expanded the coverage in these cities and upgrading the 1x data network in many more cities to provide the broadband speed. We remain bullish on the prospects of CDMA being leveraged increasingly more for data and voice applications due to its unique capability.

We are a service brand already serving over 85 million customers. We believe that the greatest asset for any customer brand of our size is the trust of our customers. We are committed to providing the highest standards of customer service on our twin technology platforms for our mobility, fixed wireless phone customers, and data card customers. It is this focus on customer service combined with the pan India and high quality network which will increasingly become a differentiator in the ever evolving competitive Indian wireless market.

I would like to now invite my colleague, Mr. Inder Bajaj, to discuss our Reliance Infratel business. Inder, over to you.

Inder Bajaj:

Thank you Mahesh.

A very good evening and greetings to all on this call. I would now update you on the telecom infrastructure business of our company, i.e. Reliance Infratel. Just an update in terms of the way we approach the market.

We approached the market in the infrastructure business with a unified and comprehensive approach covering the entire value chain of telecom infrastructure services. It includes the passive infrastructure, which is basically commissioning the radio-electronics on our towers, active infrastructure or radio-network sharing, providing connectivity to each of these sites with bandwidth and fiber options to connect the core network, our carriage options which includes both international long distance as well as domestic long distance, roaming solutions as well as internet bandwidth for data applications. This enables our partners to leverage a wide spread passive and transmission network for their rollout requirements as well as their future requirements which spans 2G, 3G, and now WiMax as well. In other words, the requirement runs across passive infrastructure, as well as the wide range of services and it is directly linked to the quality of towers as well.

The demand for the telecom infrastructure has been driven by the robust growth in the mobile industry in 2G and relatively high minute usage in India. Infrastructure sharing has in fact, become instrumental in accelerating the growth momentum in rural and new coverage areas by reducing the cost and timeframe of the network expansion.

The competitive intensity in the wireless industry has been growing and it is expected to double to 11 to 12 players per circle with the issue of over 120 licenses to new operators last year. These operators have now been allotted spectrum in a phased manner and some of them have also now received funding through joint venture tie-ups with larger global players.

Also expected is a 3G and WiMax technology rollout, an expansion of ISP operators apart from the demand from existing and new operators in the 2G space which will drive the demand to over 700,000 infrastructure slots in the next couple of years on the current level of 320,000 slots along with demands for other telecom infrastructure services I spoke about.

Reliance Infratel as an integrated service provider with industry leading capabilities across the entire value chain and a nationwide portfolio of 50,000 towers and even more importantly over 200,000 slots is poised to capture this opportunity. Our current tower capacity utilization is in the range of 40% and this provides significant potential to add third party tenants to our existing infrastructure. As Mr. Seth mentioned in his opening remarks, we have signed a long-term strategic telecom infrastructure share agreement with Etisalat DB. It is an end-to-end agreement which includes not only the towers but transmission to these sites as well. It is valued at over Rs. 10,000 crores over a period of ten years.

We also provide our partner other B2B services like bulk bandwidth and fiber options and carriage for both domestic long distance and international long distance. The contract provides for options to extend beyond the initial ten year period to a larger number of sites based on the coverage and capacity requirements of our customer. The agreement represents Etisalat

DB an asset-light model. It is advantage to both the partners for cost optimization and of course our company it presents a major opportunity to improve our capital productivity. In addition, we also expect to sign with other key operators as well. These agreements demonstrate our Group's as well as Reliance Infratel's capability to enable the operators to go to market with a bouquet of telecom infrastructure services with time to market and cost advantages.

Following the recent transfer of optic fiber assets, Reliance Infratel now has over 190,000 kms of national optic fiber network that integrates seamlessly with our portfolio of towers allowing us to provide the most economical, high quality connectivity to our customers as compared to microwave link provided by the competition.

We have signed contracts with Etisalat DB, Aircel, Shyam System (MTS), S-Tel (Bahrain Telecom), TTSL, TTML, and we will shortly announce with other three to four key new operators and are well positioned to capture the tenancy market for new operators in urban markets as well as existing players as they expand into rural markets.

With a relatively young portfolio of telecom tower assets which positions us favorably to capture the incremental demand from the new GSM operators in the country.

We will commence delivering to our customers in the current quarter and revenues will progressively go up from the next quarter.

Thank you very much. I will now invite Punit Garg for an update on the Globalcom business.

Mr. Punit Garg:

Thank you Mr. Bajaj. Greetings from the Global business to all our friends in different geographies.

Global business revenue grew by 20% on quarter-on-quarter basis, EBITDA has grown by 16% and EBIT by 30% on quarter-on-quarter basis. The main drivers for revenue growth are enterprise data business and national long distance business.

Last quarter, I reported signing of contracts with Etisalat DB for national long distance bandwidth. I am pleased to report that we have continued the momentum and have signed additional contracts worth Rs. 250 crores for bandwidth including Rs. 180 crores for bandwidth with S-Tel as well. We are in advanced stages of discussion to close more contracts by end of this fiscal.

In our national long distance carriage business, our traffic has grown 43% year-on-year and 8% on quarter-on-quarter basis.

Moving to our data business which comprises sales to carriers in wholesale segment and to corporates in the enterprise segment, we signed contracts with total contract value of over Rs. 575 crores. In the wholesale segment, we signed contracts over Rs. 175 crores with our existing customer base as repeat business. We continue to win repeat business for customers in the Middle East and Asia who rely on our global network for bulk of their international bandwidth requirements.

In the enterprise segment, we signed contracts of nearly Rs. 400 crores. We are successfully competing with the US and European majors in their home turf and winning the contracts. I must add that there is a continuous pressure on margins to win new business in enterprise business in US and Europe. Last quarter, we won a significant contract worth over Rs. 250 crores to provide managed network and managed security services to the world's largest testing and Certification Company with over 1,000 sites globally. This speaks volumes about our capabilities and credentials in the global enterprise business.

To build on this industry recognition, we are kicking off a major brand building and advertising campaign focused on CIOs in US and Europe. We believe this campaign will further strengthen our market position as a global, agile, consultative and reliable service provider.

In our Voice business segment, our focus is to protect our margin. Our competitors are focused on price by lowering tariffs for US to India call. In Reliance Global Call, we continue to charge a premium as the market leader, and unmatched service quality. We are now engaging more closely with our customers in US, Canada, UK, Australia, New Zealand, Singapore, Malaysia, and promoting our brand in local communities and events. This has been well received and will form a strong base for launch of our new services like VOIP through Reliance iCall and audio conferencing through Reliance Mind Bridge.

Last but not least, our Next Generation cable, named HAWK in Mediterranean between Middle East and Europe remains on track for completion in current fiscal year.

I would like to close with that we have a strong demand in all our business segments; however, margins are under pressure in the enterprise segment. Based on our unmatched capability to deliver innovative enterprise and retail solutions at low cost, we will deliver sustained value to our customers and keep up our profitable growth momentum.

Thank you. With this, I hand over to Mr. Varghese.

George Varghese:

Thanks Punit.

Good evening friends.

Over the last two quarters, we are seeing increasing signs of recovery and this sentiment is echoed by a lot of corporates, but on the field companies are still treading very cautiously. Most of the expansion plans are still on hold, or are on a slow track and we are still facing pressure on the pricing front.

In spite of such an environment, we were able to increase our revenues by 28% and our EBITDA by 9% over the corresponding quarter last year. This is a reflection of the robustness of our business model and our ability to deliver best in class service to our customers.

We are extremely pleased to inform you that this quarter we have crossed the 1 million connected buildings mark. We added approximately 39,000 new buildings in the last quarter. We are extremely bullish on the future prospects and will continue to spend heavily in connecting more and more buildings to our network.

Let me brief you in the progress of two strategic initiatives which I spoke about in the last call, one was the vertical strategy and the other was the one-office strategy. The vertical strategy is paying dividends, especially the focus on the government vertical. We are extremely encouraged with the outcome of this approach and we have already closed four big orders in the last quarter. We are poised to increase acquisition from this segment in the coming quarters. One-office, this is a specialized voice product that we have developed to help enterprises to manage and reduce their voice spends. This product allows the customers to centrally manage voice spent of multiple offices. The single view of the bill and the capability to pool calls from different locations is being appreciated well by the market. One-office product is continuing to pay dividends and will continue over the next quarters.

In the last few quarters, SMB market segment has evolved as a new focus area for us. In the changed environment, the number of big opportunities in the enterprise segment reduced and average value of deals also went down. To counter this, we are working on expanding our customer base in the SMB segment. This segment is going to be one of the growth engines for our business in the future. We are creating new offerings specifically for the segment and we are realigning our sales channels to increase our reach in the segment.

We remain committed to give the best in class customer service to our customers and continued to focus on enhancing customer experience. On an average, our premium customers have rated us 8.14 on a 10 point scale. Our existing customers contributed to more than one-third of our fresh acquisitions.

If there is one single or the most important reason for our continuous good performance, in spite of the slowdown in enterprise market, it is our customer service. In the last few quarters, even the biggest of the customers were willing to migrate to new service providers to save cost. It is in times like these that customer loyalty matters the most. Our account management and customer service helped us in protecting our base and to churn customers away from competition.

We continue to maintain market leadership in the IDC segment and with the new capacities now available in Chennai and Hyderabad, we will be able to dominate the southern market where our presence was early limited only to Bangalore.

We have recently launched Cloud Computing Services in India on the Microsoft platform. This will offer 'pay as you go' enterprise class IT infrastructure, and it will also help in reducing the IT management hassles for SMBs. We plan to expand the portfolio of our IDC-based services and products to be a one-stop shop for enterprise and SMB customers.

To summarize, despite the tough market conditions, we have been able to show a continuous growth in terms of revenue and EBITDA. We are equally confident of showing profitable growth in the future.

I will now hand over to Sanjay Behl to give you an update on the Home business.

Sanjay Behl:

Thank you George.

On the Home business front, ladies and gentlemen, I am happy to inform you that Reliance Big TV has accelerated momentum on new subscriber additions with our share of segment moving up from 12% at the start of this financial year to 15% in Q2. We now have 1.95 million subscribers as reported on September 30th.

Despite increased competitive intensity and stiff price war in the category, we have refrained from playing the 'pure price' game and instead focused on building business capabilities and launching quality initiatives aimed at acquiring high ARPU customers in the top 50 cities across the country.

We have further enhanced our channel bouquet by adding 21 new channels with a clear focus on widening the choice of regional content. We have also introduced festive season offerings with new entry offers of far more simplified and price-laddered monthly subscription packs and launched interactive applications like iStock in partnership with Reliance Money. In addition, we have executed a series of measures to simplify our customer interfacing processes like customer care, multiple recharge options like E-recharge, SMS-based recharge or credit card-based recharge whether through IVR or web site facilities.

We have now completed a year since launch and we continue to focus on leading the market growth by upgrading analogue cable user to experience the unmatched Reliance Big TV digital viewing quality.

In the coming quarter, we will continue to establish market leadership by enhancing our overall customer experience, choice and availability of new channels and other innovative customer relevant applications.

With that let me hand over it back to Arvind.

Arvind Narang:

Thank you Sanjay.

We will now open the call for Q&A. We request all of you to focus on key strategic and business issues. We also request each participant not to ask more than two questions and provide an opportunity to all participants to interact with the management.

Please feel free to touch base if you need any further information or clarification on second quarter financial results.

Moderator, can we take the first question please?

Operator:

Certainly sir. Our first question comes from Mr. Sanjay Chawla from Anand Rathi Securities. You may go ahead please.

Sanjay Chawla:

Hi! Thank you for the call. My first question is, has there been any reclassification of revenues from one segment to another, for example, from wireless to any other segment in this quarter? And secondly, do you see wireless EBITDA margins going up from second quarter as you mentioned that the marginal cost is very low now, so do you see wireless margins actually going up quarter on quarter in the third quarter?

Satish Seth:

There has been no reclassification of the revenues.

As regards the margins on the wireless business, we have already given the comments that the outlook is positive.

Sanjay Chawla:

So, does it mean that you expect them to actually move up in the third quarter?

Arvind Narang:

We don't provide the EBITDA margin guidance, Sanjay but, having said that in the opening remarks in the speech, we have created a huge amount of low cost capacities, which is already having fully loaded cost on our network. On incremental minutes consumed, we see higher per minute profitability.

Sanjay Chawla:

Thanks Arvind. If I can just squeeze in one very quick question, when do you expect external tenant revenues to start flowing in your tower business, from which particular quarter?

Inder Bajaj:

As I mentioned Sanjay, we have started delivering sites to our customers that we signed up with, and we will see progressively revenues going up from next quarter onwards.

Sanjay Chawla:

Okay, thank you.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Rajiv Sharma from HSBC. You may go ahead please.

Rajiv Sharma:

Thanks for the opportunity. My question is on the tax rate, the tax is positive this quarter, can I understand the reasons for this? Second is on the CWIP (capital work in progress), which remains unchanged, whereas your comment on wireless business was that network utilization cost increased because GSM got fully stabilized despite it being 9 months old which also I find a little difficult to understand. So, what is keeping the CWIP high and why is that wireless margins got impacted by network cost this quarter when your GSM was running for the last 6 months?

Satish Seth:

With regard to the tax, we have benefit under incentive provisions and deductions available under section 115JB, that is relating to MAT. The company is not required to make any provisions for tax purposes; however, at the end of the year we will review the position and look at that.

Arvind Narang:

Rajiv, on your question on network cost on the GSM, network cost on a quarter on quarter has increased by Rs. 206 crores and there are mainly four reasons for that. One is that the sites which have been under test certification but radiating the signal, are now part of our network cost element and now the network is fully loaded from that perspective. The second is, there has been an increase in the fuel cost, approximately by 6.5%, which has again impacted the network cost as part of the wireless business. Third, there has been a drastic power cut due to drought across the country leading to additional fuel cost, more usage of DG sets largely. And fourth, there has been some expense on the maintenance of our FLAG network, which has also contributed to some extent for this increase of Rs. 206 crores of network cost.

Rajiv Sharma:

Capital work in progress?

Arvind Narang:

We see that reducing over a period of time. It is a unison of multiple projects; one, our transport network increasing and which is ongoing activity which will continue to expand. We currently have over 190,000 route kilometers of fiber, which we are currently expanding deeper in the interiors of the country. We are also on a stage of expansion of the FLAG network, which we have announced earlier, specifically the NGN side which is still in the project phase, which we hope to complete by end of this fiscal year. Largely these projects over a period of time will reduce the CWIP.

Rajiv Sharma:

Just squeezing in a very small question on the finance charges which are negative this quarter; one is the MTM loss to the explanation to this, and then the rest would be cost of your debt, apart from this, is there any finance income or any item which is included in this finance charges head?

Arvind Narang:

No Rajiv, there is no other financial income except the interest income which is there on the cash and cash balance, which is around Rs. 4,000 crores. Of course there is an interest expense, and we have already specifically mentioned and the forex and derivative loss to the tune of Rs. 283 crores. So, it is a net impact of these numbers.

Rajiv Sharma:

Thank you very much.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Anirudh Gangahar from JM Financial. You may go ahead please.

Anirudh Gangahar:

Thank you for the opportunity.

Two questions; one, could you let us know the revised capex guidance for the current financial year please, first half capex has been very low. And second, the interconnect license and access fee as a percentage of revenue for wireless has gone up drastically, could you please let us know what has caused that to happen this quarter? Thank you.

Arvind Narang:

Anirudh, the capex guidance is Rs. 10,000 crores for the fiscal year which stands today. In the first two quarters, we have spent around Rs. 2,000 crores till date. We have been guiding on the capex intensity for last few quarters that it is significantly coming down and we largely would be able to manage our capex requirement through our internal cash accruals. Having said that, we are now in a situation where 3G is around the corner, may be within this fiscal year, we hopefully may be able to manage 3G auction costs within this capex guidance which we have provided earlier.

Anirudh Gangahar:

Sir, could I just check with you, you would have had some assumption of 3G between this Rs. 10,000 crore capex, would you be able to share that with us?

Arvind Narang:

No, we cannot share any specific 3G capex. We have said that we have built 3G ready infrastructure for the nationwide GSM network, so for us the incremental 3G capex would be relatively lower than all other players in the industry.

Anirudh Gangahar:

Right sir. Sir, the second question was on the license and access charges for the mobile division.

Mahesh Prasad:

Anirudh, as I mentioned earlier, we had bundled quite a few minutes of off-net local as well as STD, that has gone into.

Anirudh Gangahar:

Okay, thank you.

Operator:

Thank you sir.

Our next question comes from Mr. Vikash Mantri from ICICI Securities. You may go ahead please.

Vikash Mantri:

Good afternoon sir. I just wanted that can you give us some color on the adoption of the Simply Reliance plan and how many subscribers do you think we will be able to get in the next 2-3 months?

Mahesh Prasad:

Simply Reliance plan as I mentioned was launched in the first week of October, quite preliminary in terms of the assessment of the plan itself and its impact on the KPIs; however, the early signs and the trends that we have seen across all KPIs have been encouraging, whether it is the MoU, whether it is the mix of the call patterns that we have seen, as well as more and more subscribers that we mentioned in terms of the multiple SIM users also taking on Simply Reliance, I think the signs are very positive. But it is too early to give any specifics on the plan impact.

Vikash Mantri:

We expect our MoU and ARPMs to maintain at current levels with the new plan?

Mahesh Prasad:

We expect with the Simply Reliance plan, with the simplicity of that the MoUs should show some elasticity and grow. As far as other parameters, I think, again I would say that it is too early to comment on it.

Vikash Mantri:

Okay, thank you sir.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Aditya Srinath from Quantum Asset Management. You may go ahead please.

Aditya Srinath:

Sir, thanks for the opportunity. You had mentioned that you have reduced the depreciation expense by some Rs. 365 - 370 crores. Can you let us know what is the revaluation of the gross block as well?

Arvind Narang:

This is mentioned in our note, that during the quarter, the company had carried out a technical assessment to determine the useful life of our telecommunications equipments. The useful life of such telecommunication equipments has now been reassessed as 18 years, which has helped us to reduce the depreciation. There is no revaluation.

Aditya Srinath:

The second thing, I would just like to know the Simply Reliance plan has come in only starting from October 10th, so could you give any reasons why there has been such a drastic reduction in your RPM (revenue per minute)?

Arvind Narang:

RPM is a derived number. We have mentioned the revenue impact by around Rs. 800 crores, which has resulted in the revised RPM of 47 – 48 paise. Last quarter has been very exciting as well as very challenging. On the subject of drop of revenues in the wireless business in this quarter, it is basically interplay of largely four factors: one is that there is a normal industry practice of packaging air time with handsets. Over a period of time the CDMA handsets ecosystem has significantly improved whereby the customer has larger choice to select handsets from the open market from over 100 handsets as compared to about 10 earlier. Further CDMA segment has now also adopted the sale of services through SIM. We have taken a conservative accounting approach and it does not form part of our wireless sales, which has really accounted for 40% of Rs. 800 crores revenue reduction The second is that over a period of time TRAI has introduced new guidelines which requires subscribers' explicit consent and reconfirmation for VAS usage. We have fully complied with this. This has impacted VAS revenues in the short term. We expect VAS revenues to revert to similar growth in the near future. The other key reason has been the overall competitive landscape which has seen new launches and aggressive rebalancing of tariffs. Considering this as you are aware we have launched the Simply Reliance plan where we foresee that it will improve our overall revenue market share, as well as we are uniquely positioned as an incumbent as well as the new operator. Fourth, on account of delayed monsoon and lower rural demand, there has been also some marginal impact on the USO supported R-DEL subsidy. Having said that, regarding 2Q revenue dip, actually our mobile voice revenues are on an upward trend and have actually grown 4% quarter on quarter.

Aditya Srinath:

Right sir. Thank you very much and that is it from me. Thank you.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Sachin Gupta from Nomura. You may go ahead please.

Sachin Gupta:

Thanks very much. Just a couple of questions; firstly, just on the enterprise business, I think perhaps we talked about continuous pressure on margins to win new businesses. I just wanted if you can please perhaps quantify what sort of margin dilution are you expecting and when it is likely to begin?

My second question is on the depreciation once again, you talked about the asset life has been reviewed and your asset life is now 18 years or so. I am just wondering if you look at lot of the regional telecom companies or even the Indian telcos, the average life seems to be 12-13 years. I was just wondering why is Reliance's asset lives are much higher, I mean why would the network rating be so different? Thanks very much.

Satish Seth:

On the depreciation, if you really see over a period of time there have been huge changes in the technical aspects of the equipment. The hardware remains the same and through the change and upgrades of the software you can carry out number of changes as required. And that is how the life of the equipment have been increased to 18 years.

Mahesh Prasad:

Just to add to that, I think if you look at ours is a Greenfield network, many of the equipment that we have deployed for both our GSM network as well as CDMA network is state of the art next generation technology where lot of the work as Mr. Seth alluded to is done through software and just card upgrades, which really lengthens the life of the plant and equipment as compared to some of the legacy networks that you may find in other parts of the world.

George Varghese:

Sachin, to answer your question on the Enterprise business, yes, we have been seeing a lot of pressure on yields but most of the contracts get renewed in the first two quarters of the year. Predominantly, most of the contracts are in the first quarter of the year, so the impact is felt in the second quarter. So, to the best of our knowledge and the way the market is going, I think we have seen the impact already, since almost 60% of the contracts got renewed in the first quarter. So, hopefully we have seen the worst and things should look better going forward.

Sachin Gupta:

Thank you.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Saurabh Das from Sundaram BNP. You may go ahead please.

Saurabh Das:

Thanks for the opportunity. I just had two questions. One is regarding our Simply Reliance plan and post that the reaction of the incumbents. So, as we had discussed previously that price differentiation do not continue for long in the industry. So, post the launch of the incumbents do you see your assumptions on network utilization to continue as it was or do you see that to have changed?

The second one is that as far as our total current liability, that has remained more or less flat for the last three quarters in-spite of a slowdown in our capex. So, I was wondering what percentage or if you can quantify the vendor repayment part of your current liabilities in the current quarter, and what it is likely to be at the end of the year? Thank you.

Mahesh Prasad:

Saurabh, let me just take the Simply Reliance. As you mentioned, I think there has been reactions from the incumbents and there has been some change in many of the incumbents who are also acting as challengers in the new circles. I think if you look at most of the reaction has been haphazard, most of it has been half hearted approach in terms of the simplicity of our plan that we have offered, there has been various conditions that have been put in and there is still a vast distinction between the way off-net calls are being treated versus on-net. Many of the attributes that we have in terms of either the roaming or extending the Simply Reliance offer to post-paid has been untouched by the incumbents.

Therefore I think we see that Simply Reliance will have a sustainable value from customer point of view due to its simplicity.

Lastly, I think most of the offers that you are seeing since October 5th from incumbents has been what I call promotional offers for a short period of time, it varies from 6 months to one year, whereas the customers of the Simply Reliance plan have the comfort of life time.

Saurabh Das:

And my answer to the second question regarding current liabilities?

Arvind Narang:

The current liability number in the report is largely the same, and your specific question on the buyers credit and the break up, if you look at the annual report of March '09, it clearly mentions the buyers credit, which is Rs. 6,192 crore. In the annual report, it has been specifically mentioned that it is part of our gross debt. However, that number has now significantly come down and secondly it is reported in the current liabilities in the quarterly report.

Satish Seth:

Let me add one more thing, these creditors are bound by the respective terms and conditions of the orders placed by the company. They incorporate, among other conditions, the acceptance level as well as certain time period beyond the acceptance of the equipment, and therefore you see this kind of numbers.

Saurabh Das:

Okay. Thanks a lot for answering my questions.

Operator:

Thank you sir.

Our next questions come from Mr. Ashish Shah from IDFC SSKI Securities. You may go ahead please.

Ashish Shah:

Good afternoon sir. Sir, if you could just help me explain little bit more on your explanation as to why wireless revenues have come down, especially related to the explanation on the packaged handset part and the SIM part. If you just help me understand that more?

Satish Seth:

As Mr. Narang had said that there has been a tremendous improvement in the ecosystem of CDMA handsets going away from the proprietary side to the open side, the customers have opportunity to buy from the open market, and naturally the operator need not stretch itself to continue providing the proprietary handsets. This has changed the overall handset market scenario, instead of packaging of airtime and services by the operator, the manufacturer vendors themselves sell the handsets. This has resulted in the overall fall in the wireless revenue and by taking a conservative accounting approach, we have accordingly reduced this from the wireless segment.

Ashish Shah:

Sure. What would have been our policy as regards to this; would we as a matter of policy have accounted this upfront?

Satish Seth:

As we go along and we see that the CDMA handset ecosystem is going to improve only. If you have kept track, there was a conference sometime in August by Qualcomm, wherein the open market handsets have been announced, in which LG and Samsung have participated very vigorously, and that is how you see feature rich handsets with great form factor being introduced. You will also find in Q3 and Q4, lots of new handsets introduced in the market.

Ashish Shah:

Sure. If I understood correctly, the voice revenues have actually grown 4% Q-o-Q.

Arvind Narang:

Yeah, that is correct, the voice revenues have actually grown this quarter on a quarter on quarter basis. That is right.

Ashish Shah:

Thanks a lot for answering my questions.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Sanjay Chawla from Anand Rathi Securities. You may go ahead sir.

Sanjay Chawla:

Sir, just a follow up question on the issue of the CDMA handsets being sold now off the shelf; were you recognizing the CDMA handset revenues in your wireless segment, because the understanding was that they were being reported in the others segment sir, the entire subsidy amount?

Satish Seth:

The handsets which were under of proprietary nature were part of it.

Sanjay Chawla:

And the cost also associated with those handset procurement costs being booked in the wireless segment?

Satish Seth:

Yes. You are right.

Sanjay Chawla:

So, whatever was not proprietary in terms of the handsets that you were selling, you were not booking in the wireless segment, neither the revenues nor the cost?

Satish Seth:

Yes.

Sanjay Chawla:

Alright, okay, thank you.

Satish Seth:

Thank you.

Operator:

Thank you sir.

I would like to hand the floor back to the speakers for final remarks. Over to you sir.

Arvind Narang:

Thank you everybody for joining this call and we look forward to interacting with you by end of next quarter in January. Thanks again for attending this call.

Operator:

Thank you sir.

That does conclude our conference for today. Thank you for participating. You may all disconnect now.