

Operator

Thank you for standing-by. And welcome to Reliance Communications Global Earnings Conference Call on the Reliance Audio Conferencing Platform. This is Mamata, the moderator for this conference. At this time, all the participants are in a 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. Punit Garg, Mr. Gurdeep Singh, Mr. Arvind Narang and Mr. Hasit Shukla. The call will begin with some key observations by the management followed by a question-and-answer session. I must remind you, that all the overview and discussions today may include some forward-looking statements, that must be viewed in a conjunction with the risk that the company faces. I hand over the call now to Mr. Gurdeep Singh. Thank you.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thank you Mamta and very good afternoon ladies and gentlemen. It's a pleasure to once again welcome you all to this earnings call to discuss Reliance Communications financial performance for the quarter ended September 30, 2012. On Thursday at November, 2012 our Board of directors adopted the unaudited results for the quarter ending September 30, 2012. The media statement, quarterly report and the results have been uploaded on our website. And I hope you have had a chance to go through the same. Let me start with sharing the key highlights of this quarter.

The second quarter of the fiscal is generally a subdued quarter for the industry from the minutes consumption perspective and hence, resulting in a muted growth revenue. Revenues, RCOM consolidated revenue stood at Rs. 5,202 crore against Rs. 1,605 crore, a growth of 2.1% year-on-year. RCOM consolidated EBITDA margin at 31.5% amongst the highest in the industry. RPM our rate per minute stood at healthy 43.02 paise amongst the highest in the industry. Up against 43.1 paise in the previous quarter. Non-voice revenue our non-voice revenue contribution to wireless revenue is at 20.8% versus 20.2% in the previous year again amongst the highest in the industry.

GEBU revenue and EBITDA in our global enterprise business units we achieved revenue of Rs. 2,433 crores as compared to Rs. 2,335 crores a growth of 4.2% on a year-on-year basis with an EBITDA of Rs. 563 crore.

Global and enterprise business units contribute a steady 34% of RCOM's business. Free cash flow, RCOM continues to be free cash flow positive in this quarter. All major projects have been implemented and CapEx intensity is behind us. All future CapEx are only incremental in nature and focus on network quality, capacity, enterprise datacenter and wireless data growth.

Let me now share with you the financial and operational performance of our wireless business. Wireless revenue stands at Rs.4,422 crores, up by 3.9% year-on-year on comparable basis. While as EBITDA at Rs.1,180 crore, up by 16.4% on a year-on-year comparable basis.

We have continued our increased focus on data and provide high speed data coverage in over 1,300 towns in India. We now serve 26 million data customers out of which 4.8 million are active 3G customers, which is the again the highest in the industry. Our 3G customer base grew by 20% quarter-on-quarter versus the previous 4 million in the last quarter.

Total data usage on our network now stands at 17,400 terabytes and data usage per sub is at 232 MB which is again the highest data. As you are aware the first phase of explanation growth in the telecom industry was led by voice. The next big opportunity will be led by data and broadband services which is based on various market estimates may be from less than Rs.5,000 crores currently to over Rs.35,000 crores in the four to five years. RCOM would target a share of this opportunity.

India is the only country in the world which has voice penetration of over 70% whether it's broadband penetration is less 1%. Still few months back, there were few wireless networks capable of offering broadband services. The smartphone prices were too steep and usage charge were also acted a debtor for mass scaled adoption.

Now wireless broadband ecosystem is improving fast, most of the operators with 3G spectrum have rolled out network. Smartphone suppliers have become more comparative resulting in device prices coming down. And application and content being generated to target specific user segments with significant increase in apps adoption.

This positive change in the ecosystem is creating huge opportunity in data and wireless broadband services. In addition to focus on voice, which I'll cover in a few minutes, we are continuing with our data based strategy for future revenue growth by enhancing wireless broadband penetration and maintaining our leadership positions in providing wireless broadband products and so this is in the country. RCOM continues to provide a nationwide seamless wireless broadband experience on its network in over 1,300 top-towns across the country as of September 30, 2012 including key metros.

This includes 333 towns in 13 circles including the most critical circles of Delhi, Mumbai, and Kolkata in 3G and over 1,000 towns on our high speed data network. This is coupled with our extensive 1X data presence and complete 2G edge network on our GSM operates high quality Internet connectivity in over 200,000 towns has positioned us - to take advantage of the expected rapid increase in data consumption across the country. The key pillars of execution of our data strategy include leveraging our infrastructure providing innovative products and solutions in narrowband to broadband and 4G preferred partnership with application developers and device makers.

In order to continuously innovate new product development RCOM has launched first of its kind a new plan All Share Postpaid Plan. This unique postpaid plan offers upto 10 customers owning multiple devices within the family or a group to enjoy a free sharing of voice and data on a single bill. First share mode is equal to save mode where in every customer can save upto 50% on their postpaid bills every month.

This is the first telecom in the country to offer unlimited social media access for subscriber. WhatsApp plan offers unlimited access of WhatsApp to all prepaid Reliance GSM customers in the country for just Rs.16 per months.

We will continue to make similar initiative which are incrementally more profitable. Voice, voice will continue to remain the biggest contributor to the business. Major focus will be to continue to penetrate smaller towns in remote areas to realign and restructure the tariff and service offerings across customer segments who attract high-end users on RCOM network.

As you are aware, the tariffs in the Indian telecom markets are already even the lowest in the world. Moreover, the inflationary cost pressures have been consistently high and impacting the profitability of the industry. During the quarter, RCOM raised prepaid tariffs by 25% across GSM and CDMA platform. This decision is inline with our aim of maintaining a healthy RPM and improving average margin per user. We expect the full revenue impact of the tariff to reflect by early next financial year.

Contrary to prepaid tariff, historically there is not much activity in the postpaid space, which is dominated by the old GSM players. There have been hardly any innovation on tariff for postpaid customers over the last decade. There are higher end users including corporate customers and like any other large customers are also keen for a great value for money proposition.

RCOM being late entered in the GSM space desires to be innovatively disruptive in the postpaid segment and this is one of the alternatives to target the high-end customer segment. During the quarter, the company has reduced postpaid tariff upto 40% than those offered by the other GSM operators. RCOM is offering unlimited voice calls for Rs. 899 for it's postpaid customers while this option will be available along with he 3GB of data for Rs. 1,499.

This is going to be a win-win situation for both the customers and RCOM as service provider as the new call rates will reduce bills of high-end postpaid users by upto 40% and RCOM will incrementally gain customers as well as revenue market share in postpaid segment.

As mentioned during our last quarter addressed, we are adopting a deeply segmented an differential approach to improve revenue growth of our 900 megahertz circle, the metro markets like Delhi and Mumbai and 1,800 megahertz circles which are emerging from RCOM's perspective. We have renewed our focus on enhancing customers experience by improving network quality, innovative product development enhance point of sale visibility and better retail engagements.

I am delighted to share that for the second year in the row has been confined best quality of service award at the prestigious Economic Times Awards 2012.

Let me now cover the non-wireless business. The Global Enterprise Business unit comprises of carriers, enterprise and voice business. Carrier business. Our carrier business continues to show strong performance with order booking of over INR 380 crores. The growth is driven by robust demand for capacity services in our old, sorry, in our strong hold regions of Middle East, Asia and Europe.

In anticipation of the continued high demand we have upgraded capacity on various segments of our global network. During the quarter we have launched 10 Gig LAN, sorry let me repeat that, 10G LAN PHY services in 19 metros on our global network. This unmatched capability will enable carrier customers to upgrade their existing gigabit services to 10 times the speed without forklift upgrade on their equipment.

The international voice segment continued it's robust growth, traffic has grown by 8% on year-on-year basis. With the launch of SMS hub for terminating international SMS into India Reliance plans to retain it's number one position in India. Our single Board Number, SBN service has grown by 60% on quarter-on-quarter basis with the increased demand from enterprise customer. In the national log business we have signed orders of more than Rs. 100 crore Enterprise business. In enterprise business we have signed contracts of over Rs. 360 crores in quarter two financial year of 2012 and '13. Order value is up based 63% vis-à-vis the value of contract signed in last quarter showing robust demand for Reliance Enterprise Services in India and abroad. We have introduced leading edge services like application aware networking, manage security services and cloud based services like manage storage software.

We launched Reliance Business Service Makes It Easy campaign, the objective is to position Reliance as the forefront of communication solutions to businesses of all size. Reliance Business Service is the new end identity of the enterprise business unit created within Reliance Communications with an identifiable and differentiated positioning to reach out to the large and small enterprise offering them the strength, expertise and experience of our services.

Reliance will continue to be a, the art of connection easy, secure, and reliable for it's 35,000 plus strong enterprise customer base.

Our quarter-on-quarter success in the government vertical continued as we bagged an order for BPO and services to a major PSU bank, data order from NIC and security services to the Navi Mumbai Municipal Corporation. We added several new logos in the enterprise space across business verticals including finance IT, and ITES and media and electronics.

To reiterate let me state that global enterprise unit is growing as per plan. We've strong pipeline in both the carrier and enterprise segment. We expect to remain ahead of competition on customer service and delivery parameters based on our superior global and India network. To summarize, one we continued to maintain leadership position in the high growth data business having product and service offerings in 3G, HSD which is high speed data, 2G and 1X platforms. In the voice business, we have implemented tariff rationalization across customer segments to attract high-end users and to improve our average margin per user.

We have maintained a steady trend in our global enterprise business backed by robust demand for bandwidth, managed services and enterprise outsourcing. In the current challenging operational environment, where competitive intensity is still very high, the consistent stability of RPMs and margins is a good performance indicator for RCOM.

Finally, I would like to emphasize that RCOM will be highly focused on execution and will drive operational excellence to achieve profitable growth across all its businesses. Thank you and I would now like to hand you back for the Q&A.

Questions And Answers

Operator

[Operator Instructions]. First in line, we have question from Mrs. Sunil Tirumalai from Credit Suisse. You may go ahead please.

Sunil Tirumalai

Hi thank you, thank you very much. Sir I had a couple of questions. Firstly wanted your thoughts I mean your comments on what you are seeing in market as far as trade in channel commissions are concerned, some of your other competitors have have reported lower gross adds during the September quarter. But your trends seem to be divergent, your gross adds continue to improve quarter-to-quarter, increased quarter-to-quarter over the last one year and even in the September quarter. Are you also seeing any reducing pressure on channel commissions and how are you reacting to it?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well we had only intensified our distribution activity in the last quarter inline with our differentiated approach on 900 MHz circles, metros and the new 1800 MHz circles. The growth in acquisitions that you see is coming on the back of on ground efficiencies of good quality acquisitions. And we're seeing its corresponding impact on our pulsing base and the growth in the VLR. So we have done rationalization of retail margins to suite our various markets because there is no one size fits all that we are any longer working with.

Sunil Tirumalai

Okay, just to clarify over that I mean should I take it that you have also reduced your overall and nationwide business, reduced your retail margins?

Gurdeep Singh, Chief Executive Officer, Wireless Business

We have rationalized between our 900 MHz metro markets and the 1800 MHz circles. So, it's depending on our market share and the position in the market, we have adopted a Horses for Courses strategy.

Sunil Tirumalai

Okay. Sir, and the other thing was just on the cash flow statement in the quarterly report just trying to understand what is in the purchase of trend and equipment line which has short up significantly?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Just give me a second to reply that. Yeah the CapEx during the quarter is around 400 odd crores.

Sunil Tirumalai

Yeah.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Which you'll see that and it's pertaining to mainly on GEBU that is global business unit and minor CapEx on wireless segment, because major intensity of wireless segment CapEx is already over.

Sunil Tirumalai

Yes. So I saw that, noticed that. But I think in the cash flow statement you have a much larger number in the purchase of plant and equipment line?

Arvind Narang, Head of Investor Relations

This is Arvind. The cash flow and the balance sheet, one is on a accrual basis and the cash flow is as per the A3 format. So both are not actually comparable. So if you are looking at the number for the quarter in terms of the - or the CapEx then the 420 is the right number, but cash flow is more based on the certain other payouts, which were happened in this quarter based on the earlier transaction. Also these two numbers will never be similar, because one is on accrual basis, another is on actual cash basis.

Okay. Sir and finally what would be your, I just wanted your comment on yesterday's cabinet decision on the one-time spectrum fee?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well, we are still awaiting the details on the one-time charge. Till we have that, it will be difficult to comment. But we also note from the media reports that the CDMA one-time charge case has been referred back to the DOT. We'll be more than happy to engage with the DOT to figure out way forward on the CDMA, since there are now takers and bidders and the price is not established.

Sunil Tirumalai

Okay. Thank you sir. I'll come back to you for questions.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thanks.

Operator

Thank you Mr. Sunil. Next question comes from Srinivas Rao from Deutsche Bank. You may go ahead please.

Srinivas Rao

Yeah. Sir, thank you very much. Just wanted to get your feedback, you have started giving the, metrics on data. So exactly how are things it's - but what is your view on the growth of data from now on? That would be my first question.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well, we're already bullish on the data prospects as I just stated that, we see this market moving several fold between now and the next five years. And we already are a leader in the data space and we are clearly focusing at getting that 25% share of this market. This is largely coming on the back of two factors, A the on boarding of smartphones we're observing a dramatic increase month-on-month. This is to do with the overall ecosystem of devices, lowering of the prices and creating consumers to go in for 3G enabled phones.

And over a period of time we're beginning to see off-take on the video downloads. So I think the 3G smartphone and video downloads are the two driving factors currently that we see.

Srinivas Rao

And so just to clarify I mean your data usage which is per customer that's what 2G plus 3G right?

Gurdeep Singh, Chief Executive Officer, Wireless Business

I mean data as a company, I mean this is for the company in the wireless unit, yes.

Srinivas Rao

Okay.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yes.

Srinivas Rao

On your CDMA business, and how is that tracking I mean obviously we don't get numbers separately but the legacy CDMA business how is that performing over the last four quarters not just this quarter? Just to get a sense of where the business is?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Okay. Number one GSM business continues to grow exponentially is doing extremely at this moment. However, as all of us aware that CDMA ecosystem till about some time back was but stretched because of the drying up of the handsets in the market. Over the last couple of months we are seeing more and more handsets coming into the ecosystem. We have brought in proprietary handsets in collaboration with the Samsung. We're also actively engaged with other right makers to bring in the smartphones in CDMA, downloads any way continue to be attractive and competitively pricing the segment.

We believe that going forward the ecosystem in devices on CDMA will begin to look healthy and, hence we are very hopeful that this business which was bit under stressed will now move into a comfort zone.

Srinivas Rao

Thanks, this is helpful. I'll come back.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah.

Operator

Thank you Mr. Srinivas. Next question comes from Ms. Reena Verma from Merrill Lynch. You may go ahead please.

Reena Verma

Yes hi, good afternoon and thank you for the call. I just have....

Gurdeep Singh, Chief Executive Officer, Wireless Business

Good afternoon.

Good afternoon. A few questions for me please. Firstly, just on the housekeeping side I wanted a few clarifications. The drop in your network costs, the rise in interest and the swing in others, if you can please throw some light in terms of what's going on there?

And my second question is with regard to the GSM growth strategy. This is the first time that I am hearing of strategy where segmentation is done by spectrum. Can you just share some insights into what kind of growth differential you see, when you say that you have a different strategy for 900 different for 1,800. What really are you thinking in terms of how the growth will vary depending on spectrum? Thank you.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thanks for your questions. I will answer the later one now. And later I will ask my colleague Arvind to talk about here on network and the other questions. First it's very important to understand that 900 megahertz circles are now about eight years or nine years, or ten year old, they are well in trends in terms of it's distribution reach and the network reach. These were the businesses which came up at a time and they did not have the parent year presence, so that's number one point.

Second is we had 14 circles which are rolled out between 2008 and 2010. They are relatively new, they have a different market position, even though we have been in those businesses, in those surface through CDMA business.

So it was very important to look at our position of strength versus our position of entry and design our go-to-market strategy. For example, we would certainly behave like a leader in a market like 900 megahertz. We would certainly get aggressive into the market in the metros where because we did not have a GSM, you had a high value customer or a mid value customer who is adding with the old player.

So we would get into which is what we have done is to design strategy to how to garner that share. That's why you see us launching things like unlimited postpaid plan and All Share Postpaid Plan, I mean which is we are the one of the third telcos in the world to launch that.

When it comes to 1800 megahertz, certainly when you enter at a position of being sixth or seventh in the rank of revenue market shares, your go-to-market strategy need to be like a new player on the horizon even through we have been there in businesses through CDMA. So while we leverage the CDMA strength, we continued to play in the space of GSM as an aggressive incumbent the way I would like to put it. So that's the one of the fundamental reason for grafting out a differentiated strategies to the differentials of the market because we truly believe that one size doesn't fit all.

Reena Verma

Thank you very much sir. May I just quickly follow-up on that the revenue per minute trend in the 900 versus the 1800 circles, is it similar or are you seeing big differences and how the customers react to the tariff hike especially in 1800 circles?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well as I just said that when you move away from a leadership position to an aggressive incumbent, naturally you will have a differential of rate per minute. So I am not able to share with you exactly what these advances are. But the current RPM that you see is the weighted average of all the three geographies data business on the other side and which is what matters. At the end of the day, the job for us is to how do we optimize the rate per minute between geographies and markets and still stay healthy on profitable growth.

Okay. Thank you.

Gurdeep Singh, Chief Executive Officer, Wireless Business

On the other question I'm asking my colleague Arvind to answer to you.

Reena Verma

Sure. Thank you.

Arvind Narang, Head of Investor Relations

Reena the network cost is down by 227 crores due to certain corrections made on actual payout basis based on that trend. Reduction is also achieved due to incrementation of significant amount of sites on State Electricity Boards especially in the Central and Northern India. On an annualized basis, they shall remain in the range of around 6,500 odd crores. On your.

Reena Verma

Sorry Arvind may I, what is correction in actual payout basis, what does that mean please?

Arvind Narang, Head of Investor Relations

I mean if you look at the trend, for example, over the last eight to ten quarters you will find that our average network cost is in the range of around 1,500 crores to 1,600 crores. It has gone up sometime towards the end of the year as I mentioned in the Q4 call as well as the rationale behind that. That some of the payments which get specially to some the under our - partner. But on an annualized basis, that's why I'm trying to give you the sense that on an annualized basis, this shall remain in the range of around 6,500 crores.

Reena Verma

Okay. And.

Arvind Narang, Head of Investor Relations

Yeah. I'm coming to your second question. On the interest cost which has gone up by 40 crores from 553 crores to 593 crores is obviously not a very large amount, the minor increase in the net interest cost. Yeah our average cost of debt still remains in the range of around 6%, right. The slight increase is due to certain pending processing charges on our fund based and non-fund based credit limits which got paid out. And if you look at even in the Q4, the net finance charges was in the same range and the debt levels are also the same, similar.

Reena Verma

Sir this is a one-off, the processing fee?

Yeah these are kind of yeah. Yeah.

Reena Verma

Okay. And on the other segment please, the swing, the reduction in EBITDA loss there?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Which one you are referring to?

Reena Verma

In your segment classification.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah.

Reena Verma

Your other EBITDA.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah.

Reena Verma

Has dropped from a loss of 1.45 billion to 1.04 billion?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah. So that's actually first of all it's actually improvement of EBITDA from negative 145 to 104. So we are able to manage the cost well on that front. So it's actually improvement.

Reena Verma

Yeah, but led by what please, what does that refer to? What the part of the business?

Arvind Narang, Head of Investor Relations

No. See, this is that, if you look at that others the both income and the expense side, there is a marginal reduction in terms of the absolute value of 24 crore, right, in the revenues. And there is the largest saving on the cost side by 65 So this is the retail stores what we have Reliance Web, Web World Store or World Store. And some of the smaller business units, Reliance Tech Services, there is inflation to that there is marginal absolute value which is slightly gone down but EBITDA as I said has actually gone up.

Reena Verma

Okay. Thank you very much.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thank you.

Operator

Thank you ma'am. Next question comes from Anirban Roy from Morgan Stanley. You may go ahead please.

Anirban Roy

Thank you for the opportunity. And just a couple of quick questions. Sir I just wanted to have an idea on the tax rate for the year? And what exactly happened to the tax this quarter?

And my second question would be more of a housekeeping one, if you could share with us if 3G ARPUs or any other data points apart from subs? And if you could give us a breakup of data and VAS that you talk about which is 20.8% of your revenues into

anything apart from data or SMS or ring-tone? Thanks.

Gurdeep Singh, Chief Executive Officer, Wireless Business

I'll answer the second question first and let my colleague Arvind and Manik answers the other one, that you asked on the tax. At this point in time, we continue to give the figures only on the non-voice and on voice, 20.8 versus 20.2. On coming to 3G customers, current statistics that we are able to share with you is of the subscribers which is 4.8 million and the average usage of the overall data customers is at 232 MB. You would like to answer the....

Arvind Narang, Head of Investor Relations

Yeah. The tax titles we don't provide, so I won't be able to give you very specific on that. But we still have the tax holiday under ATIA, which we will continue to have for some more time, so.

Anirban Roy

And how long will the tax holiday be for sir?

Arvind Narang, Head of Investor Relations

At least for next few years, at least couple of two-three years more definitely is there.
Okay. Thanks.

Operator

Thank you sir. Next question comes from Shobhit Khare from Motilal Oswal. You may go ahead please.

Shobhit Khare

Sir, good afternoon and thanks for the opportunity. First question is on revenue per minute, so we have seen it being stable for last two years or so and we have also taken significant prepaid tariff increase. So, should we see improvement of, I mean what could be the quantum of improvement because of the tariff increases which we have taken? That is the first question.

And second is on channel commissions, I mean we have not seen the kind of savings which our competitors have reported. So what is the reason for that?

Arvind Narang, Head of Investor Relations

On your, you are looking at the SG&A cost and referring to that I guess?

Shobhit Khare

Yeah, Arvind.

Arvind Narang, Head of Investor Relations

Yeah so, the savings are similar to what you have seen in the results of broadly in the other operators. The difference is that in the case of RCOM, obviously there was the additional expense which happened to related to the T20 World Cup, where we were one of the sponsors or main sponsors in that. So that has basically to an extent increased that as a one-time impact on that. But largely the savings they are on the SMB side.

Shobhit Khare

Okay. Got it sir.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Coming to the tariff thing. As you will recollect we move tariffs up on a basis rack rate from 1.2 paise per second to 1.5 paise per second. Last time we had said that, we will implement this across the country by end of October which we have done. So all our newly acquired customers are under 1.5 paise per second rack rate. We had also said that as and when current customers, the existing base starts exhausting their validity of the current tariffs. We will continue to move them which we're doing diligently about 5% to 6% of the consumers are of existing base are moving into the new rack rate. In correspondence to the rack rate we've also revised tariffs and the price of the tariff vouchers which were, which is we what we call as rate cutters in the markets to make sure that the implementation is holistic. Over the next four or five months we hope to complete this exercise and we should be able to see a complete impact or a full impact Having said that we see a cost push coming on the back of one time charge re-firming and as you see going forward and we see the tariffs hardening further. And we'll not be surprised if we have to resort of tariff hike at least on two or three occasions in the next 12 to 18 months.

Shobhit Khare

Sir we have also introduced some new plans in the postpaid, so net-to-net still whatever steps you have taken? Would it be fair to assume that there would be RPM accretion over the next two quarters assuming that the current environment remains and there are no further hike?

Gurdeep Singh, Chief Executive Officer, Wireless Business

As I said that we do see the tariff hardening in the future. All our actions are towards making the business more sustainable because the current tariffs were surely not sustainable. Hence, it is fair to assume that there will be an hardening of the RPM. The quantum of that will depend upon how many of the customers we are able to migrate, what is the price elasticity to the consumption. I am glad to share that so far we have not seen any price elasticity to the consumption. So we are fairly optimistic that RPM will head northwards in the future.

Shobhit Khare

Okay sir. Sir if I could ask one more?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Sure.

Shobhit Khare

For Arvind. Sir, just wanted to understand, the increase in working capital for last two quarters we have seen a significant increase there. So, just wanted to understand that what is driving there?

Arvind Narang, Head of Investor Relations

The working capital in this quarter, it actually has, this largely basically due to the movements in the current liabilities which are reduced the working capital. Actually this has come down in this quarter if you look at the cash flow statement.

Shobhit Khare

Right.

Arvind Narang, Head of Investor Relations

So, if you recollect, even the last quarter's call where I had mentioned the rationale for increasing in the current liabilities and the same logic applies in the current liabilities in this quarter has come down which has reduced our

Shobhit Khare

Okay. So, this is pertaining to what I mean is it vendor payments and would we see more reduction in current liabilities going forward?

Arvind Narang, Head of Investor Relations

Yeah both. The OpEx creditors and some of the capital creditors.

Shobhit Khare

Okay. Okay sir, thanks a lot. All the best.

Operator

Thank you sir. Next question comes from Mr. Rajiv Sharma from HSBC. You may go ahead please.

Rajiv Sharma

Yeah hi. Thanks for the opportunity. I have a couple of questions, first is on your license fees which have gone up this quarter by some 210 basis points. So just wanted to understand one could be move towards that 8% but what is other thing which is driving this and how much has been impacted by the standard licenses which has been agreed?

Second is, don't see any impact of seasonality in your minutes. And also it suggests to me that there is been some the subscribers which have been churn, there was hardly any minutes coming from them. So if you could share what where your gross additions then I'll be better placed to understand or capture this trend data overall basis?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thanks Rajiv. To answer your question on minutes, our minutes quarter-on-quarter have declined a 102.5 billion versus 105 billion in the previous quarter. Our impact on the seasonality is little less than that of the peers. The fundamental reason being that we have stepped up our extraction at the marketplace by adopting houses for postpaid strategy which is beginning to pay. That's number one. What were the other question? Sorry I forgot.

This was on the churn customers, okay, on the question of the churn customers, you rightly said, these were the customers who are hopping between us and the other operators, we looked at their movement in the previous six months and when we found that they either don't carry any balance or not using and we churn them out of the system.

So, hence there is next to nil or negligible impact on the....

Rajiv Sharma

so your earlier churn rate used to be 4%, 5%, 3.9, around this after this cleanup will the churn rate which short up to 10% this quarter will this go down because now that those hoppers have been transitioned out. Will this now come down to 1% or 2%? Or what is the trend you're seeing in the two months of this quarter?

So this is one-off that you saw 10% because of the cleanup also to free up the numbering resource by deactivating the inactive customers. But going forward, we see it to be in the region of about 4%.

Rajiv Sharma

Despite the cleanup?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yes.

Rajiv Sharma

Okay.

Gurdeep Singh, Chief Executive Officer, Wireless Business

That's is fundamentally Rajiv, because we still have 14 circles where our cumulative market share in GSM space is pretty low. So we continue to be aggressive. And we need to ensure that we continue to get not more customers on boarded even though we make effort to retain them post 90 days. But I guess this will continue for at least a quarter or two before we stabilize to our fair share.

Rajiv Sharma

And what has been your gross rate just roughly on a national basis?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Gross additions, you are saying?

Rajiv Sharma

Yeah.

Gurdeep Singh, Chief Executive Officer, Wireless Business

It's something that I won't be able to share.

Rajiv Sharma

Okay. Okay. And what is been the reaction to by competition in markets like Gujarat and Bihar where you hike tariffs, how is the competition behaved in these markets? Any change you see from them so far?

Well, you and I read the similar media, I mean, if you look at some of the competition and visit their websites. They have begin to selectively move the prices up, this is what we have seen. However, as I said last time we have very clear focus on delivering quality, service and experience to our consumers. And do not wish the price to be the only reason for them to be with us.

So now we are moving towards a value for money as a proposition rather than pricing is only proposition and we begin to craft our own strategy be it 900 megahertz metros or 1,800 megahertz.

Rajiv Sharma

And your prepaid proportion has come down by 40 basis points. Is this because of the new plans you have launched on postpaid you're already seeing some gains there?

Gurdeep Singh, Chief Executive Officer, Wireless Business

I do not have exact maths, I mean ask them to correct it. A, very early to see the postpaid impact on the composition shift because the acquisition numbers are far less than the overall subscriber base. Because of unlimited and all share plans. However, the trend to lines are very encouraging. But I guess, Rajiv I'm not sure that - Arvind to figure that out. It could be because of the deactivation of the large customers. That would have changed their ratios.

Rajiv Sharma

Okay, okay. Yeah. One question I had on license fee for Arvind?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah Arvind.

Arvind Narang, Head of Investor Relations

So your question is on access charges and license fee?

Rajiv Sharma

Yeah.

Arvind Narang, Head of Investor Relations

Yeah. So access charges has gone up by 86 crores and license fee has gone up by 9 crores, okay. The access charges going up is basically the main reason is due to reconciliation between the private operators for the IUC access charges. So it's a one-time provision, so because if you look at in terms of the minutes, minutes have decline 2.5%, so access charge is going up is based on that reconciliation among the private operators.

The license fee which has gone up, by 9 crores is largely because of NLD, ILD fees license fee growing from 6% to 7%. So that implementation of uniform license fee.

So this 86 crores won't come in the next quarter, this is one-off?

Arvind Narang, Head of Investor Relations

Yeah. This is related to that.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yes, yes.

Rajiv Sharma

And in your explanation on the interest, this is my last question....

Arvind Narang, Head of Investor Relations

Significant amount of that is related to that we put it that way.

Rajiv Sharma

And in your interest cost what is the one-off in the 5,929 number?

Arvind Narang, Head of Investor Relations

Interest cost?

Rajiv Sharma

Yeah.

Arvind Narang, Head of Investor Relations

No, no interest cost is not I said that, our cost of the debt is in this range, right, which is around 6%. And this 40 crores increase in the interest cost is slight increase due to the certain pending processing charges on certain fund based and non-fund based limits, credit limits. So and as I earlier mentioned, even if you look at the quarter four finance charges, they are also at the same level. So because the debt is also at the same level.

Rajiv Sharma

Okay. Thanks a lot and wish you all the best for coming quarters.

Gurdeep Singh, Chief Executive Officer, Wireless Business Operator

Thank you sir. Next question comes from Kunal Vora from BNP Paribas. You may go ahead please.

Kunal Vora

Thanks a lot for the opportunity sir. The first question is on the tariff. Sir post the tariff increases, have you seen any impact on your gross additions like it's a very very tariff sensitive market. So are you seeing any such impact in the marketplace?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well. As I said last time, that before we implemented the tariffs, we did a pilot in few circles and we did not see any price elasticity. And we continue to see no price elasticity because of the price change.

Kunal Vora

No. But a share of gross heads has there been impact with the tariff increase?

Gurdeep Singh, Chief Executive Officer, Wireless Business

No there is no impact we continue get to our fair share in the industry.

Kunal Vora

Sure, okay. Sir, and the next question is on the debt side, net debt continues to increase, any plans for fund raising or any strategic deals which you would see?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Net debt is gone up by that's because the cash we have consumed a part of that but actually if you look at the gross debt number that has gone up very, very marginally just by 242 crores. If you look at the quarterly report, the foreign currency loan is up by 407 crores and the rupee loan is repaid by 165 crores. So, it is down to that extent and the net impact on the gross debt is 242 crores. So, it's a marginal, very, very marginal increase yeah.

Kunal Vora

No, but is the company comfortable with the current debt level or are there any plans to de-lever in next six months to one year timeframe?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well. There are plans to deleverage and reduce the debt level. We are looking for an opportune moment either through our flag IPO or through the sale of the asset tower et cetera or dilution in the tower et cetera.

Kunal Vora

Okay. Great. Thank you sir. Sir my questions are answered.

Operator

Thank you, sir. Next question comes from Mr. Sunil Tirumalai from Credit Suisse. You may go ahead sir.

Sunil Tirumalai

Hi, thank you. Sir, I have a couple of followups. Firstly on the tariff hike that you said I mean you've taken 1.2 paise to 1.5 paise. Just wanted understand what is your experience last year when you guys I mean Arvind you were good to cut tariff hikes on 1 paise to 1.2 paise and I mean - or that really flow through in the RPM number? I'm just trying to understand I mean what we're seeing now?

Arvind Narang, Head of Investor Relations

Well, when the tariff hikes were taken last time when it moved from 1 to 1.2, I think the competitive intensity on the ground was still a 14 player market. The difference between the last time and now is that, we see a five to six player market effective on ground, a PAN-India scale operators.

So, then which made the change this time, we did not see any price elasticity that could be a cause of concern. And we are now happy to share that we have implemented the base rack rate of 1.5 paisa across India as of end of October.

And every month about 5% to 6% was the consumer base, is migrating into the new rack rates. So, this process should complete by mid-Feb or end Feb. So you will be able to see the complete impact of this changeover in the first quarter of the next year. However, to assume that will it result into better performance on revenue or on RPM side considering the fact we are now into the best of the two quarters in a year which is the festival quarters. And the changes which are behind us, it's fair to assume so.

Sunil Tirumalai

Okay. That was helpful. And my next question is on what do you think would be the impact on RPMs from processing fee limit on low denomination vouchers which TRAI recently put up?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Most of the recharges were in the range that we spoke that the new regulation have been framed. We do see a immediate one or two months impact on this, but over a period of time we'll nullify it as consumers have also began to move into higher denomination recharges, right?

So when you look at Rs.30 recharge versus a Rs.10 recharge, the processing fee capping of Rs.1 versus Rs.3, our endeavor will be to move the consumers towards the higher denomination recharge which we've been successfully able to do so far.

Sunil Tirumalai Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah, but it's a question of what you're packaging in a Rs. 20 or Rs. 30 recharge. So....

Sunil Tirumalai

Okay.

Gurdeep Singh, Chief Executive Officer, Wireless Business

So that's we are adding it starts to go market level.

Sunil Tirumalai

Okay. Thank you. That was helpful.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Yeah. Thank you pleasure.

Operator

Thank you sir. Next in line we have follow-up question from Reena Verma from Meryll Lynch. You may go ahead please.

Reena Verma

Yeah, thank you for the opportunity once again. Just on CDMA, I wanted to get your thoughts, how you are viewing the absence of any bidders for CDMA spectrum. Or what do you think it means for the attractiveness of your own CDMA business? And in that context, how feasible would it be for you to surrender any CDMA spectrum that you have beyond 2.5 megahertz please?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well, the two things have happened in the past few days is there have been no bidders takers for CDMA spectrum. Be the yesterday's cabinet decision to refer the CDMA one-time charge to the DOT where we said that we are more than happy to engage with DOT to work on a forward path. Well, I forgot your first question, what was that on CDMA how do we see that?

Reena Verma

Yeah, what do you think does the lack of bidders show poor economics of the business?

Okay. See we have all along maintained that CDMA is a technology which has reduced it's share and contribution in the world market. There are only few select countries and the players and the operators who are still supporting this platform including U.S. and China.

The device ecosystem is certainly stressed versus the GSM because it offers limited options and choices to the consumers and, hence it does limit your go to market approach but having said that, I did mentioned that over the last few months we have seen a dramatic shift in the evolution of the CDMA devices in the ecosystem and the chipset technology is advanced and earlier the device makers had to resort to a separate chipset for CDMA and a GSM, now there are more and more of unified chipsets in the market, which helps us bring far more number of devices in the market versus earlier.

So, we are little optimistic about the ecosystem, but to say that will it be comparable to a GSM ecosystem? Answer will be no. But it will certainly be a better ecosystem versus what we have gone through in the past.

Reena Verma

So you think that people who are not bidding for it is just basically because they have GSM resources?

Gurdeep Singh, Chief Executive Officer, Wireless Business

No, I think one of the reasons for not bidding is the unrealistically high price of CDMA spectrum which was spread at a 1.3X to 1,800 megahertz and no bidders and no takers establishes that further. That the price is unrealistically high and then it needs to be looked into.

Reena Verma

And would have the same view for the 1,800 megahertz price as well?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well, one of our reasons for not participating in GSM is that even those prices are unrealistically high.

Reena Verma

Yeah, thank you. And just of the second part of my question please, about surrendering possibly some CDMA spectrum?

Gurdeep Singh, Chief Executive Officer, Wireless Business

We are still evaluating our options on how do we play between the three technology there that we have in 3G, 2G and a CDMA. It's bit premature to talk on that.

Reena Verma

Okay. Thank you very much, best wishes.
Thank you.

Operator

Thank you ma'am. Next in line we have follow-up question from Mr. Srinivas Rao from from Deutsche Bank. You may go ahead please.

Srinivas Rao

Thanks. Actually, part of my question what Reena asked. You have not bid for the 1,800 megahertz auction or you are not participating in that. Whereas you do have only start-up spectrum in at least 14 circles as you mentioned.

Is your view that this sector is enough for you in the foreseeable future based on your ambitions, business ambitions in GSM space? Because the reason I asked is, typical commentary which we've heard from players is that you do need something like at least 6.2 megahertz at least for a reasonable network to a GSM network in the medium-term. So, that's the context of asking this question?

Gurdeep Singh, Chief Executive Officer, Wireless Business

Well, as we've said that the fundamental reason of non-participation in the auction is that we believe the prices are unrealistically high. Having said that, we believe that the current spectrum supports us in our near-term requirement of traffic growth and consumption. And we will deal with this question as the time comes by. Yeah. Because in many of the markets, we have a three layers of technology on 3G, 2G and the CDMA. So our task is how do we harmonize the customer base between these three technologies and make best use of the spectrum that we have.

Srinivas Rao

Just one more question. Is it feasible or which feasible to support voice over 3G. But is that something which you can look at as an option going forward or do you expect the data growth which you have been very positive on, will kind of more than consume your 3G spectrum resources?

Gurdeep Singh, Chief Executive Officer, Wireless Business

You can offer voice over 3G. This is dependent on what strategy you take and how stretched you are on the spectrum in the market. I mean some of the older players are currently supporting voice on 3G in the stressed out market. And this will be a case-to-case and a market-to-market or maybe a city-to-city kind of an approach.

Srinivas Rao

Thanks sir. This is very helpful. Thanks.

Gurdeep Singh, Chief Executive Officer, Wireless Business

Thank you.

Thank you sir. This was the last question. As there are no further questions from the participants. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.

Arvind Narang, Head of Investor Relations

Just want to everyone a happy and a sparkling Diwali.

Operator

Thank you sir.