Vodafone Idea Limited Conference

August 07, 2020

Moderator: Good afternoon, ladies and gentlemen. This is Janis, the moderator for your conference call. Welcome to the Vodafone Idea Limited Conference. For the duration of this presentation, all participant lines will be in the listen-only mode. After the presentation, a question-and-answer session will be conducted.

We have with us today Ravinder Takkar – Managing Director and Chief Executive Officer of Vodafone Idea Limited, and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited. I want to thank the management team on behalf of all the participants for taking their valuable time to be with us.

Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions on today's call may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risk therefore that the company faces.

With this, I now hand the conference over to Mr. Ravinder Takkar. Thank you, and over to you, sir.

Ravinder Takkar: Thank you, Janis. On behalf of Vodafone Idea, I welcome all participants to this earnings call. Yesterday, our Board of Directors adopted the unaudited results for the quarter ended June 30th, 2020. The detailed press release, quarterly report and unaudited financials have been uploaded on our website. And I hope you had a chance to go through the same.

I will talk about the various strategic initiatives along with operational highlights for the quarter and I will then handover to Akshaya to share details on the Company's financial performance.

Before that, let me talk about the unprecedented challenge we are facing today in the form of COVID-19. The outbreak of COVID-19 pandemic and the subsequent nationwide lockdown has not only impacted overall economic activity, but also impacted physical, social and mental well-being. I wish you and your loved ones are staying safe, strong and healthy through this turmoil.

Vodafone Idea has played a critical role, providing connectivity services to millions of Indians through these challenging times. The company's mobility services formed the backbone to the digital infrastructure of the country as both professional and social interactions shifted from the physical to the virtual world. With immense pride, I can tell you all that our teams worked tirelessly and did a great job of not only providing uninterrupted services to both our retail and enterprise customers, but also maintained exceptional quality of services.

As a socially responsible corporate, we have also provided free validity extension and free talk-time to nearly 100 million of our customers, those who were the most severely affected. We will continue to extend our support to the country to tackle this crisis. However, as most of the stores selling our recharge vouchers were closed, our customer additions and availability of recharges were impacted.

Moving on to strategic highlights; our most important and challenging strategic undertaking was the rapid acceleration of integration

You have all been witness to this mammoth exercise of ours and it makes me very proud to highlight that integration of Vodafone India and Idea Cellular is almost complete and Vodafone Idea has fully realized its targeted annualized opex synergies of Rs. 84 billion as of Q4FY20, much earlier than the timeline stated on the merger announcement in March 2017. We have thus consolidated at a record pace in comparison with any global mergers, especially given the size, scale and complexity of the integration.

Our five pillar strategy, which acted as a compass to navigate the critical phase of integration continues to guide us going forward. As a natural progression or evolution of our strategy, the major initiatives for VIL now are (1) Focused network investments in 16 key circles for superior customer experience, (2) Market initiatives to drive ARPU improvement, (3) Focus on Business (Enterprise) services, (4) Drive partnerships and digital revenue streams, and (5) Cost optimization to drive organizational efficiency. We believe all these initiatives will improve overall customer experience and in turn drive better 4G additions and consequently improve revenue, profitability, cash-flows and our competitive position in the market.

The first and the most important initiative going forward is focused network investments to drive superior customer experience

Since the day of merger, we had a focused approach in investments towards our profitable areas, to utilize our capex effectively while ensuring that we offer a superior customer experience in these areas. The integration along with other network initiatives such as spectrum consolidation and refarming, deployment of TDD sites, small cells and massive MIMOs have delivered a significant capacity uplift. Our overall capacity has more than doubled since merger. With aggressive albeit focused rollout, our 4G coverage now is nearly a billion Indians.

Going forward, we will continue to drive incremental investments in our priority areas. Our investments will be focused to expand 4G coverage and capacity in our 16 priority circles to further strengthen our position in these markets. These 16 circles contribute around 94% of VIL revenue and around 87% of industry revenue. While most of our incremental capex will be directed towards these 16 circles, we will continue to invest in profitable districts of the remaining 6 circles and we remain committed to ensuring seamless connectivity in these 6 circles.

A deep dive on network investments -

Our overall broadband site count now stands at over 446,000, an increase of more than ~80,000 sites since Sep 2018. While there is an increase in overall broadband sites, the increase in unique broadband location is relatively low as we are adding 4G sites primarily on the location where we already had 3G sites. Our unique 4G locations, on the other hand, have seen a strong growth of over 22,000 sites since merger and we continue to drive 4G expansion.

We have also added more than 11,600 small cells till date, to improve our coverage as well as capacity in dense urban areas. Till date, we have deployed nearly 60,000 4G TDD sites, to augment our 4G capacity and most of the deployed capacity is in our priority areas. We have been aggressively deploying massive MIMO and till date, we have deployed over 12,100 Massive MIMOs, which remains the largest in India.

As most of the rollout has been fairly recent, we have been deploying an array of 5G concepts and technologies like Massive MIMO, DSR, Open RAN, Cloudification of core etc., while rolling out our 4G network. Currently, we have the largest edge cloud deployment in the country. All this prepares us better towards transition to 5G in the coming years.

This quarter, our capex was impacted due to the nationwide lockdown. However, we added ~13,000 FDD sites in Q1, primarily through software upgrade on our SRAN towers. As we move forward, based on the customer usage trends we will continue to re-farm our 2G/3G spectrum towards 4G.

As mentioned earlier, all these investments have provided us a significant capacity uplift. Such large capacity expansion has reduced the utilization levels and improved our overall download speeds, in turn leading to superior customer experience. Since lockdown, we have seen a strong surge in data consumption, and our capacity expansion has enabled us to service this demand seamlessly.

Impact of all these activities is clearly visible as we have been moving up in the league tables on 4G download speeds based on various reports available in public domain. As certified by Ookla, based on the 4G download speeds in Q1FY21, we offer fastest 4G download speeds across Delhi, Mumbai, along with West Bengal, UP, MP, and Assam. Further, based on third party data, we are now ranked #1 or #2 for at least one of the brands in all 21 circles (J&K not part of the survey) on the 4G download speeds for the month of June. Based on several other reports available in the public domain, VIL is now leading on several metrics such as video and voice experience as well as 4G download speeds. All these reports stand testimony to our continued focused towards improving customer experience.

The second focus area is market initiatives to drive ARPU improvement –

As everyone here is well aware, telecom industry has suffered tremendously on account of below cost pricing with heavily discounted unlimited voice and data plans. This is despite the fact that market has consolidated to an optimal structure of 3 private operators and one government operator.

While the tariff hike in December 2019 was a step in the right direction, ARPU's are still far from being sustainable. We believe the market will be able to absorb further tariff hikes, which are essential to address the structural issue faced by the sector and enable operators to generate reasonable returns on their investments.

While tariff hike remains critical to improve the overall industry health, we have also undertaken several market initiatives to improve ARPU such as driving 4G/UL penetration. We had also launched REDX plan to attract high ARPU postpaid customers offering differentiated services, with several industry first features including higher speeds, lounge access, free international roaming pack along with premium content. We have seen strong traction on this plan.

As a part of our customer excellence drive, we are transforming customer servicing across all touchpoints with a clear focus towards shift to digital. Our digital servicing capability to resolve customer queries has improved significantly, reducing customer center load and driving cost savings. While our mobile apps and websites are capable of addressing most of the customer queries, we launched chatbot few months ago, which is embedded in our app and websites. We have also recently launched Whatsapp bot, an industry first, addressing millions of customer queries digitally. We have several new initiatives in the pipeline such as automated tools across email and phone services to digitise our customer servicing.

Further, Vodafone Idea has renewed its focus on digitization of distribution channel to completely automate sales process creating seamless and efficient journey for the channel partners. We have also rolled out post-paid digital acquisition in several cities, including door to door delivery and digital KYC processes, which we gradually plan to expand to other cities as well as for our prepaid portfolio.

The third major focus area Enterprise services and new fast growing segments –

Enterprise services remains one of our focus areas. We are well positioned in enterprise offerings across the industry verticals and will strive to further improve our position with focus on fast growing segment of IoT solutions, cloud offerings, carrier services etc. The strong relationship with customers over several years and global know how of Vodafone Group provide strong platform for future growth in this segment.

We continue to maintain a clear leadership in IoT offerings which is an emerging segment and has some exciting use cases such as connected cars, farms, smart meters and several others. We believe IoT has potential to grow multi fold in the near future amid government's push towards 'Digital India' and 'Smart Cities' and VIL with its differentiated end-to-end solutions is well positioned to benefit from this trend.

During the current pandemic, we continued to support enterprises and SMEs in their digital transformation journey. Our robust Business continuity plan and suite of products and services are enabling enterprises to adopt digital in a secure manner, fostering remote working while ensuring workforce safety and promote employee collaboration. The comprehensive Carrier Services offerings power the digital infrastructure of some of the largest OTT service providers in the country. We thus believe in a post COVID-world, which will be more digitally connected, our enterprise business offerings are well placed to thrive.

The next strategic initiative is driving partnerships and digital revenue streams

On content, our strategy remains unchanged since merger. We will continue partnering with the "best in class", rather than owning the value chain. We have tied-up with several content creators and OTT apps like Amazon Prime, Netflix, Sony Liv, Zee5, Sun NXT, Shemaroo, Discovery and several others and this list continues to grow longer by the day. Our content portfolio is thus comparable with our competitors.

Our strategy on partnerships extends way beyond content. We have partnered with various ecommerce platforms, handset manufacturers, financial institutions, NBFCs among many others to create value not only for the customers, but also for the company and its partners. Going forward, the company is also looking to expand breadth and depth of new and existing partnerships with renewed vigour, supporting further engagement and monetisation opportunities.

And lastly, we have initiated a cost optimization exercise to drive organizational efficiency

Over the last few years, industry has been going through structural changes with focus shifting towards digital and decision making increasingly become centralized. Post successful realization of Rs. 84 billion targeted synergies through the de-duplication exercise, we have initiated a further cost optimization plan across the company in line with the evolving industry structure and business model. Through this exercise, we target to achieve Rs. 40 billion of annualized opex savings over next 18 months.

As a step in that direction, we are in the process of organization wide restructuring to adapt to new market realities. We have shifted from circle to cluster approach, realigning teams from 22 circles to 10 clusters. Some of the other major initiatives include – (1) Centralized design, planning and major network functions, (2) Center of excellence for customer services, (3) Focus on digital across functions and processes. All these initiatives will not only make us cost-competitive, but transform the company into a lean and agile 'fit for future' workplace.

Moving on to operational highlights for the quarter

As stated earlier, this was a challenging quarter with revenue decline of 9.3% QoQ, due to the nationwide lockdown with customer's ability to recharge, availability of physical recharge, acquisition of new customers as well as physical network rollout impacted during the quarter.

Subscriber churn is now at an all-time low of 2.0% as net disconnections were lower this quarter. However, gross additions were impacted by closure of retail stores during the lockdown resulting in subscriber base decline to 279.8 million in Q1FY21 from 291.1 million last quarter. Our 4G base saw only a marginal decline and now stands at 104.6 million.

Data volumes witnessed a strong growth of 10.6% QoQ, as content consumption surged in the lockdown. Our capacity expansion enabled us to comfortably handle peak volumes of 55 PB/day during the early days of lockdown. Data usage per sub in India remains amongst the highest in the world and for VIL now stands at 13 GB/month.

An update on Indus stake, the long stop has now been moved to 31st August 2020. We have the option to monetize our 11.15% stake as and when the merger concludes.

A quick update on the regulatory matters

On the AGR matter, this quarter we have recognized additional liability, in line with the Supreme Court order basis DoT's preliminary assessment. As the matter is currently sub-judice, we will refrain from commenting on this matter and we will not be able to respond to any questions on the same. Meanwhile, we continue to actively engage with the government seeking a comprehensive relief package for the industry, which faces critical challenges.

To conclude, while this has been a difficult quarter due to COVID crisis, we have turned a new leaf and we strive towards our strategic objectives with new vigour. Post completion of integration, we have taken several new initiatives all with the clear intent to improve customer experience. We believe this will help in improving our revenue, profitability and our overall competitive positioning in the market.

With that, I handover to Akshaya who will share the financial highlights for the quarter.

Akshaya Moondra: Thanks, Ravinder. A very good afternoon to participants from India and a good morning or evening as applicable to overseas participants.

As mentioned by Ravinder, this quarter was impacted by the nationwide lockdown as availability of recharges and new subscriber acquisition were disrupted due to closure of stores while slowdown of economic activities impacted ability of customers to recharge. Resultantly, revenue declined by 9.3% for the quarter to Rs. 106.6 billion, as against Rs. 117.5 billion in Q4FY20.

Adjusted for Ind AS 116 impact, EBITDA is Rs. 18.3 billion for the quarter, as compared to an EBITDA of Rs.21.1 billion in the last quarter. After adjusting for one offs of Rs.3 billion in this quarter and Rs.4 billion in the last quarter, the underlying EBITDA has declined by Rs.1.8 billion QoQ. This EBITDA decline of Rs. 1.8 billion was primarily on account of lower revenue of Rs. 11 billion which was largely offset by reduction in subscriber acquisition costs due to lower gross additions, marketing costs, network costs and other optimisation initiatives across all cost items. The one off of Rs.3 billion in this quarter includes about Rs.1 billion relating to License Fee & Spectrum Usage Charges and balance Rs.2 billion is largely related to Network and IT costs.

The nationwide lockdown also disrupted the equipment supply and logistics, impacting our network rollout this quarter. Thus the Q1FY21 Capex spend was subdued at Rs. 6.0 billion vs Q4FY20 Capex of Rs. 18.2 billion. However, we still added 13,000 4G sites largely through spectrum refarming.

During the quarter, we have received Rs. 15.3 billion as part payment from Vodafone Group towards the AGR dues under a mechanism as per the Implementation Agreement dated 20th March, 2017. We have also received dividend of Rs. 1.1 billion from Indus.

Net Debt stands at Rs. 1,155 billion as at Jun'20 as against Rs. 1,125 billion in Mar'20. The cash and cash equivalents balance as at Jun'20, excluding the margin deposits, is Rs. 34.5 billion.

Pursuant to the judgement on AGR by Hon'ble Supreme Court on 24th October 2019, we had accounted for the estimated liability of Rs. 460 billion as on 31st March 2020. On 20th July, 2020 vide its order on the modification applications filed by the TSPs and the DoT, the Hon'ble Supreme Court confirmed the preliminary assessed dues submitted by the DoT as the final amount. For VIL, these dues as per preliminary assessment by DoT for the period up to FY 2016-17 stand at Rs. 582.5 billion. Consequent to the above, during this quarter, we have recognized an additional charge of Rs. 194.4 billion as an exceptional item towards the total estimated AGR liability. We have made an a further payment of Rs. 10 billion on July 17, 2020 towards AGR dues in addition to payment of Rs. 68.5 billion made till June 2020.

With this, I hand over the call back to Janis and open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question is on revenue. Can you help us understand the 9% revenue decline better, what will be the large contributors? If you can help us quantify the impact of international roaming, impact of subscribers not able to recharge and lower gross additions, etc.?

Second one, assuming that the Supreme Court allows deferred payment, can you share your thoughts on your fundraising and asset monetization plans? Whether you had any interaction recently with the promoters and the way forward for the company?

Ravinder Takkar: Kunal, I will start off with the first question regarding revenue decline that you talked about. As I mentioned in my opening comments as well, these are essentially unprecedented times, with complete national lockdown. That has resulted in people getting impacted who are used to going to their neighborhood stores and recharging, and suddenly those stores are closed and recharging is not available. If a person delays the recharge for a few days, that has an impact because that revenue gets lost. Those type of challenges have certainly existed during this period of time although a fair amount of volume shifted to digital. With the migrant crisis that took place in this quarter as well, a large number of people were displaced and moving around, certainly some revenue decline took place as a result of that.

At the same time, as I mentioned earlier, we had given free recharges to a very large base of the customers to help them remain connected during these difficult times, which was the right thing to do, and I think it was very helpful and appreciated by a large set of customers. Gross additions also were impacted because retail outlets were closed and KYC and other things were impacted, and thus gross additions were lower than we had expected. Having said that, I think it was very impressive that we were able to keep the churn at 2%, the lowest we have seen, which was very helpful.

I think more importantly many of the businesses, which were shutdown as well, put some of their SIM cards in what we call safe custody, where they say, I would like to put these SIMs in safe custody and when my business opens up and our employees come back, I will potentially look at restarting them again. Also, due to economic challenges, we also saw families save money, so if you had a family with multiple connections, maybe they were all sitting at home, and they said, maybe we don't recharge for one of the family members this month or for this week or this duration of time to save money. I think all of those things led to revenue decline.

You mentioned international roaming, and both inbound and outbound roaming are impacted. This is generally a period where there is a fair amount of international roaming as people travel overseas and we have incoming roaming as well. Those were generally the reasons why this revenue decline took place.

As you know, while there is no national lockdown, economy is opening up at a local and a regional level and in many circles this continues to be a challenge. There are cities like Mumbai, Chennai and Pune, etc., which are still hotspots, and there is a fair amount of restrictions there. We are following rules, making sure that all the health and safety guidelines are met and safety of employees and our customers have been kept in mind, but we are opening up and we are starting to see an improvement in that area. Also, digitalization and digital recharges have really picked up. We thus expect Q2 to improve but at the same time, we expect it to improve at a gradual level as opposed to jumping straight to where it was before this lockdown happened.

That was the first question. Akshaya, you want to take on the second one?

Akshaya Moondra: Yes. Kunal, your question is on what happens in terms of long-term planning once the AGR judgment is in place. We are awaiting the AGR judgment and the final decision on the period of repayment and that will enable us to assess then exactly what our funding requirements will be going forward. Over this period of time, as we have mentioned earlier, most of our integration activity, which was the first stage of our investment, is also coming to a close. So, both with respect to the AGR judgment and our additional investment requirements going forward, we will get clarity on what is our funding requirements for servicing all these things and based on that we will take suitable actions for getting the business adequately funded. We can discuss more details on that only once we have clarity on the AGR matter in terms of the final period of repayment.

Kunal Vora: Just to follow up on the first question. The trends have been very divergent this time, and also in the recent past across operators. This time you have lost about 1.5 million postpaid customers, so if you can comment on that as well.

Ravinder Takkar: The trends have been divergent and we believe there is reasonable explanation for it. If you look at Bharti, as we have stated before, they have benefited from investing ahead of the cycle on 4G compared to us. We are catching up as we have done our integration now, while some of their investments were done earlier which has led to some advantage for them. Also, because of this early investment, their customer mix in regards to their UL base and 4G base tends to be different, and as a result, to some extent is less susceptible to downgrades than that we saw, which I think is also a reason.

Also, I think it's important to remember that on the gross additions, again, our channel is a bit more dependent on physical than maybe theirs. We saw a little bit of impact of that as well but given our improved network quality and the fact that we have completed our integration, this puts us in a very good position going forward, to talk more specifically about our capabilities. The quality of our network and the quality of our customer experience will show our capabilities, and hopefully lead to better customer additions not only on 4G and UL going forward, but also better customer experience.

We expect that this trend will now continue to change because some of the reasons that I talked about earlier have led to divergence, which got further exaggerated in this lockdown period. As the country opens up and with the completion of our network integration as well as our IT integration, and there is a huge amount of work that has happened during the lockdown period where IT integration was completed, that will make a big difference on customer experiences and processes, and we expect that benefit to start to kick in.

Kunal Vora: Any comment on postpaid? Why is there a sharp decline?

Ravinder Takkar: I think the postpaid decline was partly because of the businesses being shut down, we saw what I mentioned earlier, safe custody of many of the M2M (machine-to-machine) connections. As the retail environments were closed down, the SIMs that go into the point-of-sale type of equipment were impacted, and we have a very large market share there. Many of the businesses said, please put SIMs in safe custody, we will renew them when business opens up, so we saw a drop as a result of some of those activities that took place, especially around business where they decided to put SIMs under safe custody because their employees are not working. We expect that as business activity picks up, these connections will hopefully come back.

Moderator: Thank you. We take the next question from the line of Ashwin Agarwal from New Berry Advisors. Please go ahead.

Ashwin Agarwal: My first question, at what ARPU level do you think the business will be profitable and self-sustaining? Thanks.

Ravinder Takkar: I will talk specifically about the need for ARPUs to go up and then Akshaya, if required can add later. As we mentioned before, the ARPUs are very, very unreasonably suppressed in India. They are well below the cost structure of all players and this is an area that needs to certainly improve. We have been talking about it for a long while that the industry structure is at the optimal place. There is an opportunity for the entire industry, and certainly it is something that has been well recognized not only by COAI, but also by the government. As you know, right before the lockdown, TRAI undertook a floor pricing consultation, which is still under process, and we are hopefully looking forward to a good outcome of that as well. The premise of that was essentially that the pricing needs to go up and in reality all players are selling below cost right now.

We believe that while this floor pricing and the Government intervention could help, but it is also important that the industry starts to move in the right direction and actually start to take prices up in any case. As you know, we and the competitors took the initiative in December 2019 to take a price increase. While we wait for the floor pricing consultation, I think there are opportunities to increase prices at all levels, and we expect that to happen over the coming period. This is a sentiment that has been expressed universally in the industry and even including the Cellular Operators Association, that this is the right thing to do. Akshaya, maybe you want to talk about what is the right price point.

Akshaya Moondra: ARPU is a function of what service is being offered. I can just give you a rough indication that if you look at the kind of traffic and the kind of offerings that we have today, for the business and generally industry as a whole to recover its cost of capital adequately and make some surplus over that, an ARPU level of about Rs. 230 - 250 would give a reasonable cost of capital recovery. If I put it in perspective, before we saw this decline in pricing over the last 3-4 years, we were at ARPU levels of close to Rs. 200. If you look at the data usage per subscriber, it has grown multifold. Given the cost competitiveness of Indian industry, it's a good thing that even at Rs. 230 - 250 level of ARPU, the industry can actually generate a decent return on capital. Does that answer your question?

Ashwin Agarwal: Yes.

Moderator: Thank you. Next question is from the line of Abhiram Iyer from Deutsche CIM. Please go ahead.

Abhiram Iyer: My questions are twofold. One, just continuing the ARPU discussion, could you please highlight why there was a decline in the ARPU despite a price increase in December? Ideally, that should have still flowed through. The other question that I had was, if we ignore the AGR ruling and the timing of the AGR cash flows required, what is your liquidity situation? What is the kind of short-term debts that needs to be paid over the rest of the financial year and how are you maintaining the liquidity situation? Thank you.

Ravinder Takkar: Thank you, Abhiram. I will take the first question, and then I will ask Akshaya to answer the second one. As I mentioned earlier, predominantly we believe that the ARPU declines were related to inability of customers to recharge because of the lockdown that took place. As I said, if there are delays in recharging, even if they eventually do recharge, the delays in recharging leads to revenue loss, which at the end leads to ARPU reduction. We also believe that there are economic challenges and people, especially migrant workers were affected. Other people were also making decisions on usage, if I am in lockdown do I need to recharge for multiple family members, and people were making choices there as well, which also led to ARPU decline.

If you look at the validity extension that we gave, that also had some impact on the ARPU, which again was a very important and the right thing for us to do. The other important part to remember is that gross additions were lower, which also impacts the revenue. I think we should take, to some extent, satisfaction from the fact that we have kept churn at 2%, which is the lowest level that we have had in a very, very long time, a strong testament to the experience that the customers were enjoying during this lockdown when they were using all this extra data and voice and so on. The experience has been very good and highlighted our ability to provide that service during this period of time.

As the lockdown opens up and the channels come back as well as recharging comes back and the economic activity picks up, we expect trends to go back up slowly. We are already seeing some of that in July. The other important part is that the quality of our network, which people get to experience now as the integration is nearly completed, is also a very strong testament. We have the best network in many circles and we are number 1 or 2 on 4G speeds in all circles and that gives us the credibility. With our network and our capabilities and the digitalization that we have done, we believe all this will also help us move in the right direction. Akshaya, over to you.

Akshaya Moondra: On the question of the debt servicing, as of 30th June we have principal debt repayments until March 2021of about Rs. 36.6 billion. But a large chunk of that was due in July, which has been paid. If I take away the Rs. 29.4 billion of debt, which has already been paid in the month of July, what remains to be paid from August 2020 to March 2021 is only Rs. 7.2 billion. Our major debt repayment is behind us, and over the rest of the financial year, there's very little debt repayment to be done.

Moderator: Thank you. We will take the next question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Sir, my question is that your average ARPU for the quarter is Rs. 114. What is your ARPU for June?

Ravinder Takkar: I don't think we disclose that.

Rakesh Jhunjhunwala: No, you don't disclose in normal circumstances, but these are extraordinary circumstances where in April you had abnormally low ARPU. If you tell us just June ARPU, it will help give everybody an idea of what the actual revenue is after the recovery.

Akshaya Moondra: We generally do not share this detail, but the ARPU during the quarter may not have changed very much.

Moderator: Thank you. We take the next question from the line of Varun Ahuja from Credit Suisse. Please go ahead.

Varun Ahuja: I have got quite a few questions. Ravinder, I think the problem starts from the top where your subscriber loss continues. Can you give us some color, since the economy has opened up, has the subscriber loss stopped and what are your plans to address that?

Second question, your 2G to 4G migration again seems to be not happening as what industry peers are doing and how do you want to address that? One of your competitors is talking about launching a low-end smartphone device, how can that impact your ability to retain your existing subscribers?

Number three, on the investments that needs to be made, you are highlighting enterprise business as a huge opportunity. But again, you will have to make investments in terms of fiber network and setting up some of these ports and other things. How do you address this given you need to make investment in wireless also. What is your priority if you get some more cash, more liquidity, what will be bigger priority for you to look at the long-term sustainability of the business?

And number four, Akshaya, if you can clarify, now that you have given this AGR provision, you mentioned Rs. 582.5 billion, but it looks like the total provision is around Rs. 654 billion. Have you now taken it till FY2020? Any clarity on that will be helpful.

Ravinder Takkar: Thank you, Varun. I have talked about a few of these, but I will try to reiterate again. The subscriber losses as I have tried to explain before, bulk of our subscriber losses are related to gross additions, which, as you know, because of the lockdown were predominantly shut down as there was no channel acquisition taking place or very little taking place. Lower new additions have thus resulted in our subscriber loss. The churn however 2%, the lowest churn ever reported and, in fact, in some cases it's better than our competitors, you realize that the gap for us is really between our gross additions, which were impacted. As the country opens up and as the channels start to open up, which they are opening slowly while in some areas there are still restrictions, but we expect that to open up, I think that part will be mitigated. I don't see a problem with that over time.

We have also said that our subscriber losses, to some extent have been earlier associated with the integration work that we were doing. There were some challenges on the network side initially, which have now been addressed. Given the quality of our network going forward, those subscriber losses could be tempered, and we certainly expect that to be the position going forward. Again, I was fairly happy with the overall churn number that we have been able to achieve, and I think when we start adding gross adds, which we should be, we expect the subscriber numbers to improve.

In regards to your second question about 2G to 4G migration, this is part of the strategy, which I also highlighted in my opening remarks. There has been talk that 2G needs to be stopped, but that is a completely wrong message. The important thing to remember is, if you look at 2G, it's very efficient and it is a low-cost service. People using feature phones are those who potentially cannot afford smartphones or who don't need smartphones because they are either elderly or they don't feel the need. 2G service provides a very good service option in many, many cases for a certain segment of customers. Those segment of customers should continue to be served by this technology, and there is nothing wrong with it. Even in the most developed countries in the world, about 15% of the customer base still continues to stay on 2G after years of 3G/4G deployment and in many cases, even 5G has been launched in those countries. There is a reasonably large segment that still stays on 2G.

Over time we expect many, many more to migrate from 2G to 4G, which is the process that we will enable. This is why our investments have gone into our 4G network, this is why we have put out our capex in 4G, and this is why we measure the quality of our customer experience on the 4G network. With our integration behind us, there is an opportunity to talk very openly and very clearly to our customers about the quality of our network and how and why they should be migrating to the 4G network as their needs come in, although it's not always necessary that everybody needs to be migrated.

In regards to a low-end smartphone, the choice that we are making and the one that we believe is working is that subsidizing 4G devices is not a business that we want to be in. This has never been our business, and we believe that is not the optimal way of spending money. The important part for us is that there is an ecosystem of OEMs that are focused on delivering the best quality experience on smartphones in the cheapest possible prices. Partnership with these OEMs is our strategy and our plan is to work with these OEMs to deliver handsets to the customers along with financial providers or NBFCs, which will allow people to buy these smartphones with easy installments or EMIs, and thus will then enable them to have the experience.

We believe that is the right way of actually letting people choose what devices they want to be on, and letting people move at their own pace and at the same time, we move forward in a profitable manner rather than throwing a lot of subsidy in the market on 4G devices. This has been, as we know, tried and tested in many, many international markets and has never necessarily worked. Even in many of the markets where subsidy is an important part, the telcos there always state that they wish they had never gotten into this game. I think our strategy is the right one, which is to migrate them at the right pace and along with a suite of OEM handsets, along with potential financing partners that we are partnering with to bring these smartphones. All on the basis of the fact that we now have a very good quality network, which we will be able to bring the customers on to, because the experience in many cases is better than anybody else in the industry.

Your next question was about investments in the enterprise business. Actually, we have made significant investments in IoT platforms, we have made significant investment in our carrier businesses and so on. When I talk about enterprise business, I am not talking about last mile fiber-to-small businesses. What I am talking about is metro fiber rings, which allows us to provide several services for digitalization to large customers, OTT players and large businesses, providing them with fat pipes which allows them to digitalize and then build services. This I believe is the more secure and a much better opportunity that exists, so we are making investments in fiber and connecting those businesses but those are always evaluated on the basis of the opportunity.

These opportunities are hugely related to large businesses, which are looking for fair amount of bandwidth and connectivity but they always involve certain services that go along. For each of these cases, we evaluate and we make those investments, and we have been making those investments in the past, and we will continue to make them going forward. In the end, they are also part of our overall capacity building that we do on our core and/or transmission side in any case. Hopefully, that answers the questions, and I will hand over to Akshaya for the last one.

Akshaya Moondra: If I may just add on the last point of Ravinder, it is that generally in enterprise services wherever large investments are involved, there are specific business cases where the investment and the returns are much easier to see as opposed to the much larger wireless business. The investment decisions on many of these enterprise cases is much easier and the return is very clearly visible.

On the AGR liability, the figure of Rs. 654 billion, which we have disclosed, that is the up-to-date liability as at 30th June 2020, based on the Supreme Court judgment. Until FY2016-17, this has been taken on the basis of the affidavit filed by the DoT in the Supreme Court. And post that, it has been taken on our best estimate based on the Supreme Court judgment, and this includes interest up to 30th June 2020.

Varun Ahuja: This is helpful. Just a follow-up on the first question. What I was trying to gauge is since the economy has opened up more, over the last 30 days, have you been able to stop revenue loss or not? Also July trend if you can share, that will be helpful.

Ravinder Takkar: I can't talk specifically, as you can imagine. But I can tell you that the lockdown has been opening up in a gradual manner because there are many parts of the country that still tend to be hotspots, and we have to follow the guidelines and rightfully so. As the markets open up, the trends have improved.

Moderator: Thank you. We take the next question from the line of Vishnu K.G. from J M Financial. Please go ahead.

Vishnu K. G.: Could you please elaborate on your new strategy? With focus of operations shifting from 22 circles to 10 clusters, what does it mean for the business? Do we see an active pullback of capex from all the non-priority circles or is it like Vodafone Idea would continue to be in those circles, but in a limited area? Thank you.

Ravinder Takkar: Vishnu, let me clarify that these are 2 different concepts. One, which is we have a nationwide business, and from a licensing perspective has always been divided into 22 circles. Historically, our companies and many of the companies have continued to operate in a way where effectively we replicated the entire organization structure of how we worked across each of the circles. It didn't matter what the size of the circle, it didn't matter the importance or the significance of the circle to overall business, we effectively had the same organization structure that was replicated in each of those circles.

As the industry has changed and consolidation has taken place, many of the activities that we used to do at the circle level has become more centralized. For example, if you remember few years ago, there used to be different pricing in different circles. There used to be national roaming, there used to be other type of things that used to take place specific to that circle. In fact, even radio planning, network planning used to be done at the circle level. All of these activities over time have been now centralized, so there is no reason to actually have x number of people sitting in a particular circle doing network planning. It can be all done in a centralized location where you can even create a Center of Excellence. Similar thing applies to many of the customer service activities that are now centralized.

The cluster-based approach that I mentioned in my opening comments and what we are talking about was that when we did the original merger, all we did was we de-duplicated. We had two organizations and we turned into one organization. This plan now takes it a step forward to say that now with given all the things that have taken place that I talked about earlier, we need not even have 22 circle level organizations, we need to have total of 10 clusters that take care of all of these and which is well-designed to suit the needs.

This has nothing to do with capex and it has nothing to do with the importance of that circle. This is the better and a more efficient way to run our nationwide operations. We believe it's a much better way of running the organization and bringing efficiencies.

On your earlier topic about our capex investment, we have said our capex investment predominantly goes into the top 16 circles. There are six circles where we are not investing much and they receive significantly lower amount of our capex prioritization. Still in these 6 circles, in many of the top districts we do have a very good network, we have a good customer base and we continue to operate seamlessly and our plan is to continue to do that. We will however prioritize our capital investment in our priority 16 circles, which is where 94% of our revenue comes and 87% of the industry revenue comes from, which is why they are the important circles in our view. I hope that clarifies the two things.

Moderator: Thank you. We take the next question from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: I have two questions. First question is on capex, any guidance or what could be the right level in terms of how we look at the capex investment? And Akshaya, when I look at that investment versus the cash on your balance sheet, how would this capex be funded?

Second question is about your new cost control initiatives. One of the major cost has always been the rental and the leases that you end up paying. Any thoughts in that direction, is there room to control those costs also?

Ravinder Takkar: I will talk a little bit about the cost control, which is your second question. And then Akshaya, maybe you can talk specifically about rental leases and then the capex question that was asked by Sachin.

On the cost control side, I briefly mentioned earlier, when the merger took place and while we were going through the integration exercise, most of our focus was really around de-duplication of costs. If we had two people doing a job in a circle, after the merger, there should be one person or 1.1 person, depending on the job itself and generally those type of decisions were made.

We believe, now with our integration predominantly behind us, there is an opportunity for us to now actually change the way we work as well as the fact that many of our IT systems have been integrated and that means update of processes and digitalization of processes can be initiated. There is a significant opportunity for cost reduction with the organizational changes that we have embarked on. Many of those are already in place and some of them should be done very, very soon and we expect to get cost benefit out of that. This along with several other items that we are exploring, which is what was mentioned earlier on in my opening statement, we expect to be able to reduce OPEX further by Rs. 4,000 crores in the next 18 months and this will flow directly to the bottom-line. This is the opportunity we believe exists and we feel very confident that we can find a way to do it. It will be a more efficient way of operating the business than we have been doing in the past. Over to you, Akshaya, to specifically explain the other points.

Akshaya Moondra: Sachin, to answer your question specifically to the cell-site running cost or tower cost, I think rental per site is not a subject of discussion right now, but there are some anomalies which have crept up into the agreements in terms of how loading is charged and all that, as this is part of a very complex MSA. Those are some of the anomalies which may get addressed as a part of the discussion, but on the basic rental costs, there's no discussion. More importantly, I'd say on the energy front, everybody believes there is a lot of scope for controlling pilferage, optimizing the energy cost and that is a major focus area for us also. That would be true of other operators also because we share the same infrastructure.

Also, our IT integration is now completed and in the initial period of integration, it was not possible to bring down the IT-related costs. In fact, the IT costs were higher during this period, and IT would be another major source of getting cost improvements.

Moving on to the capex and the funding, post the merger we had laid out a plan for ourselves to get the integration done. That plan has been largely executed. It would have come to an end, but for the lockdown which has impacted our integration particularly in the balance parts of Maharashtra and Tamil Nadu, both large geographies and two states which have been significantly impacted by COVID.

As far as the capex is concerned, on the integration part, we are coming to the end of the cycle. As I also mentioned in the beginning, we now need to decide on our strategy for investments going forward to be competitive, at least in the focused geographies. We are just waiting for the conclusion as far as the AGR matter is concerned, which will give us clarity on what kind of funding requirements do we have for meeting existing obligations and then we can see what is the investment need. We are definitely looking at exploring opportunities for fund raising, but I think we can discuss more about this once we have the final AGR decision have clarity on what is our funding requirement going forward.

Moderator: Well, ladies and gentlemen, due to time constraint, that was the last question for today. I would now like to hand the conference over to Mr. Ravinder Takkar for his closing comments. Over to you, sir.

Ravinder Takkar: Thank you very much, Janis. Once again, thank you to all of you for joining. As I mentioned earlier, these are critical times and I hope each one of you stays healthy and safe.

I think this is a very important and a critical moment for our company as the biggest milestone that we have achieved is that we are reaching conclusion of our integration. The quality of our network is the best it has ever been, and it's very, very competitive, and it's the latest technology that we have built. We believe that gives us a great opportunity now and with our IT integration also completed, to pivot the company in the right direction, which is adding more 4G, adding more unlimited subscribers and then start growing the business.

At the same time, the stress on the industry continues. I think it is going to be very, very important that further ARPU increases continue to take place. We have a National Digital Telecom policy and the fast implementation of that will be important, and we look forward to doing that as well. Thank you very much and please stay safe.

Moderator: Thank you. On behalf of Vodafone Idea Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.