Idea Cellular Q1-FY18 Earnings Conference Call

July 28, 2017

Moderator: Good afternoon, ladies and gentlemen. This is Inba, the moderator for your conference call. Welcome to the Idea Cellular 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 Mr. Himanshu Kapania – Managing Director of Idea Cellular and Mr. Akshaya Moondra – Whole Time Director & Chief Financial Officer of Idea Cellular along with other key members of the senior management on this call.

I want to thank management team on behalf of all the participants for taking 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 conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this, I hand the conference call over to Mr. Himanshu Kapania. Thank you and over to you, sir.

Himanshu Kapania: Thank You Inba. On behalf of Idea, I welcome all participants to this Earnings Call. Yesterday, our Board of Directors adopted the audited results for the first quarter of the Financial Year 2017-18. The detailed Press Release, Quarterly report and Company results have been uploaded on our website and I assume you had a chance to go through the same.

The upheaval in the Indian wireless industry continued in Q1FY18, despite the new entrant slowly migrating from 'Free Services' to 'Paid Services', but with heavily discounted unlimited voice and data pricing plans. Amidst this market aggression, existing operators including Idea introduced similar competitive unlimited price plans, which is likely to result in decline of industry revenues, although the impact of the same is expected to be more pronounced on non 4G operators. These aggressive tariff offerings by Idea, led by unlimited voice and data bundled plans, resulted in steep decline of voice and mobile data realization rates. However, for the company, the fall in realization rates was largely compensated by substantial volume growth in both mobile voice and data segments. As a result, Idea standalone revenue of Rs.81,665 million in Q1FY18 registered a marginal growth of 0.5% compared to Rs.81,261 million in Q4FY17.

During Q1FY18, the sequential quarterly voice minutes grew by a healthy 8.4% to 250.7 billion minutes while the voice realization rate fell by 5.7% to 24.4 paisa per minute. Mobile data volume witnessed a meteoric growth of 99.1% on sequential quarterly basis as Idea's large Pan India network, primarily its Wireless Broadband Network carried 252.8 billion Megabytes in Q1FY18, nearly double the traffic consumption in Q4FY17. However, the mobile data realized rate - ARMB saw an unprecedented decline @ 52.9% reaching as low price as Rs.54 per Gigabyte.

In the environment of steep rate fall and capacity expansion, EBITDA for the company during the quarter declined by 11.5% to Rs.18,753 million compared to Rs.21,198 million in Q4FY17, largely due to higher operating cost related to Roaming and Access charges as outgoing minutes in this quarter increased and higher Network expenses. The EBITDA margin for the quarter declined from 26.1% in Q4FY17 to 23% in Q1FY18.

The financial stress in the Mobile sector remains at its peak, post the introduction of aggressive unlimited bundled plans by new entrant forcing other operators to follow. Resultantly, all 'Telecom Service Providers' over last 12 months are reporting steep decline in revenues, profitability and cash flows and all but one Indian Wireless operator's quarterly results are likely to show significant financial losses. Similarly, Idea is reporting a PAT loss of Rs.6,170 million on standalone basis in Q1FY18, after accounting for the dividend received from Indus during the quarter.

The existing financial stress of the industry has been shared with the Telecom Minister, Inter Ministerial Group – IMG constituting members from Department of Telecom and Finance Ministry and with TRAI highlighting the industry revenue of four listed operators as reported on Indian or International Stock Exchange has declined in H2FY17 by 10.2% v/s H1FY17. This has resulted in EBITDA decline by 23.5% from Rs.280 billion in H1FY17 to Rs.214 billion in H2FY17 and a steep EBIT decline, primarily due to high cost of liberalized spectrum acquired through Auction by 51.7% from Rs.118 billion in H1FY17 to Rs.57 billion in H2FY17 for the four listed Telecom Operators which is not sufficient to cover the interest cost of the highly leveraged Telecom Sector. The Government has been updated that ROCE is the correct matrix to ascertain industry profitability and ROCE for all Indian Telecom operators is in single digit or negative. The operators have urged the IMG Committee to take urgent steps to de-stress the industry and ensure orderly sustainable growth in the sector. The recommendation include increasing 'Inter Connect Settlement charges' i.e. IUC for incoming calls closer to Fully Allocated Cost method - FAC or Long Range Incremental Cost plus - LRIC + Model, due to increased asymmetry of calls from new 4G entrant, initiate steps to control predatory pricing and assist industry to move to a stable tariff regime which is primarily cost plus. Further recommendation include rationalization of taxes and levies as Indian Telecom Sector pays amongst the highest rate and multiple taxes applicable in the economy including 18% GST and 13% License Fees and SUC i.e. Spectrum Usage Charges. Additional recommendation include improvement in terms of Deferred Payment obligation for the spectrum procured during last 5 Auctions. We are very hopeful, the government will take urgent steps to improve the health of the Telecom Sector - Key for realizing Honourable Prime Minister's vision of Digital India and supporting ongoing Indian Operators drive to enable Mobile connectivity for 400+ million Indians in Rural & hinterland India.

Inspite of the current challenging industry scenario, Idea has successfully sustained its market competitiveness adding 15.8 million subscribers on VLR over last 12 months, helping the company subscriber base EOP on VLR to expand to 199 million as on 30th June 2017.

Separately, our Board remains convinced on the long term growth potential of Mobile Services, thereby during last two years between Q1FY16 to Q1FY18, Idea has aggressively expanded its wireless broadband infrastructure by 3.5 times adding 83,765 sites expanding the network to 117,386 broadband sites on 3G and 4G technology platform. Idea Wireless Broadband Network now covers 524 million Indians across all 22 Service Areas in over 106,000 towns and villages. It is but obvious, the sector is fast transitioning from a vehicle for delivering only connectivity earlier to now becoming the bedrock foundation of high speed broadband, key for internet adoption by fellow Indians. This would thereby kick start large scale next phase of Indian economic growth. Massive broadband infrastructure will support large economic sectors like manufacturing and services including banking, entertainment, commerce, education, health etc. and become the foundation of higher rural economic prosperity. The country is in the midst of largest ever nationwide rollout of broadband services infrastructure at breakneck speed with efforts on to reach a billion Indians and attract them at affordable prices to join Internet bandwagon in the shortest possible time period. The new Mobile Broadband Infrastructure in the making is the pride of the country and a global envy, translating the vision of Government of India into a reality and transforming lives of countrymen. Consumers, Intermediaries, Enterprises and Governance will no longer work in analog form and will digitally transact like never before. Idea has also accelerated its pace of 4G services deployment integrating 46,576 4G sites in last 2 years, rapidly expanding company 4G LTE presence to over 47,000 towns and villages and expanding coverage beyond 350 million Indians across 20 Service Areas in a short span of 18 months since its 4G Services launch.

4G Network is fast emerging as the preferred platform for mobile data consumption amongst Indian subscribers. While the total Mobile data users on Idea network declined from 42.2 million to 38.1 million Wireless Data Users primarily as earlier 2G Data Users upgraded their usage to high speed broadband, 4G subscribers more than doubled from 3.1 million 4G Users in Q4FY17 to 6.5 million 4G subscriber base as on 30th June 2017. Further, the data usage on 4G platform exploded last quarter to 67.6 billion MB, a sequential quarterly growth @ 262%. Despite such accelerated growth in 4G Data Volume, Idea's 4G network utilization remains well below 30% even when compared to July 2017 usage demand. The company is taking additional steps to upgrade 4G Broadband capacity with planned deployment of 2300 MHz or 2500 MHz Spectrum band in 5 of its leadership markets during the current financial year and remaining introduction of capacity spectrum on 2500 MHz in 11 additional Telecom Service Areas is scheduled for launch during next financial year. The company will continue to follow its philosophy of building broadband capacities just-in-time, as market demand grows, but will remain focused to offer delightful experience to Indian 4G consumers. Additionally, Idea is working at breakneck speed and remains on course to introduce after conducting successful PoC of VoLTE, an acronym for Voice over 4G LTE Services by early Calendar Year 2018.

Merger Update: On 20th March, 2017 Vodafone Group Plc and Idea Cellular announced an agreement to combine their operations in India excluding Vodafone 42% stake in Indus towers to create India's largest telecom operator. The merger of Idea and Vodafone is founded on the shared commitment to deliver substantial stakeholder value, offer strong consumer choice to 1.3 billion Indians and contribute towards realizing the Prime Minister's vision of 'Digital India' and financial inclusion goals. The merger transaction is subject to approval from the relevant regulatory authorities and Idea's shareholders. The company has recently received approval for the proposed combination from the 'Competition Commission of India', one out of the four main approvals required for combination of Vodafone India mobility business with Idea Cellular Ltd., the listed entity. The scheme of arrangements has already been filed with SEBI and Stock Exchanges and is waiting for their approvals before filing the Scheme of Arrangement with NCLT & Idea shareholders and approaching DoT for necessary approvals.

Moving on to Business Performance

Competitively, Idea maintained its subscriber market share on VLR at 19.5% as per TRAI May 2017 reporting and held on its Revenue Market Share of 18.9% in Financial Year 2016-17 v/s. FY16

The performance of Idea on three standard parameters – Gross Revenue, Active Subscribers and Volume of 'Minutes of Use' for the period 'April to June 2017' is as follows:

1. Gross Revenue

Idea standalone revenue of Rs.81,665 million in Q1FY18 registered a marginal growth of 0.5% against Q4FY17 revenue of Rs.81,261 million, a respite from the previous two quarters steep revenue decline of 6.2% between Q4FY17 to Q3FY17 and 6.9% decline in Q3FY17 v/s. Q2FY17. However, the company gross revenue has declined by 13.9% on YoY basis between Q1FY17 to Q1FY18.

Factors supporting gross revenue sequential quarterly growth was primarily volume elasticity in the environment of falling rate realization.

Starting with voice from Q4FY17 to Q1FY18, Voice Revenue grew by 2.2% with –

a. While Voice realization rate declined @ 5.7% from 25.9 paisa in Q4FY17 to 24.4 paisa per minute this quarter.

b. But was compensated by robust 8.4% Voice Minutes Volume growth from 231.4 billion in Q4FY17 to 250.7 billion Minutes in Q1FY18.

In contrast, the Mobile Data business on sequential quarterly basis declined by 6.3% inspite of –

a. Data Volume exploding by 99.1% from 127.0 billion Megabytes in Q4FY17 to 252.8 billion Megabytes this quarter but
b. Volume growth was negated by steep drop in Mobile Data realization rate from Rs.115 per Gigabyte in Q4FY17 to Rs.54 per GB in Q1FY18, an unprecedented sequential quarterly decline by 52.9%.
c. Another reason for decline in Data Revenue is loss of 4.1 million Data Users to 38.1 million Dater Users primarily earlier using Idea 2G Data platform. But, the per subscriber data usage grew by 130% to 2.2 Gigabyte per user v/s. 957 Megabytes in Q4FY17, thereby after four quarters of decline, Data ARPU in this quarter improved to Rs.119 in Q1FY18 against Rs.110 in Q4FY17.

The 'Non Voice Revenue' including Data contribution to the 'Overall Service Revenue' fell to 23.6% against 24.9% in Q4FY17, as company's Mobile Data revenue contribution declined to 17.1% v/s. 18.3% in Q4FY17.

2. Active Subscribers

Inspite aggressive moves by new entrant, to garner maximum subscriber share, Idea has been successful in sustaining its market competitiveness and added 15.8 million new customers on VLR over last 12 months, expanding the company subscriber EoP base on VLR to 199 million as on 30th June 2017.

The latest TRAI Subscriber release is available till May 2017. During the period May 2016 to May 2017, Industry added 87 million with new 4G entrant reporting 88.9 million customers on VLR and 'Other Operators' excluding Top 3 incumbent operators reporting a decline of 48.3 million subscribers, a loss of 7.6% 'Customer Market Share' over the trailing 12-month period, indicating the industry consolidation process has set in, though even now 'Rest of Industry other than Top 3 & New 4G entrant' control 25.9% of Indian Mobility Subscriber Market Share.

In comparison, Idea maintained a healthy Subscriber Market Share @ 19.5%, a meager loss of 0.1% over the year inspite of extreme stress from new entrant. Idea, as per TRAI release, has emerged as No.2 telecom Operator by VLR subscriber fast closing in on 200 million customer base.

The blended average revenue per subscriber – ARPU was stable at Rs.141 this quarter against Rs.142 in Q4FY17, as average minutes of use per customer increased by 7% to 441 minutes per month against 412 minutes of use in Q4FY17, compensating for realized rate loss. But, hyper competitive activities in the market, increased the blended subscriber churn to 6.7%, higher than previous quarter trends.

3. Minutes of Use

Besides, the new entrant, the existing leading No.1 Mobile operator, continue its aggressive pricing overtones and lead in drop in both Mobile Voice and Mobile Data rates much faster than Idea. Thus, blended 'Average Realised Rate per Minute' – ARPM which represents derived rate for minute over both voice and data revenue streams for Idea was at 32.0 paisa per minute, at a nearly 5% premium over Bharti reported ARPM @ 30.5 paisa per minute this quarter. The ARPM for the company has been declining rapidly with 7.4% on sequential quarterly basis and 33.1% on YoY basis but Bharti rate decline is even more steeper at 35.5%, shows market rate pressure will continue until gap with new entrant discounted pricing reduces to acceptable levels.

The company while matching all market moves will not lead the rate drop, but as a policy will follow any aggressive paid moves including unlimited plan by new 4G entrant or introduction of discounted plans by No.1 Indian Mobile Operator. Idea performance remains benchmarked against the best and company continues to improve its competitiveness in the market on strength of its Brand, Customer Service and experience, vast 2G network and rapidly expanding Broadband Services while agile quality execution remains our forte.

The YoY Voice Minutes growing at an exponential rate of 25.8% reached 250.7 billion in Q1FY18. But, the outgoing Call Minute ratio of the total minutes fell by over 2.5% over last one year, primarily due to tsunami of incoming calls from the new 4G entrant. Even today, ratio of incoming calls to Idea from the new entrant is 90 to 91% against 9 to 10% calls from Idea to the new entrant, an unprecedented skewed asymmetry of traffic. As TRAI has set IUC at far below operator costs, Idea continues to represent to TRAI & DoT, that it is being forced to bear heavy cost of thousands of crores per annum due to lifetime free voice tariff plans and promotions by the new 4G operator.

With the introduction of unlimited plans, the 'Minutes of Use per Customer' has risen by 29 minutes when measured over entire 189 million. Idea reported subscriber base to highest ever level of 441 minutes of use in Q1FY18.

While, our current 2G & 3G Network is quite capable of supporting exponential high double digit growth, the company is now focusing its efforts to launch Voice Services on 4G LTE platform – in short VOLTE services by early next year to offer choice to our 4G customers for initiating calls on either of the three platforms.

In order to support the burgeoning demand of mobile broadband services, Idea also increased its Fibre network by nearly 53,000 km from 95,100 km in Q1FY16 to 148,100 km in Q1FY18. The company Gross Investment in Fixed Assets has now risen to over Rs.1,195 billion, a net addition of Rs.545 billion over the last 24 months.

The Capex spend for the quarter was Rs.11.7 billion, mainly funded from Cash Profit of Rs.9,608 million.

Moving on to Wireless Data Business

The key highlights are –

a. On sequential quarterly basis, Idea lost 4.1 million Data Users, with a loss of 6.5 million 2G & 3G Data Users and a gain of 3.4 million 4G Data Users. Out of total 38.1 million Data Users, 2G Pure Data Users has now depleted to 11.8 million and with expanding mobile broadband coverage, we expect the pure 2G Data Users will continue to deplete through-out the year. As only 20% of existing Idea reported base of 189 million access Internet from their mobile, the company remains confident, the Data Users growth will zoom back, as gap between new entrants and Idea's Data prices reduce.
b. The blended Mobile Data volume on 2G, 3G and 4G platform exploded by 99.1% on sequential quarterly basis to 252.8 billion Megabytes and grew by 171.5% on YoY basis from 93.1 Billion Megabyte level in Q1FY17.
c. The blended Data ARPU level has slightly improved to Rs. 119 this quarter against Rs.110 in Q4FY17, indicating elasticity of demand in a steep mobile data rate falling regime. The Data rates have fallen to one fourth level from selling price of Rs. 211 per Gibabyte in Q1FY17 to Rs.54 per Gigabyte in this quarter. The internet services are becoming more affordable for the masses and should encourage non users to enter the category.
d. Idea Mobile Data Users are fast becoming heavy users of Mobile Internet Services as they adopt to unlimited plans. The blended Data Usage for Data Subscriber grew multifold from 957 Megabyte per User in Q4FY17 to 2.2 Gigabyte per user in this quarter.

Moving on to the 3G & 4G Business

The highlights of Wireless Broadband KPIs are –

1. 1.8 million Idea Customers upgraded their existing 2G phone to smartphone – 3G or 4G in Q1FY18. But, the trend is towards procuring 4G smartphones and 7.5 million Idea users upgraded from their existing phones either 2G or 3G to 4G smartphone during the last quarter period of April to June 2017.

2. The total smartphone owners EOP at Idea has risen to 79.9 million over 42% of Idea strong reported 189 million subscriber base now own 3G or 4G smartphone. The 4G device split on smartphone owners has risen to 31.8 million and this trend is expected to continue as Idea expands its 4G services presence.
3. 4G services using subscribers more than doubled from 3.1 million in Q4FY17 to 6.5 million Q1FY18. Idea Wireless Broadband Users availing of 3G or 4G platform services has risen to 26.4 million, but still represents a meager 14% of Idea reported subscriber base. The company remains confident that with expanding coverage and affordable services, the Wireless Broadband Users as a percentage of the total Idea subscriber base will grow exponentially in the forthcoming quarters.
4. During last one year Idea has added 26,637 new 4G sites as its overall 4G services expanded to 46,576 sites covering 353 million Indian population i.e. 30% of the population of these area receive Idea 4G services across over 42,500 towns and villages in 20 Service Areas. The 20th and final Telecom Circle of Mumbai where Idea owns 4G spectrum was launched in May 2017, completing this phase of 4G FDD Telecom Circle launches. Besides, aggressive 4G coverage expansion, the company is in process of deploying 2300 MHz or 2500 MHz Spectrum band in 5 of its leadership markets, even though Idea 4G network utilization still remains below 30% based on July 2017 usage and far below based on average of Q1FY18 usage.
5. The Wireless Broadband Data volume on 3G & 4G platform has risen multifold from 104.2 billion in Q4FY17 to 228.8 billion Megabyte. Consequently, the usage per Wireless Broadband User improved from 1,381 Megabyte in Q4FY17 to 3,083 Megabyte, driven primarily with improved adoption of unlimited voice and data plans.
6. The Data ARPU per Wireless Broadband User in falling Data rate environment fell to Rs.130 this quarter against Rs.138 in Q4FY17 inspite of improved Wireless broadband Usage per customer.
7. The overall Wireless Broadband site count either on 3G or 4G platform has reached 117,386, an addition of 7,332 Nos. during the Q1FY18. Idea Wireless Broadband network offering 3G and or 4G Services now covers 524 million Indians across all 22 Service Areas with presence across 106,000 towns and villages.

To assist Idea Customers enter the exciting digital world, the company continues to promote its 3 new Mobile Apps – Idea Music Lounge, Idea Movies Club including Live & Catch Up TV and Idea Games Spark. Music, Entertainment and Sports have always been at the core of Idea's brand building and customer engagement strategy. As on 30th June 2017, nearly 2 million Idea customers have installed Idea Music App, 1.5 million Idea Movies Club App and 680,000 Idea Games App users. Also, 17.3 million Idea Users are accessing Idea Digital properties to buy or service their Post-Pay or Pre-Pay Services through My Idea

App. Higher efforts are planned in this financial year to increase the penetration of Idea Digital and its content services as more Indians go on line and adopt new affordable Wireless Internet Services.

To conclude, Idea & Vodafone Mobility combination proposal is on track of obtaining regulatory and shareholders approval required to complete merger process. In the meantime, Idea remains nimble, agile, adaptive and focused on its execution capabilities. The company continues to strive for improving its capacity uilisation, optimizing costs and delivering sustainable benefits to the consumer. Idea remains hopeful that post the current round of short term challenges, it will be able to capitalize on the emerging opportunities in mobile voice, wireless data business, digital content and mobile banking as telecom market invariably moves towards consolidation with likely 5 major providers.

I now handover to Mr. Akshaya Moondra for details on financials.

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

During the quarter, the realized rates witnessed steep decline for both Voice and Data segments, however the growth in the volume, for both, was large enough to compensate for the rate decline. As a result, the Revenue for the quarter stands at Rs. 81.7 billion, a marginal growth of 0.5% compared to last quarter.

Before proceeding further, I would like to inform that during the quarter the forex gain or loss, which is mainly on account of accounts payable relating to capex , which was earlier forming part of the “Other expenses” before EBITDA, is regrouped with Interest & Finance Cost. Further, there are some expenses which have been regrouped from “Network Expenses and IT Outsourcing Costs” to “Marketing, Content, Customer Acquisition & Service Costs”. Figures for earlier periods have been restated in the Quarterly Results to factor these changes.

The EBITDA, for the quarter, declined to Rs. 18.8 billion compared to Rs. 21.2 billion in Q4FY17, largely due to:

a) Higher IUC cost, as the outgoing minutes have increased during the quarter with the launch of unlimited bundled plans.

b) Increase in network cost on account of firstly higher electricity charges partially pertaining to previous quarters, certain one-offs in last quarter and general expansion in network.

As a result, the EBITDA margin declined by 3.1% and stands at 23% for the quarter.

The ‘Depreciation and Amortization’ charge for the quarter stands at Rs. 20.7 billion (vs 19.9 billion in Q4FY17) and ‘Interest and Finance cost’ at Rs. 11.5 billion (vs. 9.4 billion in Q4FY17). The increase in both the items is mainly due to full quarter impact of 4G services launched in 8 circles and 3G services in 2 circles during Q4FY17 and impact of launch of 4G services in Mumbai during the quarter, which resulted in higher spectrum amortization and lower interest capitalization during the quarter.

Interest and finance cost was higher also due to forex loss of Rs. 445 million during the quarter compared to a forex gain of Rs. 776 million in Q4FY17 and higher net debt during the quarter.

The company received Rs. 2.66 billion as dividend from Indus. Post the dividend, the reported loss for the quarter stands at Rs. 6.17 billion on standalone basis. The contribution of Indus & ABIPBL to consolidated PAT after adjusting for tax on undistributed profits of Indus is Rs. 678 million. Accordingly, the consolidated Total Comprehensive Income stands at negative Rs 8.16 billion against negative of Rs 3.26 billion in Q4FY17.

The net debt at the end of Q1FY18 stands at Rs. 539.3 billion, including the liability on account of October, 2016 Spectrum Auction except for Rs. 3.18 billion related to 1800 MHz spectrum for Maharashtra for which allocation will happen in September, 2017. The Net Debt to Annualized Q1FY18 EBITDA stands at 7.19 times.

With this I will hand over the call back to Inba and open the floor for questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: Congratulations for the CCI approval for merger with Vodafone. I have three questions. First question, your data subscribers, particularly 2G subscribers have declined during the quarter. I understand decline on the 3G front which would have perhaps upgraded to 4G, but can you help us understand the precise impact? Is this particular segment feeling the pressure from Jio? Second question, any thoughts on how would you like to counter Jio's newly announced 4G feature phone, are you looking to bundle your own phones? and any thoughts on your VoLTE launch?. And thirdly, there was a media article mentioning about IPO of the non-Indus Towers on which I wanted to know your thoughts. Thanks.

Himanshu Kapania: Thank you, Sachin. I will answer your questions in the same order as you asked. As regards the first question, I would like to break the question into two parts. The decline of data subscribers to the extent of 4.1 million was predominantly on account of decline of 2G subscribers. The current trend in the market place shows that a lot of our existing 2G subscribers are upgrading their phones to 4G and they are selecting their operator of choice. It is pertinent to note that the decline of these 2G subscribers are primarily from the areas where currently we have not launched our 4G services. However, as our 4G services are fast reaching into the new markets, we are very hopeful to be able to regain these customers. We have not lost these customers from voice front but from data front. While you have seen a decline in an overall number of data users for the company in the past 2 or 3 quarters, the early trends from this quarter show a significant gain which has started from the month of June as our 4G services continues to expand. Only about 20% of our subscriber base is currently using internet services on the mobile. However, as the number of customers using 3G-4G phones on the network improves, which is currently at level of 80 million, we remain very hopeful that we will win back a large number of data subscribers. As regards the second part of the answer, the customers who remained our network, their data usage has been growing at a meteoric pace and it has gone up from a level of under 1GB per customer per month to a level of 2.2 GB per customer per month. We believe it is the highest rise among all operators. If you fine with this answer, may I move to the second question?

Sachin Salgaonkar: Yes, this is very clear. I have one small follow-up question. As you mentioned that traffic on your network is increasing, do you have any thoughts on revisiting your capex numbers, if not now, but eventually during the year?

Himanshu Kapania: It is a good question, but I think you have to hear our strategic methodology on how we are approaching to expand our coverage. In all our leadership market, we are ensuring to be ahead of all other competitors except Jio which is obviously the first to complete 4G rollout. Accordingly, in our top 8 markets, we are mostly ahead or at par with the other operators and we continue to invest into these markets. We have also identified part of the other 12 circles having strong 2G services, even though the circle share overall is weaker than leadership markets. For such circles, we are ensuring that our 4G services are made available into these areas. In the longer run, as we are concentrating our investments for 4G services into our overall leadership markets and strong 2G markets in other circles, and we are expecting that our future partner is also doing the same in its leadership markets. We will have a complementary network ready once the combination is approved and the same will ensure that our 4G presence is nationwide strong and we do not lose subscribers in any of our leadership markets. Although coverage remains our prime objective, but we are also expanding the capacity. I would like to remind you that in 7 out of our 8 leadership markets, we have got 10 megahertz of spectrum on 1800 MHz band and we have deployed the same in 6 circles except Maharashtra which is why our utilization in the previous quarter on an average was under 15% and as of July it was around 30%. We continue to able to expand our services and improve capacity and are also in the process of rolling out our 2300 MHz and 2500 MHz bands. We have identified 5 out of our 8 leadership markets where we will initiate the launch of 2300 MHz and 2500 MHz spectrum bands. But we were to keep reminding all the listeners of the call that our philosophy is more just in time for capacity expansion rather than investing in capacity expansion much ahead of the demand.

Sachin Salgaonkar: Okay sir, it is clear. Thank you.

Himanshu Kapania: As regards 4G feature phone, I will first give you a philosophical answer and then a practical answer. Philosophically, Idea has not sold handset for the last 21 years other than the small quantity which was required to initiate the sale of 3G services 3 to 4 years back. Accordingly, we maintain our stand that we have no intention to subsidize handsets. Having said that, the practical solution is we are working on to engage with handset industry and work with them to bring down the cost of handsets by bringing down the cost of bill of material. The purpose for this is to bring the price gap of the announced Jio feature phone versus a smartphone to reasonable levels. This is my 20^{th} year in the industry, I would like to go back to the time where CDMA handsets were being offered at Rs. 500. The only difference between low price CDMA and high ticket value GSM handsets was that the former would only work on a single network. At that point, GSM handsets were priced at Rs. 5,000. We worked with Nokia and brought down the prices to a level of Rs. 2,000 to Rs. 2,500. It may be noted that when the customer is made to select between a single SIM-locked handsets vis-à-vis handsets compatible with any network, the customer will exercise his freedom of choice over a single SIM-locked handsets. Further, there are also other concerns about the feature phone - one of them being net neutrality concern which will not allow number of applications that the customer prefers. Additionally, the customer's choice of applications may not work because it is forcing them to use individual operators' applications. Given this scenario, we believe that if we focus on bringing down the smartphones prices to approximately Rs.2,500 to Rs. 3,000 through reduction of bill of material, we will be able to neutralize the impact of the feature phones. We wait to see how the things unfold.

Sachin Salgaonkar: Okay sir and a small follow-up on this is - any plans to launch VoLTE? We heard Bharti saying that by end of the fiscal year, they will have VoLTE launched nationally.

Himanshu Kapania: I have covered this point in my opening remarks. There are 3-4 steps involved for launch of VoLTE. Step 1 was carrying out proof of concept (PoC) across India, across multiple suppliers and the same has been completed. Step 2 is to close the contracts with suppliers and we are in the final phase of closing the contracts. Step 3 is planning of launch of VoLTE which is also being completed. Accordingly, we are now gearing ourselves to launch VoLTE services. The exercise takes about 6 to 9 months. Separately, the process of testing the VoLTE technology on multiple handsets was also initiated. It is pertinent to note that this process is not required for any other technologies and is specific to VoLTE.

Accordingly, we are very hopeful to be able to launch our VoLTE services in the early half of calendar year 2018 and all efforts are on for the same.

As regards the third question, I have not read the media report on IPO of non-Indus Tower. However, I would like to expand this question as: “What are our plans for monetization?” As mentioned in the past, the company is looking at various alternatives to monetize both our existing towers approx. 10,000 towers having tenancy levels of over 1.7 as well as monetization of Indus stake for which IPO is one of the options. However, nothing has been finalized as yet.

Moderator: Thank you. Our next question is from Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question, when do you expect margins to bottom? It seems there are more headwinds as quarter 2 is seasonally weak and there could be more pressure of IUC rates and Jio feature phone. Can you share your thoughts on margin trajectory going forward? My second is on your thoughts on data realization rate. When do you see it stabilizing?

Himanshu Kapania: Thank you, Kunal. I think we are currently in a very disruptive phase and it will be unfair for us to give guidance to the market. This is the reason why I chose to share with the investors and everybody on the call about our discussion with the government, Regulator and the Inter-Ministerial Group on the steps that government needs to take to improve the profitability of the industry as well as to sustain the business in the long run. We are very hopeful that the government will actively participate to de-stress the industry. It may be noted that we have given multiple suggestions which includes

a) bringing the IUC rates to cost levels or else help reduce the asymmetry which continues to be the biggest concern for margins decline,

b) Rationalization of levies and taxes and

c) Request for reliefs as regards payment of deferred payment obligation in relation to acquired spectrum.

Given this scenario, we are very hopeful about some positive developments to be initiated by the ministerial group.

So far as Q2 is concerned, you are absolutely right that quarter 2 is a weak quarter and we are trying to optimize our costs as much as possible. This will ensure that the loss of revenues can partly be compensated by cost optimization since there is so much that we can do as far as cost is concerned. We remain very hopeful that as the current number of customers using our data services, approx. 20% of total subscribers, will increase. Further, there will also be recovery of revenues as the market consolidates. We are already seeing early signs of consolidation since many other operators who do not have 4G services are losing on subscribers and minutes of usage. Consequently, both consolidation of the market and higher adoption of data services will result in recovery of revenues. Beyond this, it would be difficult to give you any specific guidance.

Kunal Vora: Sir just a follow-up question. You mentioned that you expect government to reduce levies. I understand from certain news reports that the government is considering to lower the interest rate. It seems unlikely that the government would lower GST or SUC or license fees. What is your opinion?

Himanshu Kapania: I would not go by media reports. However, we remain extremely hopeful that government understands the current challenges and it is extremely keen that the telecom industry fully participates in the Prime Minister’s Vision of Digital India. It is essential that there is sufficient choice available to customers and the competition level in the industry remains high. Given this broad philosophical background, it will be unfair for me to get into exact steps that the government will take. However, they are engaged for a reasonably long period of time and in quite depth to be able to formulate possible solutions. In my opinion, media reports are premature.

Akshaya Moondra: Also Kunal, on some of the things, while government may take decisions faster, on other matters they are also looking at more details and we remain engaged with them to see what needs to be done.

Himanshu Kapania: So as far as data realization is concerned, the fall is on two fronts. One front is adoption of unlimited plans. The second is for customers who are not on unlimited plans for them the rate has been made lot more rational from what it was year back. So as far as consumers who are deciding not to subscribe to unlimited plans, the rates have more or less bottomed out and there will be a slight improvement on those rates. However, there would be a fall on account of higher adoption of unlimited plans. We are currently at a high single digit level of unlimited plan adoption. Further, given the trends that we are witnessing in the market place and as the price gap between the new entrant and us is now reducing, we are seeing the adoption of unlimited plans improving by leaps and bounds. Assuming that at a level of 30% to 40% unlimited plan adoption on our network, it is easy for all of us to calculate what could be the data realization rate. Having said that, the initial set of customers who are buying unlimited plan are heavy users that is usage initially maybe as high as 7 to 8 GB. The second set of customers who are coming into the market, the usage both on voice and data is far lower than the first set of customers who are obviously much higher guzzlers of volume. So, we will try to improve the rate on overall basis for customers who do not subscribe to unlimited plans. Unlimited plan adoption will definitely pull down rates, but rate improvement on unlimited plan will happen when the second set of customers who are not so heavy guzzlers adopt to these services.

Kunal Vora: On pricing, would you be okay going below the levels at which Airtel or Jio are operating because your market share in 4G right now is very low as compared to the other operators like Bharti's and Jio's. How do you plan to regain the market share? Would you be okay with lower prices?

Himanshu Kapania: As I mentioned in my opening remarks, we are at premium to Bharti, we are not even discussing Jio at this point of time. Because there are different methodology of allocation between voice and data. I am not looking at specifically realized rate of either voice or data, since the better way to look at it is the total revenue from voice and data divided by total minutes. If you look at the earlier KPI of ARPM, you will note that our ARPM is 32 paisa per minute versus Bharti’s 30.5 paisa per minute which suggests that we are running at about 5% premium. They have dropped their rates by 35.5% while we have dropped our rates by 30% over the last one year. As a philosophy, we will not be leading a steep rate fall. We believe that we cannot currently operate at a higher price point realization than Bharti in the leadership market where we have made heavy investments and cannot continue to enjoy slightly higher premium. Accordingly, the first step for us is to bridge the gap with them rather than looking at operating below them. While we are doing that, we believe some of the results can be seen in quarter one and you will see it unfolding in future quarters too. Our 4G market share among the paid subscribers continue to rise. Once the report of TRAI comes, you will realize that and we will continue to improve from here and we are happy with the current situation.

Moderator: Thank you. Our next question is from the line of GV Giri from India Infoline Capital. Please go ahead.

GV Giri: Two questions from my side. One, your capex guidance is Rs. 6,000 crores and you have done Rs. 1,100 crores. So in order to meet Rs. 6,000 crores over the next 3 quarters, you will need to take your capex up to a level which is almost be 90% of your 1Q EBITDA. Accordingly, would you still maintain your capex guidance? My second question, is that I remember you saying that most of your 3G base stations are convertible to 4G and 4G might have significantly more capacity than 3G. So do you have any plans about converting your 3G network / 3G sites either all across or selectively to 4G network? And where would you park your 3G voice traffic? How do you see that playing out? Is that a priority for you, some color on that would be helpful? As you said that your 4G capacity utilization is 30% only, the fact that your 4G traffic grows by 3.6 times quarter-on-quarter, does this 30% utilization rate seem comfortable to you?

Himanshu Kapania: Thank you, Giri. So as regards capex guidance, yes we maintain our capex guidance of Rs. 6,000 crores. Typically, in the first quarter we sign fresh contracts and capex budget also need approval from the Board. Hence, the capex spends are low in first quarter. However, it will catch up as we continue to carry out most of our deployment to ensure coverage in the defined profitable circle by end of December, 2017. Our focus will be on capacity expansion and coverage of 4G services by 3rd/4th quarter. We have maintained our guidance irrespective of our current EBITDA run rate and we have every intention to be able to roll out our services at the earliest. We expect to more than double our 4G footprint with this capex guidance as well as multifold increase our 4G capacity which is the largest portion of our spends of capex. If you are fine with this answer, should I move to the second part?

GV Giri: Sure.

Himanshu Kapania: As regards the second question, you are absolutely right. 2100 MHz spectrum band is primarily being used for 3G and can be upgraded to 4G. Most of our 75,000 plus 3G sites are upgradable to 4G. I reiterate that we are in the process of more than doubling our overall 4G sites. Further, we are in the process of introduction of new bands viz. 2300 MHz and 2500 MHz. Accordingly, there is sufficient headroom for us to take up adequate 4G capacity at this point of time. As regards 3G sites, most of these sites are also getting well utilized. For any action that you have enumerated, it will best carried out post the merger rather pre-merger.

GV Giri: Keeping 3G sites transformation into 4G aside, do you think that the rate at which you are adding the 4G base stations would be sufficient to handle the extraordinary rate of your traffic growth on the 4G network over the next 2-3 quarters?

Himanshu Kapania: We are equipped to handle 10 times capacity from current usage and with the capex plan, more than 10 times.

GV Giri: And do you see those 3.6x quarter-on-quarter growth moderating in the next 2-3 quarters or this is likely to continue at similar rates till your per sub usage comes to somewhere near the Jio usage of 7, 8, 9 GB per sub a month?

Himanshu Kapania: So our current usage is in excess of 3.3 GB per user on a blended 3G or 4G. It is fast improving and at least in the next 2 quarters, we see similar levels of growth as far as 4G is concerned.

Moderator: Thank you. Our next question is from the line of Sanjay Chawla from JM Financials. Please go ahead.

Sanjay Chawla: My first question is with regards to the 4G feature phone. Can you share your thoughts and views on why we have not seen a low priced 2G plus 4G or a 2G plus 3G feature phone so far in the open market? Is this purely a cost issue or do you think 4G or 3G data only works with the smartphone? Second question is if unlimited voice becomes main stream in case of feature phone users also, do you think Idea will have enough 2G capacity for voice considering VoLTE deployment on Pan-India basis could still take a year?

Himanshu Kapania: Thank you, Sanjay. You are absolutely right. 4G feature phones is all about bill of material. The current smartphones are feature rich, most of them have touch screen and plus 4-inch screen and it has sufficient memory to accommodate multiple apps. Further, 97% of the phones have operating system of Android. The new 4G feature phone that is to be introduced by the new entrant is a non-Android phone. It is a non-touch screen and has a small screen size. So while clearly it has an appeal for the heavy voice usage customers, but does it appeal to customers who have a reasonable internet requirement. Given the fact that the new feature phone is going to be distributed in large volumes, our belief is that we need to work with the handset industry and introduce similar phones in the market place so that a) affordable phone where the customer has a choice of dual SIM, b) choice to able to use 2G and 4G network and c) choice to use the services of all telecom operators as well as choice to use applications like Google, Facebook, WhatsApp and all most important entertainment apps which are preferred by the customers. It is also necessary to work with handset suppliers to bring down the cost of bill of material and make it lot more affordable while giving choice.

Sanjay Chawla: Are you referring to working with suppliers or vendors to bring out a cheaper smartphone or a rival feature phone which is SIM-unlocked?

Himanshu Kapania: It is a combination of two. It is an all-in the definition. We are looking at the extent to which the features can be brought down or bill of material price that can be brought down and test consumer response immediately. We have to test consumer response with the operating system like Android versus a non-Android, touchscreen versus non-touchscreen and button phone. All of this has to be worked out to test consumer response and eventually decide what customer wants. So it is not yet concluded, that is why I am not giving you a specific answer which is all in semantics that you are asking me and semantics of smartphone versus 4G feature phone.

Sanjay Chawla: So there is also capacity for unlimited voice?

Himanshu Kapania: There was a period when we were selling voice at Rs. 2 per minute when per second billing was introduced. At that point of time, there was one-fourth rate fall and consequently slightly higher double digit levels volume of minutes was witnessed. Currently, we are seeing 25% growth in minutes which we can comfortably handle. We are gearing ourselves to handle about 30%-35% growth in minutes and have sufficient capacity on 2G and 3G network to handle that volume of minute's growth. What we understand when more number of customers opt for unlimited plan and adopt data services, the usage remains high above 5 to 6 GB. However, when more number of customers who are voice users adopt to unlimited plan, the average usage of customers continue to decline. We understand that per subscriber usage of minutes for new entrant is much lower than us in case of subscriber who have opted for unlimited plans as we have the early adoption of unlimited plan on our network. As the number of unlimited plan customer goes up, the usage per subscriber goes down. Accordingly, we have done our calculations and are confident to handle the volume of minutes on a 2G/3G network. In the meantime, we are also building VoLTE for a large subscriber base. We should be in a position to handle 20-40 million subscriber base on VoLTE along with our existing capacity to handle about 200-250 million per 2G and 3G users.

Sanjay Chawla: Himanshu, does this not sound slightly counter-intuitive because if we are looking different to the feature phone segment where most of the elasticity still exists and fixed rate unlimited calling could just unleash pent-up demand which could be manifold compared to the existing MoU per customer in that segment?

Himanshu Kapania: We do not believe that. India is already amongst the high voice usage market. Please note that the United States has had an unlimited plan for few years and the usage in United States is much lower than the current usage that India is witnessing. The current usage of unlimited plan can be explained with an example - generally a 4G operator having an unlimited plan, as per our own calculation, is witnessing about little less than 600 minutes usage. Bharti's network is witnessing per subscriber usage of about 500 minutes. We are currently witnessing 450 minutes usage per customer. So even if large 30%-40% of our subscriber base were to go to unlimited plan, the usage per customer would operate at a level of 500-550 minutes usage per customer. We have done our capacity calculation to handle that much volume of growth.

Sanjay Chawla: Thanks for that. If I could just squeeze in, two quick questions. Are you seeing month-on-month stability in your data subscriber base which has been falling and secondly when you said you want to double your 4G coverage, are we looking at 80,000 4G sites by the end of the fiscal year?

Himanshu Kapania: Answer for both is yes., from June onwards, we are adding good number of data customers and you will see that in the next quarter's positive and large volume growth of data subscribers.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak of Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: My question is about the eight leadership circles. What would be our 4G population coverage in these circles and what percentage of our 2G sell sites there will have 4G overlap?

Himanshu Kapania: I do not have a precise answer at this moment, but we can provide you the details post this call. However, I can tell you broadly that by the end of the year, we are focused on our eight leadership markets and our intention is to upgrade 80 to 90% of our 3G sites to 4G.

Dheeresh Pathak: What will be the population coverage of 4G in those leadership circles?

Himanshu Kapania: In our eight circles, we normally cover very large percent population. We, by far, have the largest coverage. However, I would not be able to give you any specifics.

Akshaya Moondra: Although, I do not have a separate number for 4G, but I think 4G is fast catching up with 3G. In our eight leadership circles, 77% of existing GSM sites already have 3G or 4G and will increase further by the end of the year. This is given in our quarterly report.

Moderator: Thank you. We will take the next question from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: My first question is simply a follow-up to a point that you made earlier about working with handset vendors to try to bring down the bill of materials. If you can explain a bit more in detail that as a telecom service provider, what could be your potential role in trying to bring down the price of a handset? And based on your conversation with handset vendors, by when do you expect the handset prices to fall to levels which are closer to Jio's feature phone? My second question is you mentioned that due to uptake of bundled plans, you are going to see or continuing to see a decline in realizations etc., but what about ARPU? Do you think that even those trends have stabilized now and is there a difference between how prepaid is doing versus postpaid? Those are my questions for now. Thank you.

Himanshu Kapania: Thank you, Manish. Yes, you have a very pertinent question. With the launch of 4G feature phone, it is not only the existing telecom operators that are getting affected but it also is a big threat to the handset suppliers. Handset suppliers have been running broadly two businesses - One business is 2G phone and more than 55%-60% of the total handsets sale in India continues to be 2G feature phones and Two, smarthphone (3G or 4G) handsets. As the gap between the 2G feature phone and 4G feature phone comes down, it is natural to expect that the market for 2G feature phone will vanish and hence, these suppliers are keen to bring down their smartphone selling price by introducing products with a different set of bill of material. However, their belief is that this proposition will not be strong enough if there is no support from telecom operators because Jio is coming with a bundled offer for handset as well as telecom services. While we have no intention to subsidize handsets, but both handset manufacturer and telecom operators need to collaborate to ensure that the offering to the consumer is strong enough. This is when the customer will have to make a choice between a bundled offer from an operator with a locked handset vis-à-vis a bundled offer from a handset provider with an unlocked handset. This will give a choice to the customer. This is the reason why both of us need to work together. I hope this answers your question.

Manish Adukia: Yes, Himanshu, just a clarification. When you mentioned the word 'support', what exactly do you mean by supporting the handset vendors? In what form would the support be since you are saying that it is not going to be a subsidy, it is probably going to be a bundled offering with the handset vendor, but how does that help them in trying to bring down the bill of materials? This is what I am trying to understand.

Himanshu Kapania: What handset manufacturers are looking at is our knowledge of customers to make sure what are the preferences of customer. That is the debate we were having with Sanjay, before your question. The debate was is there a market to introduce smart 4G phones or feature 4G phones which does not have a touchscreen, which has an operating system other than Android and has much lesser features that are currently available on a smartphone which is at priced at around Rs. 4,000. These are the questions that they have before they venture into manufacturing large volumes. We are going to support them with our distribution channel, with a bundled pricing plan and our knowledge of the market which will be crucial for them to design the right products. This is the nature of consultative support that will work in. There will be no financial support from our end. They would also want to know bands on which 4G service expansion will take place since the same is imperative for them to ensure they introduce the right products which can easily be sold in the market place. Although, the margins are going to be small on a low priced smartphones, but it will be at the competitive scale owing to large volumes of production.

Manish Adukia: My second question was just that you mentioned you will see a fall in realization because of uptake of bundled plans, but would you also continue to see some pressure on ARPU? Or do you think even ARPU trends are now starting to stabilize? Is there a difference in behavior between prepaid and postpaid customers in your customer base?

Himanshu Kapania: ARPU of a bundled plan is definitely far better than unbundled plan. Accordingly, if the adoption of bundled plan improves, the current falling trend of ARPU which is primarily led by rate fall being higher than the volume growth will be arrested. Consequently, we will see recovery of ARPU. We are very hopeful that as we move from the last 3 quarters of an era where rate fall was much faster than the volume growth, we are going to go upwards. If we leave aside quarter 2, we are going to go upwards where the volume growth on overall basis will be far higher than the rate fall and this will help in overall improvement of ARPU. This is the one way to look at it. The other way to look at it is the penetration of unlimited plans in the overall base improves and consequently ARPU will improve.

Moderator: Thank you. Our next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Just a few questions from my side. From IUC perspective how does it affect the EBITDA on a net basis for your company? Second is now that the CCI approval is in place, can we start seeing some efforts and initiatives towards extrapolating or extracting synergies working on the cost side or is it still early? And third, your leverage has increased, any near term plans to bring down the interest cost?

Himanshu Kapania: Rajiv, I am going to ask Akshaya to respond to these questions.

Akshaya Moondra: So Rajiv could you repeat your first question, you said about IUC but what exactly would you like to know?

Rajiv Sharma: On a net level, that is IUC revenues less cost, what is the overall impact on EBITDA?

Akshaya Moondra: We will not be able to give the numbers right away but generally speaking, since our incoming calls are more, our revenue is higher on that account. But the other part of it is with unlimited traffic, we incur a loss because the IUC currently is much below cost. This has been the entire basis of our engagement with TRAI where we had the workshop to list out the business concerns so far. However, at this moment, I will not be able to give the precise figures.

Himanshu Kapania: But Rajiv, it seems loaded in your question that there could be a possibility of IUC rate fall. The basic argument is that the IUC of 14 paise was set in an environment where the asymmetry between traffic among operators was declining. Now, if the declining trend has got reversed and the asymmetry has increased furthermore, there is a lot more logical reasons for IUC rate to go up rather than looking at a reason why IUC rates may fall. From that perspective, strong pitch was made at TRAI workshop, open house and in our multiple interactions with TRAI and DoT. In this time government should review the existing subsidized IUC and bring it closer to the cost whether the model used is Fully Allocated Cost or LRIC plus cost model. We also have to look at international markets where there is no example of low IUC rate and low cost structures of telecom operators.

Akshaya Moondra: If I may just add, we had tried evaluating the current IUC rates with comparable countries. Comparable countries are the ones which have high population and large geographical sizes. Accordingly, we evaluated the IUC rates of the 5 most populous countries in the world including India. The highest population country China, as we understand, has a termination rate equivalent to 40 paisa per minute and despite that, they are allowed to charge for incoming calls. It is a mix of RPP regime plus interconnect charges. US is a RPP regime, so there is no interconnect prescribed by the government. The next 2 countries which would be considered most comparable both in terms of size and level of development are Indonesia and Brazil. In Indonesia, the IUC rate is equivalent to approx. Rs. 1.75 per minute where as in Brazil it is equivalent to approx. Rs. 2 per minute. Considering this, the cost in India cannot be so drastically different that IUC rates are priced at 14 paise/minute. We have repeatedly asked TRAI that when they had determined 14 paisa, it must have been based on some calculation and if they could share that calculation with us. We have reiterated our request and are hopeful that the details will be shared and the operators will be allowed to provide their comments on that calculation. It is very clear that 14 paise is much below cost and requires an upward revaluation.

Rajiv Sharma: That is very helpful. Thanks a lot for this. The other two questions, one is interest cost going up, so any plans and second, merger related synergies now that CCI approval is in place.

Akshaya Moondra: We have just received the CCI approval and our broad understanding is that with the approval in place, we can now commence planning for integration. But since this is a matter which concerns competition law, we are in constant consultation with our lawyers and we will take whatever actions are permissible under the competition law. The most important point is that since this approval allows us to plan now and we have time left for merger the synergies will be realized as soon as the merger is completed. Our effort will be to have meticulous planning during this period so that once the merger is consummated, the synergies can be realized as quickly as possible.

On to your question of leverage, as we already mentioned that we are looking at monetizing our towers. Further, we are also looking at monetizing our Indus stake. The high leverage ratio is largely due to decline in EBITDA and not so much a result of increase in debt and this is certain situation that cannot be fully addressed. Currently, our focus is to take the required actions in adequately funding our capex / investment plans. For this year, we are adequately funded irrespective of current EBITDA trends whether or not monetization of tower happens in this year. To conclude, we are adequately covered and hopefully within a period of 12 months, we will see monetization of the towers and the Indus stake happening.

Rajiv Sharma: That is helpful. Just one follow-up on the feature phone, Himanshu. The whole feature phone market shipment is around 130 million, just trying to understand based on your understanding of the handset market; is it possible for one single player to draw 70-80 million handsets or 100 million handsets out of this 130 million feature phone market?

Hiimanshu Kapania: It is too premature to answer this question. We have to wait and see the market to evolve because there are no concrete facts available at this moment. It has now become important to focus on where the 2G feature phone prices finally fall because the bill of material for 2G feature phone is amongst the lowest. Secondly, how can we bring down the bill of material of other 4G phones which will give choice to the consumers over the SIM-locked handsets. Based on these trends, we have to move forward. I think, at this stage, it is very premature to make any speculations from our side.

Rajiv Sharma: And are you also against getting into financing schemes so that the upfront cost for customer come down? Do you think that is something which incumbent operators like you can also take or do you want to stay away from that as well?

Hiimanshu Kapania: No, we will stay away from all forms of subsidies whether upfront or where we have to put some cost to be able to finance handsets to our customers.

Moderator: Thank you. Our next question is from the line of Vinay Jai Singh of Enam Asset Management. Please go ahead.

Vinay Jai Singh: I have three questions, most of them have been partly answered. So the first one is as we have all been asking you, the customer base for 3G and 4G put together is between 27 to 30 million for the last 5-6 quarters, but your traffic has increased so much, handset prices have gone down and as the last colleague of mine commented, you are seeing a lot of 4G handsets come into the market. So what is the take for the penetration to go to let us say 25% or 30% of your overall telecom wireless penetration which you have out of your 200 million subs, how do we go to 50-60 million subs using 3G and 4G? What more do you need to do? My second question is if you are spending appropriately on capex, why is the industry building so much on capex? Does this not become an area of concern because if the industry is building so much more and the utilization rates are so low for the sector, does it mean that tariffs can go a lot more below capacity? My last question is on GST, has this made any impact. I understand the capex could have become a bit more costly and the auction interest payments also could have something related to GST. Thank you so much sir.

Himanshu Kapania: Welcome back, Vinay and good to hear from you. I will answer the first two parts of the question and leave the GST question to Akshaya. You are absolutely right, I think we are at a threshold where the 3G-4G subscriber base that use internet services on our network are going to explode. We have had a period in the past where the gap of free prices and later the promotion prices by the new entrant versus our prices was significant and also our coverage was in the process of getting expanded. Those gaps are now slowly being reduced as we continue to expand our coverage today. Idea's broadband coverage has reached approx.500 million customers and price gap between new entrant and Bharti versus ours has significantly reduced. It is only a matter of time from a current penetration of about 20% of our subscribers who are using data services and only 14% of our subscriber are using them on 3G-4G will improve. It is only a matter of few quarters that this number will go up to anywhere between 30% at minimum and optimistically, going up to 50% in the next 4 to 6 quarters. We are very hopeful that these numbers will all go up and if that happens, your second part of the question becomes irrelevant because the capex that has been deployed is capable to handle for the industry levels of about 300 to 400 million, maybe closer to 500 million 3G-4G base. It is a matter of time that we will all start witnessing that. We are at the cusp of a big growth which is going to happen because 1) coverage has expanded to levels which was unthinkable until 2 quarters back. 2) Prices are a lot more affordable. We were selling our 3G-4G services at Rs. 225 per GB about 4 quarters back, but now selling at Rs. 54 per GB. It is essential to note that the prices have not yet settled and we will probably settle at Rs. 30 to Rs. 40 per GB. With new 4G phone introduction smartphones will also become lot more affordable. Coverage is now improving and consumer experience has improved multifold. It is a matter of time we will see a large volume of existing voice subscribers also starts using mobile data. Currently, strong data users are not more than 175 to 200 million, however, it is only a matter of time in next 4 to 6 quarters that the number of data subscribers will be anywhere between 350 to 400 million. Considering our spectrum footprint and network coverage, we will experience some degree of improvement in market share. There is no need for us to panic. All of us are building for the demand ready to explode in near future. We have seen the Tsunami of voice demand that came in when per second billing was introduced. With the low data prices, affordable devices and increased amount of advertising push increasing subscriber demand for data service is certain across all geographies and demographics.

Vinay Jai Singh: Would it be fair in saying you just mentioned the number of Rs. 30 – Rs. 40 that should be the longer term ARMB before overall data tariff start moving up?

Himanshu Kapania: Considering unlimited plan to be in flavor for at least in the next 3-4 quarters until new plans come up, it will be a fair assumption at this point of time.

Vinay Jai Singh: Right. So now we are basically waiting for no dramatic change because the 21 paisa per ARMB has gone to 5 paisa and you are saying it will go to 3 paisa, so you are saying do not look at tariff declines, coverage is being done, handset prices have come down, it is just up to wait for usage to take up for other people to start using it. I think so.

Himanshu Kapania: It is a viral effect. Let me share, Idea's own consumer were earlier using 500 to 700 MB, now is using on an average 2.2 GB and a 4G customer about 3.5 GB. The customer time spend on internet is becoming much more and the viral effect of this is unthinkable. It is only a matter of time India will be a large market for mobile data services.

Vinay Jai Singh: But then on that, the second question. I do understand you do not need to address for the external environment or the competition. But people are building in so much more; they are spending

5 to 6 times more every quarter compared to yours. Even if we add Vodafone's numbers, they are spending in 3 to 4 times more. So, what is it that you all are getting with their missing or where is the disconnect out here sir?

Himanshu Kapania: There are two parts to the expenditures. One part of the expenditure is coverage expansion. We have to ensure that large metros, big towns, small towns and rich rural areas get 4G coverage. We are not fully convinced that the deep hinterland and low economics activity rural areas are ready for 4G coverage. The second part is the investment which is currently being executed at all the three bands viz. 800 MHz, 1800 MHz, 2300 MHz in one go. We believe first step is to get the coverage there, get the consumers on board and it is very easy to be able to install the next band because we have a pool of combined spectrum. If you were to put our and Vodafone’s spectrum together, we have 1850 megahertz spectrum, almost 1.5 times than any other telecom operator and even if we were to remove the spectrum that we have for 3G single layer on a Pan-India basis and consolidated 2G spectrum, we will still have the highest 4G spectrum. But the question is when do you deploy it - do you deploy it ahead of demand or deploy it just in time of demand? We follow just-in-time of demand. Priority is to get your coverage in place which is what will happen, get your affordability in place, look for the consumer demand to happen and ensure consumer experience is great and then we are ready. That is why the announcement of trials and deployment of 2300 MHz and 2500 MHz in high capacity utilization sites, and work with handset suppliers to improve subscriber demand & experience. Otherwise, it is only the question of timing and that there are no differences between the two strategies.

Akshaya Moondra: Vinay, to answer your question on GST, effectively the GST rate has gone up by 3% compared to the earlier service tax rate. We have some offsets, one is 0.5% of Swachh Bharat cess which was earlier a cost and now we will get credit for the same, so that is eliminated. Besides, on the capex front, actually the SAD and CST which were not creditable earlier or there was a time lag, we will now be able to get credit. Accordingly, that would be some more advantage. According to our rough assessment right now, which will have to be fine-tuned, the benefit on account of GST would be a little less than 1% which means the net impact on overall cost would be a little more than 2%, but this figure is being worked out now. There was some announcement made by the Ministry of Finance where they had estimated that the benefit would be 2% which we believe is not the right figure and we will engage with them to convey properly that the net increase is going to be little over 2% and secondly in the current scenario where prices are declining, I think it is very difficult to recover this from the customer. So, this will impact revenues.

Moderator: Thank you. We will take the next question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: I think most of my questions have been answered, but maybe I will just slip one now because you just mentioned that you have got a fair bit of data capacity, you can carry maybe 10 times the amount of data that you are currently generating. So does that mean that over the near term in the next 3 to 4 quarters, the cost of generating data is next to nothing?

Himanshu Kapania: You are looking at incremental cost, but the way to look at it is a fully allocated cost, the cost of data generation will fall as the utilization improves. On a direct cost basis, it will continue to fall as the utilization on the network improves. So that is the better way to answer that question. Am I clear with the response or do you need a clarification?

Viju George: I think I have understood what you have said, but on an incremental basis it can still be quite low, right Himanshu?

Himanshu Kapania: That is true because we have invested in spectrum which is currently reflecting in our cost. We are invested in the site which has currently 2G and 3G technology. It is only when we upgrade to a 4G site, will we incur incremental opex cost on rental which would be very low. The only major incremental cost for us is energy**.** Balance costs mentioned earlier whether it is service or sales, all have already been incurred. So you are absolutely right, the incremental cost would be low, but the way we see it is what is the current cost of data on existing utilization and as the volume of data improves, the cost per MB will fall. Akshaya, do you want to add anything?

Akshaya Moondra: I think we should look at incremental cost as the cost that is incurred at higher level of utilization. Otherwise in any industry if you begin functioning at the first stage which requires large capacity; therefore higher costs are incurred right in the beginning and in the subsequent stages cost does not increase compared to beginning. Accordingly, it will be unjustified to say that the incremental cost is very low. The right way to look at it is that at higher levels of utilization, what is the absolute cost that you get per unit, which will reduce from current levels, but then to say that the incremental cost of unit is low would not exactly be right because large capacities are being set upfront. The nature of the industry is such that you invest in spectrum in one shot, but that cost has to be recovered. If you start looking at everything on incremental cost basis, then you never make a return.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Kapania for closing comments.

Himanshu Kapania: I would like to thank all our investors and analysts. We are going through an unprecedented time, definitely disruptive, but we are very confident that this is just a matter of time when recovery starts. We expect, once this phase of industry passes through, Idea will be on a path of significant telecom industry growth as the number of customers who are currently using internet services multiply many folds and use of 4G services which are currently low improves to much higher levels and they give much better returns the investors. Thank you everybody for your patience and appreciate your insightful questions. You get us to think and allow us to take corrective actions. All the best and see you next quarter.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Idea Cellular Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.