



Idea Cellular Q2FY14 Results Conference Call

October 25, 2013



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Moderator: Good afternoon ladies and gentlemen. This is Inba, the moderator, for your conference call. Welcome to Idea Cellular Conference. For the duration of this presentation all participants' 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 – Chief Financial Officer of Idea Cellular along with other key members of the senior management on this call. I want to thank the management 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 discussion on today's conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. With this I hand the conference call over to Mr. Himanshu Kapania. Thank you. And over to sir.

Himanshu Kapania: Thank you Inba. On behalf of Idea I welcome all participants to this Earning Call. Yesterday, our Board of Directors adopted the un-audited results for the 2nd quarter of Financial Year 2013. The detailed press release, quarterly report, and the results have been uploaded on our website and I assume you had a chance to go through the same.

The Indian mobile subscriber base stands at 875 million and the country contributes over 13% to the global subscription base. In spite of its overweight India is still a part of the unfinished growth story in global voice telephony and subscription growth.

Based on April to June 2013 quarterly revenue release by TARI, the Indian mobile industry has grown to an estimated annual revenue of Rs.1,60,000 crores or USD27 billion. Thus in contrast to subscriber share; India remains at global pygmy in revenue terms - a meager 2.3 per cent of estimated global telecom revenue of USD 1,160 billion. While India is second largest wireless consumer market by subscriber numbers just behind China, not only developed economies revenue size is higher, example USA at USD\$357.6 billion and UK at USD110.8 billion, but emerging economy with similar size population has far higher annual mobile revenue. As per Bloomberg report. China has 3x India revenue of USD 85.1 billion and Brazil with far lower subscriber numbers has annual revenue of USD



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53.5 billion, nearly 2x of India. India operates at one of the lowest tariffs across the globe resulting in far lower revenues against other global markets. Such low prices resulted in subscale Indian operators recording significant cash losses, negative-to-low profitability, and high financial leverage.

In spite of this, the consumer growth drivers remained intact to push next decade of growth as industry competitive structure settles around laws of economics instead of euphoric optimism witnessed in 2008 and clarity emerges on the spectrum front - key raw material for the industry. We believe Indian telecom market is getting ready for a new dawn. Let me cover all these three factors.

Firstly, Growth Drivers – Idea believes good growth potential remains in Indian wireless sector driven both by voice and data business:

A) Voice Market is still under penetrated with 59.5% VLR penetration and 35% subscriber penetration in rural India. Actual, human penetration is even lower given presence of multi-sim users and dual SIM handsets. Second quarter minutes slowdown is no reflection of future of voice telephony in the country.

B) Mobile Data is in the early phase of growth but last one year experience shows the upward movement started to have its effect at 143 million wireless data subscribers as of March 2013 penetration is only 16.5% of the total mobility base. Majority early data adopters prefers GSM EDGE platform for data usage as HSPA+ device entry prices and coverage availability for 3G is still a constraint. The 3G services adoption has just begun quoting Idea's 3G statistics only 4.9% of Idea's total EoP subscribers and 18.5% of Idea's data users are availing 3G services.

Secondly, Industry Structure – The competitive intensity on the decline from the peak of cumulative 249 operators in December 2011 over 22 service areas counting only performing operators to 171 operators as of May 2013, a fall of 78 service operators in last 18 months driven by Supreme Court cancellation of 2008 licenses and low business performance. It is inevitable the past overcapacity phase in the mobile sectors will give way to consolidation and improved industry structure.

Thirdly, Spectrum – With two failed spectrum auctions in last one year due to high reserve price reasonable spectrum quantum available with government across 700, 800, 1800, 2100 and 2300 megahertz to meet demands of six plus operators in the country, the era of spectrum scarcity is over. We think there is a good probability that the spectrum cost will rationalize from here onwards. As per spectrum quantum availability report shared in various TRAI releases, the telecom department



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has over 1,730 megahertz of spectrum available across multiple bands for commercial mobility use. Idea believes sufficient quantum is available to prevent auction frenzy and meet all operators need. We also read, government is actively considering approval of spectrum trading policy and merger and acquisition guidelines which will help to bring further clarity and shift focus back from regulation to consumer allowing operators to aggressively invest and grow emerging wireless broadband and rural voice market.

Idea from the start of this calendar year has embarked on a program to improve profitability and margins by clamping down on promotional free minutes for new customers and reducing discounted minutes on its value vouchers for existing customers. The company has also made efforts to reduce its operating cost to counter balance network opex and manpower related inflationary pressure. We also reduced spends on subscriber acquisition and channel commission. The cost reduction exercise that yielded good results with gross subscriber's churn fallen from earlier levels of 10% to 5%.

As regards clamped down on minutes program average realized rate has improved to 44.7 paisa per minute, an improvement of 3.4 paisa over the year but the overall voice minutes growth has been slow. A 5.8% sequential quarterly minutes decline or 8.5 billion minutes fall in Q2FY14 versus Q1FY14 can be partly explain due to seasonal slowdown in the second quarter and the impact of higher proportion of rural subscribers in Idea EoP.

But certain portion of the minutes also vanished due to:

- A) Lower new subscriber acquisition. I would like to remind that Idea's gross addition per quarter has fallen to 20 million from an earlier quarterly level between 30 to 35 million.
- B) Less free promotional minutes available to new customers.
- C) Lower discounted minutes available to existing customers on value vouchers.

But this is only part of the full explanation. The important KPI to track on minutes performance is average 'minutes of use' per subscriber and the same has increased from 359 minutes per user last year Q2 to 368 minutes per user an improvement of 2.5% over one year. This KPI has to be studied along with ARPU performance. The revenue per user has increased from last year, Q2 ARPU levels of Rs.148 to this July to September quarter at Rs. 164, an improvement of 10.8%. The key conclusion from both these metrics is that the market has absorbed a rate improvement of 8.3% and still minutes per user in same, weak seasonal quarter has improved. If we add to these metrics, Idea's



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new subscriber net growth of 11.7 million in a year that is over 10% subscriber growth from 115.5 million EoP in Q2FY13 to 127.2 million in Q2FY14, you will agree that company is in line with a stated long-term mission of 4Gs that is consistent, competitive, responsible, and profitable growth.

- A) Idea's growth is Consistent. The company is pleased to report 18.1% Y-o-Y standalone revenue growth and 19% Y-o-Y consolidated basis Idea revenue growth including contribution from Indus business.
- B) Idea's growth is Competitive. We maintain our status as the fastest growing Indian telecom operator. Idea has strengthened its revenue market share position by 0.5% to 16.2% in Q1FY14 versus Q4FY13. The incremental revenue market share of Idea is 23.6% when measured from Q1FY11 to Q1FY14 and even higher at 30.1% in last one year from Q1FY13 to Q1FY14. Based on Idea's incremental revenue performance we are one amongst top three operators and not number three operator.
- C) Idea's growth is Responsible and Sustainable as the company continues to steadily expand its network footprints now covering over 4,672 census towns and 3,10,648 villages with 95,917 GSM cell sites and 18,031 3G sites supported with 77,000 kilometers of optical fiber transmission links to support its voice, NLD, ISP and Data services growth ambition.
- D) Idea's growth is Profitable. Maintaining the last quarter trend the company is pleased to report a reversed YoY standalone EBITDA growth of 38.2% and consolidated Idea's EBITDA at Rs.19,715 million with 31.2% margin an improvement of 4.4% margin over one year.

On the Regulatory front – Idea received the unified license for the seven new circles where Idea won back 1800 MHz spectrum in November 2012 auction. This flexible liberalized unified license gives us 20 years to develop and prosper in telecom markets of Tamil Nadu including Chennai, Kolkata, West Bengal, Odissa, Assam, Northeast, and J&K.

There is no change in position on pending transfer of operating Spice licenses of Punjab and Karnataka to Idea. An approval is awaited for commercial use of Idea's 3G spectrum in Punjab where company has paid Rs.322 crores in the 2010 auction. Just to remind Idea – Spice was a merger of two publicly listed companies amongst the largest M&A deal with highest quantum of FDI to the country in the year 2008. With approval from FIPB, SEBI, Company Courts and other regulatory bodies, the company is waiting patiently for DOT to complete the final transactions of just name change for



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Spice Punjab and Karnataka licenses to Idea Cellular, the company in which Spice communication is amalgamated.

Moving on to Business Performance:

The top three operators continued to garner more than 100% incremental revenue market share and incremental subscriber VLR share, reaffirming consolidation process in the mobile industry is on its way. The top three operators now control 70.3% of Indian mobile revenue market and 61.7% of subscriber VLRs market as per the Q1FY14 TRAI release. The performance of Idea on five standard parameters for the period July to September 2013 quarter is as follows:

Point #1, Gross Revenue - The company witnessed standalone revenue decline of Rs.2,185 million at the rate of 3.3% on sequential quarter basis. The fall in non-VAS data and 3G ICR were the main contributor to the revenue decline. Non-data VAS fall was due to implementation of fresh double confirmation process initiated by TRAI from July 2013 for all new subscriptions of non-data VAS services. The decline in 3G ICR revenue is post honorable court's order of no new 3G subscribers in seeker circles. This resulted in industry wide high 3G ICR subscriber churn and steep drop in 3G traffic from the 3G ICR subscribers. But for these two factors the revenue decline would have been lower despite 5.8% sequential drop in voice minutes.

In line with market expectation the company's average realized rate per minute (ARPM) improved by one paisa per minute from 43.7 paisa per minute in Q1FY14 into 44.7 paisa per minute in Q2 FY14. The improvement in voice realized rate and increased contribution from 'Value-Added Services' (VAS) has led to this improvement in ARPM. The voice realized rate improvement is the tail effect of clamp down on the discounted minutes on value vouchers. The program initiated in March – April 2013 and concluded by June – July 2013. The company this season will closely observe the impact of the change on voice minutes elasticity before taking any further directional call. Second, significant contributor to improve ARPM is high data revenue contribution. Data revenue crossed Rs.5,417 million mark in Q2FY14 as its contribution to service revenue increased from 5.4% in Q2FY13 to 8.7% in Q2 FY14, an improvement of 3.3% over the year. The exponential growth of data revenue helped not only balance the loss of non-data VAS revenue of 2.8% over the year but also helped overall VAS revenue percentage contribution to service revenue grow from 15.6% in Q2FY13 to 16.1% in this quarter, an improvement of 0.5% in last one year.



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It is here important to state that pressure on ARPM from subscale or regional telecom operators has not mitigated. Based on Q1FY14 Public Results while industry reversed the four years cycle of voice rate decline some regional operators in fact reported lower ARPM in the same period. These operators are currently operating at steep discount up to 50% to our reported voice rates. In spite of these pressures we believe improvement of Idea ARPM is a statement from the company. We wish to attract customers on strength of our network, quality of after sales service, brand salience, range of our products, and not as a discount player.

Point #2 Cash Profit and EBITDA – Idea bottom-line is settling at a new high level driven by double business revenue boosters - voice and data, increasing scale benefit and efficient cost management. Idea consolidated EBITDA margin improved by 4.4% from 26.8% in Q2FY13 to 31.2% in Q2FY14. Out of the company's Rs.10.092 million incremental consolidated gross revenue growth between Q2 FY13 and Q2FY14, Rs.5,490 million has translated into EBITDA growth. Thus, 54.4% of the incremental gross revenue flew into EBITDA.

As you are aware, Idea business is broken into two portfolios, Established 15 service areas and 7 New service areas launched on or after year 2010. We are happy to report that inspite increased network rollout Idea has managed to hold EBITDA losses in these circles at Rs.1,259 million. Currently, these seven circles revenue portfolio has a revenue market share of 4.1% in Q1FY14 but incremental revenue market share of these new circles then compared against Q1FY11 is 11%. Idea, after pursuing a strategy of calibrated investment the company is increasing its GSM presence in 7 New circles with desire to accelerate the pace of winning higher incremental revenue market share. These new circles represent 20% of Indian market. In these 15 established circles, while Idea revenue market share stands at 19.3% but incremental revenue shares between Q1FY11 and Q1FY14 is 27%, giving us confidence. Idea's 15 established circles standalone EBITDA margin of 31.2% at Revenue market share (RMS) of only 19.2% compares well with market leader revenue market share of 30% but EBITDA margin similar to our 15 established circles and reinforcing our company believes that 'Pure Play mobile operators' have far lower cost structure to 'Integrated Operators'. In spite of sequential quarterly revenue and EBITDA decline, Idea is pleased to report similar levels of Profit After Tax on standalone basis of Rs.3,985 million in Q2FY14 versus Rs.3,991 million in Q1FY14 after excluding Indus dividend payout of Rs.858 million from Q1 FY14 declared PAT.



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Point #3 Active Subscribers – Idea is among the select few global operators servicing over 127 million subscribers. This large base of subscribers provide a great platform to us for upgrading pure voice customers to wireless data services an early trend of the same is being experienced. Idea has been vigilant in monitoring the quality of the subscriber base as of July 31st, 2013, Idea has 97.6% of reported subscribers as active VLR customers, by far the highest in the industry. With trade scheme discipline and clamp down of promotional minutes for new customers the early years' trends of multi-SIM single users is on a decline. This has helped in a cost efficiency drive with 'Subscriber acquisition, Servicing, Advertising and Promotional cost' as a proportion of total revenue has gone down by 1.6% year-on-year from 10.5% in Q2FY13 to 8.9% in Q2FY14. The obvious fallout of this strategy is a quantum of gross addition. Customers buying new SIMs have fallen and overall industry VLR growth has been slower. The industry annual net VLR growth from July 2011 to July 2012 rolling one year basis was 91.9 million which has fallen to one-third level in July 2012 to July 2013 at 33.1 million VLR growth. In comparison to industry steep VLR decline Idea's new subscriber growth fall is lower. Idea's net VLR addition the period of July '12 to July '13 was 13.1 million recording industry's highest 'VLR Net Subscriber market share' of 39.5%. Idea VLR EoP now stands at 16.7% an improvement of 1.1% over last one year and far higher against reported Idea subscriber EoP market share of 14.3%.

Point #4 Minutes of Use – In spite of one quarter decline in minutes of usage, Idea remains bullish on intrinsic voice customers unmet demand, therefore Idea continues a steady pace of capital infusion in GSM business with an addition of 3,762 GSM sites during the quarter. Further, we are making steady progress on optical fiber expansion and laid additional 2000 kilometers fiber during the quarter and expanded to 2,500 Points of Presence (PoPs) for identified 128 primary cities for 42 MBPS and more broadband speed readiness.

The NLD traffic growth is steady at 16.6% on Y-on-Y basis reaching 12.9 billion NLD minutes during the Q2FY14. There was a decline in ILD traffic on sequential quarter basis falling to 1.18 billion ILD minutes. The company continues its ISP capacity expansion plan with in-house capacity now at 30 GPBS of data handling.

Point #5 Mobile Number Portability – The number portability remains an important parameter for the company to exhibit its growing comparative performance on network, customer service, brand power, retail aggression and employee resilience. Idea maintains its overall all India lead on MNP



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with a net gain as on 9th October 2013 of 7.8 million MNP customers from other existing telecom operators with around one out of every four existing mobile customers who choose to port out prefer Idea services.

Moving on to Wireless Data Business:

I personally believe that we are at the tip of the iceberg as far as data growth is concerned. It is a huge value opportunity for Idea. During the last one year 14.7 million of Idea's existing subscriber base has been initiated into the exciting world of wireless data access. The overall data users EoP using wireless data on EDGE and/or HSPA plus 3G platform has swelled to 33.6 million; a penetration of 26.4% of overall 127.2 million Idea consumer. In the month of September out of the 33.6 million data users over 15.6 million users accessed Facebook, 8 million plus users connected to YouTube, and 4.3 million were on WhatsApp OTT application.

With immense competitive pressures Idea, was forced to offer additional discounted data plans resulted in 2.5 paisa per MB rate fall, i.e., 7.5% reduction in data ARMB on sequential quarter basis. Data is the next big thing and operators, instead of applying price pressure, need to focus on long term development of the market. Low data ARMB has a huge danger of cannibalizing a stable revenue source of voice and messaging services to free OTT applications whose business model is not direct consumer debit but advertising lead. These applications ride on capital intensive world class mobile data network laid out by us (telecom operators) with business model embedded in a high gestation period. The last 20 years were about telecom operators at the center of mobility universe providing voice and messaging services and not content and application. The next 20 years is going to revolve around 'Mobile operating systems' like Androids, IOS, Windows and others, around OTT service providers and innovative Applications and content partners. Customers are going to be driven towards most convenient, flexible and innovative Operating systems and Applications. However, their success will be dependent on World class High speed data networks operating on 3G, 4G and other advanced technology platforms.

These competitive dynamics will only remain stable if all players in the ecosystem generate sufficient surplus to finance their own investment plans. Globally, developed economies of USA, Japan and Korea have worked in partnership with smartphone device manufacturers like Apple and Blackberry and with Application Providers like Google, Facebook, Yahoo, Skype, etc., and each player generates



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sufficient profits to reinvest in their role. I am confident the current frenzy on data rates decline operating below cost will be corrected as industry realizes its folly.

Idea's mobile data revenue as a percentage of service revenue is at 8.7% contribution. In the last one year mobile data contribution has increased by 3.3% of the service revenue. But we believe there is a huge scope for increasing mobile data revenue contribution on benchmarking with similar sized economies. In South East Asia we find Indonesia has already reached 18% wireless data revenue contribution, Malaysia is at 23% and China data contribution is 25%. This gives us confidence that the overall 'VAS' percentage to service revenue is slated to grow exponentially. While data ARMP has been under pressure the mobile data traffic volume is exploding, the data volume in Q2FY14 has reached 17.5 billion megabytes a year-on-year growth of 99.6% countering various naysayers and a clear testimony to Idea's ability to manage global scale operations not only in voice business but now also in wireless broadband business. The blended 2G and 3G data ARPU is steady at Rs.55 per data user.

Moving onto 3G Business – The Idea subscriber using 3G data and/or voice on 3G platform has moved to 6.2 million EoP, a slow growth of 2.5 million over the last one year. The 3G EoP is growing in the 10 circles where Idea won 3G spectrum in 2010 auction but the company is encountering massive de-growth after the Court's direction in 3G ICR circles. Last quarter, Idea was the first company to transparently share full 3G KPI information beyond number reporting. Idea's 3G data ARPU has been steadily planning and it is now at Rs.116, an improvement of Rs.27 in the last one year. This ARPU growth is lead by improved data usage by 3G subscribers to 429 megabit user growth of 12.6% in last one year.

This quarter Idea launched its first five inch screen size smartphone Ultra at a market operating price of Rs. 9,900 The five inch screen category is among the most preferred screen size in smartphone market. The company now has a full bouquet of 3G Idea smartphones with screen size of 3.5 inch, 4 inch, 4.5 inch and 5 inch and smartphones operating at prices from Rs.4,500 to Rs.9,900.

The number of 3G devices on Idea network is on the increase. As of September 2013 over 12.7 million existing Idea 127.2 million EoP base are using 3G devices primarily smartphones i.e. 10% of EoP subscribers use 3G devices. The number of 3G device owners has steadily risen from 8.2 million in Q3 FY13 an addition of 4.5 million in the last three quarters. With monthly 3G smartphone sales



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growing and as per latest Handsets Vendors India Reports, Smartphones sale has reached 1.5 million a month, Idea's subscriber base upgradation to 3G smartphone is expected to accelerate. Also with less than 50% of Idea's 3G device owners currently using Idea's 3G network the pace of 3G network adoption is expected to speed up in forthcoming quarters.

The 3G network expansion has been steady with integration of 550 new 3G sites. In the 10 service areas where Idea has 3G spectrum the company leads all operators in terms of 3G network quality and reach. The 3G data volume growth is encouraging reaching at 7.6 billion megabytes in Q2 FY14 an exponential growth of 85.8% from 4.1 billion megabytes volume in Q2 FY13.

To summarize – Idea with its consistent network investment, market place agility, customer centricity and high brand salience is on course towards performance driven leadership. As competitive intensity declines and overcapacity phase comes to an inevitable end, visibility of spectrum quantum availability in pricing improves, Idea expects to further consolidate his position in the telecom voice and data market.

I now hand over to Akshaya Moondra for more details on the financials.

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

Firstly, as per our quarterly performance our revenue declined by 3.3% quarter-on-quarter in the seasonally weak quarter. This is in line with the trends witnessed in the earlier years. This was a mix of decline of 5.8% in voice minutes coupled with an ARPM improvement by 2.2%. The data growth continues in this quarter with an increase of 26.5% in total data volume compared to Q1FY14. The strong growth in data volumes resulted in data revenue increasing to 8.7% of the service revenue in this quarter, an increase of 1.5% over the last quarter.

The EBITDA margin during the quarter was lower by 0.6% compared to Q1FY14 mainly due to increase in manpower and network costs. Roaming and access charges were lower mainly due to decline in total minutes, reduction in SMS termination charges as well as changes in roaming arrangements.



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The depreciation charge is lower compared to last quarter mainly due to the higher impact of revision in life of some assets in the first quarter when the change was done. The impact of the revision done in the first quarter for Q2 FY14 has been lower by around Rs.850 million. The net interest and finance cost was lower by Rs.257 million compared to previous quarter mainly due to higher interest income and lower forex loss.

The standalone Profit After Tax stands at Rs.3.99 billion for Q2FY14 and the company generated cash profit of Rs.14.56 billion. The net debt as at the end of this quarter stands at Rs.92.9 billion compared to Rs.102.2 billion for last quarter. The net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at a healthy level of 1.33.

As for the consolidated financials the contribution from Indus to the net profit was Rs.491 million as compared to Rs.637 million in the previous quarter.

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

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

Sachin Salgaonkar: I have three questions. First any particular reason what lead to roaming and access charges declining around 13% Q-o-Q and going forward how should we look at this? Second question is on your QIP, I guess we saw TRAI records of lower spectrum price. Idea now intends to raise 30 billion and earlier Mr. Himanshu also commented that spectrum cost will rationalize. So, the question is, is there any change on thoughts on magnitude of amount of which could be raised through QIP? And lastly, based on the traffic patterns post September, are you seeing the normal seasonal pick up in minutes or is there any negative elasticity impact?

Himanshu Kapania: Let me try to address the question number two and three and then I will request Akshaya to give you more update on the roaming and access charges. First and foremost as far as QIP is concerned we received shareholders in-principal approval for Rs. 3,000 crores in September, 2013 and we have time of one year. You are absolutely right that there is a high probability that the overall spectrum cost may come down, but you have to remember that the needs are also increasing. Besides the renewal of licenses for 9 circles that is coming up in the next year for Idea licenses which are expiring in late 2015 and early 2016, Idea also does not have 3G spectrum in half



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of the country. We are continuously evaluating our overall Data spectrum need. We are closely watching the situation and we will review the overall scenario and then take a call on A) The timing of the QIP, B) The need of QIP if ever and C) The quantum of QIP if we go for it.

As far as the second part is, concerned Idea Cellular does not give any guidance other than the performance sharing on a quarter-on-quarter basis. It is not our practice to start giving specific month level information. The fact also remains, we are a very large country and we collate this information on a monthly basis and rather than doing on a daily basis and management gets update only later. I want to restate what I had said in my speech, an important point as far as traffic is concerned. Besides the fact that there had been traffic decline on account of seasonal factors we have to remember that the business model for telecom operators has undergone a change.

Let's first start with the gross adds. We were doing on an average around a year back, about 35 million gross adds and it has dropped down to around 20 million gross adds quarter average down by over a 15 million gross adds and if I have to just give you an example of 100 minutes free that we used to give, it gives 1.5 billion minutes which will naturally fall down without any effort done by the company. The second factor is even for the 20 million gross adds that we are currently achieving, we have reduced the promotional minutes. I have been repeatedly saying probably it's not registered in terms of stats, we have reduced promotional minutes by 30% - 40% and to just give a example if you are giving earlier 100 minutes and brought it down to 60 minutes so on an average, it's close to a billion minutes that is no more available to the customer.. Similarly for existing customers, we have also reduced for our existing value/bulk packs where bundled minutes impacting his ability to make more calls at same expenditure thus I recommended study last year versus this year, minutes of usage per subscriber. In spite of all of above, minutes of usage per subscriber has gone up from 359 to 368; 9 minutes increase over the year but more than that ARPU has improved by more than 10% from Rs.148 to Rs.164. I hand it over to Akshaya to talk about roaming and access charges.

Akshaya Moondra: Sachin as I had mentioned in my opening remarks the roaming and access charges are lower mainly due to three factors. First is the decline in total minutes, second is reduction in SMS termination charges and third is the change in roaming arrangements. To your additional question that how should you look at it going forward- - the variation which is on account of minutes will behave in line with the change in the minutes trends, the reduction in SMS



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termination charges and the changes in roaming arrangements are something which will continue in the coming quarters.

Sachin Salgaonkar: This is very clear.

Moderator: Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: I have just two questions. One your site additions for this quarter are quite significant probably the highest we have seen in the last couple of quarters and I do refer to the 2G sites. Any particular reason for that? I mean do we expect a surge in voice minutes over the next couple of quarters, that's the first question. And second question I will just continue with my colleague's question on the access charges. Even if I take a slightly longer view of your access charges over the last eight quarters it has remained at a range of around 9 billion odd whereas your revenues obviously have scaled up from a level of 53 billion to 63 odd billion so is there anything else you would like to highlight for this trend in your i.e. access and roaming charges.

Himanshu Kapania: Let me talk about site additions. As you are aware that last year Idea Cellular suffered a long period of uncertainty i.e. almost for a year from the time Supreme Court announced cancellation of Idea's seven operating licenses to the time that we won back these licenses in November 2012. We have just received our unified license. You are also aware that there is a significant coverage gap for Idea customers exists in a number of these new markets and we have to complete that coverage gap. There are also feedbacks on quality of network and we are in the process of filling up those gaps. But to remind everybody our capex projections is not undergoing any change at this point of time. On access charges I will hand over to Akshaya.

Akshaya Moondra: I have explained whatever was there to explain. If I may just add some of these changes like SMS termination charges, changes in roaming arrangements have an impact both on the revenue side as well as the cost side. The difference is that since the roaming and access charges are only 18% of the total top line so the impact on the cost side looks more pronounced as compared to the impact on the top line. These are factors which are impacting both the revenue as well as the cost side.

Himanshu Kapania: To strengthen, the point we could have a higher revenue growth hadn't these two changes taking place.



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Moderator: Our next question is from Shobhit Khare of Motilal Oswal Securities. Please go ahead.

Shobhit Khare: My first question is on data volume which has again accelerated to almost 27% growth quarter-on-quarter. I want to understand what kind of investments we envisage over next two to three years both for 3G spectrum as well as any other investments and what is the utilization which is there in 3G networks. Second, you also mentioned about investments in the new circle, so if you could just share outlook on the new circle EBITDA loss how we should look at it going forward.

Himanshu Kapania: Let me first address the question on data volume. You are right data volume growth is on the upswing. First and foremost we have now started sharing the volume of growth both on EDGE network as well as 3G network and as you will notice while over one year data volume growth has doubled to 99.6%, pace of growth on EDGE network is higher. You will also notice that the number of new customers who initiated into exciting world of data; most of them are joining on the EDGE side of the network. That is a reason for our investment on strengthening our EDGE & GSM network across India. As regards 3G before I come to the spectrum side, presently we are the most aggressive in Idea spectrum owned 10 circles. Our strategy on 3G follows a very simple rule, once a GSM cell site gives more than 2GB of EDGE data then it is a candidate for 3G investment. We believe that in the long run lot of this growth which is currently experienced on EDGE will finally be transferred on 3G platform.

Current constraint has been devices but over the last two quarters we have seen there has been robust growth on devices and we have now over 12.7 million Idea customers owning 3G phones. Our endeavor now is to make sure that larger percentage of them starts using 3G network available to their 3G phones.

The current network utilization on 3G is extremely low, it is in the 20% to 25% range varying circle-by-circle, city-by-city basis and there is sufficient headroom for improving capacity utilization on these 3G sites.

As far as spectrum is concerned, I would like to make a philosophical statement that Idea Cellular is a serious telecom operator and it has vowed to be part of the growth of the mobility voice business as well as part of the growth of mobility data business. The good part is that there is now 1730 megahertz of spectrum available with the government and large portion of the spectrum can be used for expanding Indian wireless telecom business. We believe going forward overall spectrum



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prices will rationalise. We have to remember that as far as voice is concerned we could grow voice with a small quantum of spectrum but for data growth the quantum of spectrum required will be of a far higher order and we are closely watching the situation, waiting for clarity and our understanding is in the next three to four years most of these clarity will emerge. We would make right moves at a right point of time.

As far as new circles are concerned you will notice that our losses are steadily declining in the new circles. You are absolutely right that investments are growing and have been increased in new circle, but I would like to clarify our network investments are not only focusing in new circles. We have coverage gaps even in our existing 15 established circles and right balance between established circles and new circles. As far as new circles are concerned while we are making more investments you will notice that we have taken a bold call of raising rates in these markets. If you notice last quarter, Idea had the maximum improvement of realized rate of 2.5 paisa . We are counter balancing our investment with improving rate realization and we are also pledging big investments in marketing & services so that we don't have to operate as a discount player. Our endeavor is to keep EBITDA losses at current levels till we reach to 8% to 9% of RMS which is right level for EBITDA breakeven, given the fact that ARPM has now improved.

Moderator: Thank you. Our next question is from Reena Verma of Merrill Lynch. Please go ahead.

Reena Verma: Just few questions please. Firstly, on the non-data VAS services, please can you help us to understand how much of this is due to the TRAI directive, how much of the 100 odd crores that have lost due to the TRAI directive and what is the nature of the non-data VAS in terms of the product that is responding to this kind of double confirmation issues. My second question is follow up on access and interconnect cost. Please can you share with us the impact due to change in roaming arrangements and whether this impact also flows into the revenue line? And finally if you could offer some more color on what you would like to see in 3Q before you take a further call on tariffs?

Himanshu Kapania: First and foremost let me address your question on non-data VAS. Non-data VAS consist of two broad categories one is pure P2P SMS and second is all other VAS services which is P2A either through text route or through voice route, other than P2P SMS, everything else is regulated through the TRAI double confirmation route. You are aware that Indian Telecom Operators



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are currently achieving P2P SMS contribution of around 3.5% to 4.5% varying across operators as a percentage of revenue. We are also stating that revenue is under threat from OTT applications. Currently Idea has only 36% penetration of existing base using text services. Some of the heavy text users are migrating to latest OTT application on Data platform and new non users/ light users are entering the category. Therefore SMS revenue is under some threat.

As far as double confirmation topic is concerned there was a new version of regulation which was agreed by the industry and it has had an impact on the overall VAS revenue. Just to clarify again while OTT business is pulling away heavy users of SMS into OTT application because our messaging service penetration is low at 36% to 37% a large number of first time users continue to come in. This quarter the revenue loss is primarily due to double confirmation but we will closely guard against OTT application impact.

Reena Verma: Just I am curious that if most of the loss is due to double confirmation. Why would there be such a significant portion of your revenues exposed to unconfirmed VAS services and secondly, even now it's 7% of revenue so you have not fully come down to the level of SMS, so is there risk of further erosion in coming quarters?

Himanshu Kapania: I don't know that but all I can say is why was it that earlier. I will just explain how the earlier selling process was. We would send either through a text message or through voice call a message to a customer offering him to buy a ring back tone or a cricket score or a news alert or music radio services and there is a very large component of these services, over thousand such options we have to send to the customer and customer should respond back by saying yes to subscribe to the service. Now, the minute he responds back he gets a warning which says that do you really want to buy and this service is going to cost you so and so amount, which was not earlier. The VAS service has a casual purchase hierarchy, however suddenly when customer gets a warning he changes his mind. Please note out of 7.4% about 3.5% to 4% comes from non-data VAS and rest from P2P service. What further impact it will have is difficult to say but we believe that we had hit the bottom and most likely as in other parts of the world Non Data VAS should now go up.

Akshaya Moondra: Just one more point Reena I will have to double-check but I think this has also been impacted by the reduction in SMS termination revenue which was also part of non-data VAS so it has had an impact on both sides.



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Himanshu Kapania: Moving to the access and interconnect, well I will give it to Akshaya but I am going to just refer to the roaming arrangement. You have to remember that the Hon'ble Supreme Court and High Court order of no new 3G subscriber in the seeker circle on 3G ICR arrangement. Most of our subscribers are on prepaid platform which has a natural churn. So now a scenario where churn continues and we can't add a new subscriber so number of subscribers on the 3G ICR platform is on the decline. Secondly, Our present 3G ICR subscribers given change in dynamics the usage has fallen after the Court order. If the current arrangement continues there is a fear that this may continue to further fall.

Akshaya Moondra: Your other question was has it also impacted the revenue side? Yes, it has impacted the revenue side. Can we quantify the impact? No, we will not be able to quantify the impact.

Himanshu Kapania: But I have said it that if you have to look at our revenue decline the largest two factors are 3G ICR and non-data VAS out of 210 odd crores of revenue decline, most these two factors contribute to over 90% of the decline.

Reena Verma: Just very quickly, I much appreciate Himanshu yours and Akshaya's inputs very helpful but just very quickly on roaming. Is it an EBITDA neutral change in rupee terms?

Himanshu Kapania: No.

Reena Verma: Okay that's very helpful, thank you. And my final question was on what you need to look for in 3Q for further up leg on tariff?

Himanshu Kapania: We have said it before and we repeat ourselves. We are driven by revenue and profitable growth. We are currently trending towards 19% revenue growth, 38% EBITDA margin growth. For us the revenue growth comes in as volume growth multiplied by rate and we will wait to see how we can sustain the current growth levels. For us another important component is a subscriber growth. We have on an average on adding between 12 to 14 million subscribers per year. If that growth continues to happen then directionally we will not make any changes

Reena Verma: 12 to 14 million reported subscribers, not active?

Himanshu Kapania: Active subscribers or VLR is the important number to look at always.



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Reena Verma: Okay.

Moderator: Thank you. Our next question is from Sunil Tirumalai of Credit Suisse. Please go ahead.

Sunil Tirumalai: Just one question sir, you did mention in your opening remarks about consolidation that you expect in the industry over the coming years. I wanted to get your thoughts on Idea's own participation in any such consolidation; I mean do you see any value in acquiring any of the smaller companies.

Himanshu Kapania: I was referring more as a COAI Chairman. There are some of the subscale operators which are cash trap at this point of time and looking to exit or reduce presence. It is important that if government has an entry strategy and program for operators there has to be a exit route also available to operators.

Specifically for the Idea's concern in November 2012 we participated and won back the 7 circles licenses so we are now a PAN India operator as far as GSM is concerned. Our need currently is to become a PAN India operator on 3G and for which we don't expect any consolidation.. For us important component is clarity on quantum of spectrum available, spectrum pricing, roadmap for availability of 700MHz, E-GSM on the 800 MHz front,, roadmap for 2100 MHz, spectrum trading and spectrum sharing policies.

Sunil Tirumalai: Right that was helpful.

Moderator: Thank you. Our next question is from GV Giri of IIFL Capital. Please go ahead.

GV Giri: Himanshu you had said the two factors that were contributed to 90% of the revenue decline are the 3G ICR and the non-data VAS and they were not EBITDA neutral. Did you mean both of them or only the non-data VAS? The second question, if this 3G ICR were to be put back in the data revenue, the data revenue growth quarter-on-quarter was in already impressive of 17%, it would go to a substantially higher number so on a weak quarter what explains this surge in traffic and data revenue.

Himanshu Kapania: Answer for the first one is both are not EBITDA neutral and we will not be able to share specifics on that. As far as volume of data that we report it is always on our platform we don't report volumes of other ICR partners.



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GV Giri: So, the removal of revenue to whatever extent you did because of 3G ICR that did not impact your data revenue that you have disclosed?

Himanshu Kapania: Yes, that has been always the revenue that generates out of our own subscribers, so we never separate the report.

Moderator: Thank you. Our next question is from Rahul Singh of Standard Chartered Securities. Please go ahead.

Rahul Singh: I just have one question on the 3G versus 2G data pricing. If you look at the 3G ARMB it's about 10% - 15% lower than the 2G ARMBs consistently or the Average Revenue Per MBs. In that context I was just wondering from an RoE/RoCE perspective how much sense does it make to really acquire 3G spectrum or to wait for 3G auctions at all instead of just buy more 2G spectrum and giving more 2G data because if you look at the growth also of 2G data traffic versus 3G data traffic it's pretty much in line or even higher than the 3G data growth. So, just wanted to get some sense on how the company is viewing the decision of acquiring additional spectrum relative to the RoE/RoCE kind of implications which it will have given the differences in the rate and the capacity utilization in 3G?

Himanshu Kapania: I think you have misunderstood. First and foremost rates cannot overcome the differences in technology. GSM technology was upgraded to also have data; but EDGE limit itself to a data speeds at best of 256 kbps, but there is a far more efficient technology which is HSPA or 3G which is designed for a right balance between data and voice. That is the reason HSPA technology is far more efficient and typically 3G site can handle multiple times of data volume than a normal 2G sites. The potential for growth from 3G is far higher. There is no doubt that realized rate for 3G is lower than 2G, the reason for the same is that for a similar pack if it is used on 3G versus 2G, the volume of usage is higher.

The way to study this is to look at ARPU and not only realized rate. If you look at ARPU of 3G it is three to four times that an data ARPU of 2G; in fact more than that. Usage per subscriber on 3G is far higher. It is a technological jump and it's natural process as customer becomes comfortable with Internet services, they are going to upgrade themselves from a pure text based services or a photo or music services into exciting world of video and then later world of multi-media. This exciting world of video and multimedia cannot be handled by the 2G technology, it can be handled by 3G and as



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the devices and ecosystem stabilizes by even more advanced technologies. So, life has to move on and on financial basis we have to find answers but technology cannot be substituted based on financial results. Technology helps build new consumer segment and application, 3G is a far superior technology from a data perspective to 2G and that is the reason in the long run 3G customers will have a far better experience than what the current customers experience on 2G. The reason why currently we are getting a growth more in 2G is because the devices that our existing customers own are mostly 2G and as the smartphone prices of 3G comes down, customers will surely upgrade themselves to the 3G technology.

Rahul Singh: Thanks you may call the valid point the only impression I had from some of your previous views on this issue was that 3G pricing is very low compared to where voice is and I think the EBITDA margins should also be lower. So, is the view on 3G spectrum and the fact that you don't have 3G spectrum in half the country and you might be looking at acquiring more, is it also contingent on future pricing discipline and the pricing for 3G data going up as capacity utilization go up.

Himanshu Kapania: I think I have made that point abundantly clear in my speech and you are absolutely right we have said it in the past and I repeat that the current data prices are unsustainable and the current frenzy of price drop is unsustainable and it will hurt the industry. Going forward we expect just like there is discipline in voice prices, the similar discipline will come for data pricing. The current rate pressure is due to low utilization but as volumes pick up the prices naturally will correct itself.

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

Sanjay Chawla: Just the first question is a clarification. I don't know whether I heard you right; did you say that there is room for further scaling back in the 3G ICR roaming arrangements given the significant churn that you are seeing in your 3G customers the ICR circles. Secondly, have you received the extra 0.6 megahertz spectrum in those new circles above and beyond the 4.4 that you already had? Thirdly can you share your thoughts on the things like money transfer services and vernacular SMS etc in terms of boosting your non-data VAS portion?

Himanshu Kapania: I am not sure the first part of the question what you are referring to. I will clarify, we have a 3G ICR arrangement and after the High Court and the Supreme Court order no new



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customers to be added, we were left with existing customers who were active on our network. They were customers on post-paid or prepaid. Telecom industry is used to churn and once we have a natural churn and no new subscriber is added the total number of active user subscribers on 3G ICR seeker networks starts to fall. Also given the fact that now we cannot expand our services further most of the customers who are with the ICR partners are coming back to the provider themselves.

Sanjay Chawla: Himanshu, if I could just enter here. My question was whether you see further room for scaling down of the 3G ICR arrangements both by yourself and also your partner?

Himanshu Kapania: I don't know what the linkage of these two topics is? We have a Court Order and we are completely complying with the Court Order. The matter is sub-judice and no change will happen till the matter proceeds in the Courts further.

Sanjay Chawla: No, I mean I don't refer to any winding up of the 3G ICR in the sense, you have seen some revenue impact.

Akshaya Moondra: Sanjay what Himanshu is saying is that the ICR arrangements are there and in view of the Court Order in the seeker circles we cannot add any new subscribers. So whatever existing subscriber base is there with the process of churn that number will keep on coming down over a period of time.

Himanshu Kapania: Coming to the second part of your question we have received the unified licenses. We have won five megahertz of continuous spectrum in all these new circles. However, the five megahertz of continuous spectrum has still not been allocated; we have applied for it in all the seven circles. We are using the old spectrum and the switch over is going to take place shortly.

Coming to the third part on new applications, you see a potential for new applications which is absolutely right. We also see there is a lot of growth opportunity in new applications like M2M services, mobile banking, money transfers and the company is getting itself geared. As you are aware we have already formed a separate company for mobile commerce and we have had a separate team which is working hard to build this business. We have a very good tie up with Axis Bank and we are currently operating mobile banking in four circles. We had applied for a license to RBI for semi-closed wallet and hopefully in near future we should get the license and we are getting ready to launch services on this front. We are also doing in-house testing on the M2M side of the business



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and we are hopeful in future there would be similar opportunities on M-Health, M-Education on M-advertising and same would generate incremental revenue.

Sanjay Chawla: Himanshu, if I could just squeeze in one small question. After this recent increase in the price of 2G and EDGE data packs are you seeing any early signs of migration of the 2G data users to 3G especially those with having smartphones?

Himanshu Kapania: As I said earlier that we don't see data information on a day to day basis it's a large company to spread over 22 circles. We get the information at the end of the month so it would be unfair for me to give you any guidance.

Moderator: Thank you. Our next question is from Piyush Choudhary of CIMB. Please go ahead.

Piyush Choudhary: Two questions. Firstly on the data subscriber penetration, which has quite meaningfully increased to 26% from 16% last year? Just wanted to get your thoughts that over a period of next let's say three years, do you see this can increase to around 40% to 45% of your subscriber base and apart from smartphone penetration what could be the key enabler for such kind of either penetration thoughts around that would be really appreciated.

Himanshu Kapania: You are limiting yourselves to 40%. Firstly, our belief is India is a broadband starved market. India has not experienced broadband on the fixed line side so mobile is the first screen for access to Internet for most Indians. As there is no other alternate source the penetration of Internet services on mobile is going to be high. The voice has been one of the key drivers in the past but as customers become comfortable on using the mobile phone even on the 2G EDGE side; data would grow as it offers a plethora of options both on entertainment information, education and knowledge as well as social networking opportunity. Lot of the customers will upgrade their services from voice into one of these exciting applications and we believe the potential in India is high. If you look at worldwide combined the fixed line and mobile penetration Internet usage in developed markets is around 70% to 80%. In emerging markets, in China today we see that number in-excess of 50%, Malaysia – Indonesia is also looking at similar penetration, so there is no reason why India will not be at those levels.

Piyush Choudhary: But is there any other enabler apart from smartphone penetration which industry requires for such kind of a growth?



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Himanshu Kapania: Currently the customer buys a 2G phone which has good EDGE services and most of the phones now being sold have EDGE platform. They will access data through their 2G phones and then once they get very comfortable on accessing data on 2G then they upgrade themselves to smartphone. Today, even with a handset at price point of \$20 to \$30 price point a customer can experience Internet. Their experience obviously improves when he buys a \$80 to \$100 3G smartphone but the route will be first EDGE customer comfort and then upgrade. As far as application is concerned from a Google or a Facebook being the only applications, we are seeing a plethora of new applications that is reaching market attracting consumers on the entertainment front an alternative to television as well as on the social networking front. We are also seeing a growth on e-Commerce and this industry is growing a ferocious pace and whatever commerce activity is happening on the physical form is moving on to the online form. Today new advertising campaign on mass media is encouraging customers to move from the current physical form of commerce to digital online form. As the life becomes more digital and online all these factors and all of other ecosystems will drives the growth not only devices, not only networks but also applications of multiple forms.

Piyush Choudhary: Very clear sir. And lastly, you mentioned 12.7 million 3G device users on your system, could you help us to understand because the current 3G users are 6.2 so how much of these subscribers are in your 10 circles where company has 3G spectrum was that the opportunity which is aggressive

Himanshu Kapania: I won't have the number offhand but we have to remember our best quality subscribers continue to be in our provider circles. So, I would suspect a larger portion of them would be in the 10 circles, but I won't have a specific number.

Akshaya Moondra: I think less than 20% of the subscribers will be in the seeker circles. I cannot say about the 12 million handsets but in terms of 3G subscribers it is less than 20% in the seeker circle.

Moderator: Thank you. Our next question is from Kunal Patel of BNP Paribas please go ahead.

Kunal Patel: Just a brief quick question. Recently we have seen you have changed the 2G prices from 125 to around 148 to 155, so do you see further increase in 2G prices and 3G as well?



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Himanshu Kapania: As we have said before we don't give guidance into the future whatever is on ground is very much known, it is very difficult to project. The price in telecom business is determined not by individual operator by multiple factors that affect profitability and growth. It is very difficult for any individual operator to be able to give guidance on rates & prices.

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

Himanshu Kapania: Thank you so much. I believe that telecom sector is going through a period of churn and we understand that we are fast approaching to a period when a new dawn in the telecom sector is going to rise. It is based on inputs from all of you that we fine tune our marketing strategy and such sessions are extremely important to us. Thank you so much for your feedback and thank you so much for insightful questions.

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