

Idea Cellular Limited Q3 FY12 Results Conference Call January 23, 2012



Moderator

Ladies and gentlemen good day and welcome to the Idea Cellular conference. For the duration of this presentation, all participants' lines will be in the listen-only mode, and 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 team. I want to thank the 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 risks 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, Melissa. On behalf of Idea, I welcome all participants to this earnings call. Today morning our Board of Directors adopted the unaudited results for the third quarter of Financial Year 'FY12, ending 31 December, 2011. The press release, the quarterly report and the results have all been uploaded on our web site and I assume you had a chance to go through the same.

The company continues its trail blazing performance with 8.8% of revenue growth on sequential quarter basis. Idea has, during last one year added 24.6 million quality satisfied customers and is delighted to be a part of an exclusive 100 million global club of telecom operators, now serving 106.4 million customers. The company believes that it is ready to shift focus from transactional nature ARPU-lead derivatives to 'life-time value' relationship with our strong consumer base. This large subscriber base is providing us the platform for future growth not only in the voice but also in the emerging wireless data services for both nomadic and mobility data needs.

We also believe this growth has been achieved in a not very easy business environment. The outlook for the business remains a combination of headwinds and tailwinds; it is a bit of both the paradoxes the company has to operate in.

Let me cover first the headwinds, both on the macroeconomic front and update on the key developments on the regulatory and legal front.

The persistent volatile environment, free fall of the Rupee exchange rate with major currencies in the last two quarters, increasing inflationary conditions and continued high leverage position of the company mainly on account of 3G Spectrum fees payment and investment, has had a significant impact on the P&L of Idea Cellular especially line items below EBIT. So in spite of the company maintaining its status as the 'Fastest growing large telecom operator' for the last 10 quarters, today delivers below par Return on Capital Employed and absolute PAT.



On the regulatory front, the company believes it has always followed the highest standards of compliance to telecom licensing conditions. It is with this deep conviction, the company has challenged in the telecom appellate, the TDSAT, along with other telecom operators, order of DoT dated 23^{rd} December 2011 ordering us, our Telecom 3G ICR partners and other telecom operators to stop provisioning of services under the 3G intra circle roaming arrangement in service areas where we have not won the 3G spectrum. The matter is under an argument stage and the Hon'ble TDSAT has passed a 'no coercive action' order till the next date of hearing.

As regards Idea Spice merger dispute there is no change in status. On our appeal before the appellate division bench of Hon'ble High Court of Delhi challenging the single judge bench order on 4th July 2011 and arguments are still in progress. Just to remind, through interim orders, Delhi High Court Appellate bench had earlier directed DoT to accept the license fee from the company, without prejudice, as company continues to operate its license of Punjab and Karnataka granted to erstwhile Spice, maintain status quo in relation to aforesaid two operating licenses and "no-coercive steps" in relation to any demand pertaining to the four non-operating licenses. The matter remains sub judice at the Delhi High Court.

Thirdly, the other details of significant litigation matters including regulatory notices and demands have been separately covered under the Notes to the Accounts as per Clause 41 of the Listing Agreement. All this litigation matters are in the courts and thus, as a matter of abundant caution Idea management team will not be able to take any further questions beyond the disclosures given at this stage.

Moving on to the business performance, as per TRAI Q2 FY12 Gross Revenue Report released for the Mobile sector, very counterintuitive for the boom sector, for the third year running, industry reported subdued performance though better than last year a growth of 15%, maintaining at just the nominal GDP levels of the country. Indian Telecom revenue has slipped to 2.4% of the GDP in FY11 against its peak of 2.9% of the GDP. When benchmarked Indian consumer telecom spends, as a percentage of GDP versus other developed and emerging countries, lagged way behind most large population countries which operates anywhere between 2.7% to 4.7% of the GDP. Further, even when compared to Asia Pacific Economies like Vietnam, Malaysia, Philippines, Thailand, Sri Lanka, China and so on, Indian Telecom consumers spends still lags behind most of these markets as a percentage of the GDP. It is our belief, due to hypercompetitive pace the industry revenue has been suppressed and in the long run consumer spends in India will eventually align itself to similar sized economies and population.

Incidentally, in comparison to industry revenue growth of 15% Idea revenue growth continues to outpace the Mobile industry and in the Calendar Year 2011, on YoY basis the company has grown by 26.9% maintaining its status as the 'Fastest growing large Indian Mobile operator' now for over last three years. Idea has further strengthened its revenue market share to 14%, consolidating its third ranking in the sector.



The performance of the company on five critical parameters which we internally monitor with reference to this quarter is as follows:

Point No. 1 – Gross Revenue. Q3, as usual brings back cheers to the company with sequential quarterly revenue growth of 8.8%, highest ever in the history of the company with a incremental revenue of Rs. 410 crores over Q2. Crossing the 5,000 crores quarterly revenue barrier company has grown by 26.9% against last year third quarter revenue.

Having said the above, the overcapacity phase in the industry continues and our prediction that this overcapacity period is unlikely to allow significant improvement in voice realized rate is turning out to be true. While we are happy to report the average gross realized rate for the company has improved by 1.4% from 42.7 paisa per minute in Q2 FY12 to 43.3 paisa per minute in this quarter, but this improvement is primarily on account of steep improvement in the VAS revenue from 13.2% to 13.7% and better roaming revenue while standalone voice realized rate remains flat. Due to the competitive intensity in the market the outgoing/incoming ratio adjust to the lowest rate operator making it difficult for the other companies to improve voice rate realization, in spite of us having modified our promotional base rates in May/June 2011. We hope the exuberance of the media and the analysts will now be restrained as challenges of overcapacity in the sector remains.

Point No. 2 - Cash profit and EBITDA margin. The good revenue growth has translated into EBITDA with a sequential EBITDA growth of 14.9% to Rs. 11,986 million on a standalone basis. EBITDA margin is up at 23.7%, primarily driven by strong performance from our 13 established service areas which represent 89% of Idea's revenue. These established circles EBITDA margin now stands at 30.4%. In spite of increased opex during the last one year from 2G and 3G investment, we are happy the absolute EBITDA has grown by 45.9% when compared to the same quarter last year. If you have chartered our journey over the last one year, the company in these difficult times has managed to increase its EBITDA margin by 3.1% from 20.6% in Q3 last year to 23.7% in the current quarter. But the challenging macroeconomic environment and regulatory costs including falling Rupee exchange rates, high 3G spectrum auction fees, financing through leverage and ongoing investments in 3G and 2G projects has had its impact on the Profit After Tax and ROCE. The company PAT on a standalone basis in this quarter is at Rs. 1,687 million far lower than the PAT of Rs. 2,209 million last year same quarter. The factors pulling down the PAT by Rs. 522 million are primarily linked to 3G including a) high depreciation, amortization of Rs. 6,952 million in this quarter higher by Rs. 1,590 million against Q3 last year; b) high interest and financing costs of Rs. 2,527 million including Rs. 311 million of forex loss i.e. higher by Rs. 1,955 million compared to Q3 last year; c) higher provision for taxes of Rs. 821 million higher by Rs. 749 million. Net absorption due to these three line items primarily on account of 3G investments is Rs. 4,294 million while the PAT is only lower by Rs. 522 million this quarter.

Moving on, the Cash Profit for the company has improved this quarter to Rs. 9,452 million. This has brought cheer for the company, as it is the first time, in the history of the company that the cash profits has fully funded Q3 capex spends of nearly Rs. 9 billion but the overall capex reflecting is higher as it



includes non-cash items of Rs. 3.6 billion due to mark-to-market forex loss on account of Rupee depreciation during this quarter. Net debt to EBITDA now is back at 2.41 levels providing solid foundation to support further company's strategic intent and meet uncertain regulatory demands.

Point No. 3 – Active Subscribers. While Idea commands only 11.8% of customer market share based on industry report for end of period customer count as on 30th November 2011, we continue our improvement journey on subscriber market share on VLR basis and the same now stands at 15.2% as per TRAI November report, a clear lead of 3.4% for reported industry subscriber numbers. We have also maintained our unblemished record of leading the industry in terms of quality of subscriber measured on VLR ratio to reported subscribers which stands highest among the industry, at 92.3%. The positive sign this quarter is a return in the volume of subscriber growth like during the previous year Q3. We are happy to report Idea had added 7.5 million net VLR subscriber addition during Q3 FY12 against only 3.2 million in Q2 FY12. Over the last one year Idea has reported additional 24.6 million subscribers and the same is backed by 24.3 million of VLR subscriber addition in the last one year maintaining nearly 100% net adds reporting to VLR net adds ratio. Our gold standard reporting is further collaborated with the fact that the company in difficult times has improved its customer ARPU spends on sequential quarter basis. This quarter Average Revenue Per User (ARPU) is up by Rs. 4 to Rs. 159 against last quarter ARPU of Rs. 155.

Point No. 4 – Minutes of Usage. As we had predicted the voice minutes is back on growth trajectory. This quarter Voice minutes has expanded by 7.3% when compared to last quarter and daily voice minutes now exceeds 1.24 billion a day ,an emphatic reminder of global scale of operations, quality of company processes and its ability to manage operations even at the world's lowest voice tariff. Over the last one year the absolute minutes have grown by 20.5 billion minutes when compared to Q3 FY11 minutes of 93.5 billion minutes, to this quarter minutes of 114 billion minutes, a growth of 21.9% over last one year, reminding there is still juice left in the Indian Voice Mobility market.

Point No. 5 – Mobile Number Portability. MNP across the country is now operational for more than one year. While we heard Mobile Number Portability was not a game changer, the fact remains that 22 million i.e. 2.5% of the Indian mobile population has ported their existing mobile connections to a new operator, therefore MNP remains an important parameter for Idea to exhibit its strength in network, customer service, brand power and employee resilience. We are pleased to report that we have extended our leadership in the MNP space with an overall net gain of 2.2 million customers as on 14th January 2012 while continuing to manage the lowest port out ratio of customers of only 57 customers lost against every 100 customers won or ported in. We have 5.2 million customers ported to Idea Service i.e. nearly every one customer in India out of four who chose to port out of their existing operators has given his verdict in favour of Idea.

Moving on to the 3G business. While internet has become pervasive worldwide, the process of Indian population adopting the new digital lifestyle has been slow. We believe the country has remained far too long in the dark age with poor quality telecom broadband access, a phenomena if you recall very similar to the voice telecom sector about a decade back. We continue to hold the opinion that as the



overall ecosystem for the Wireless Broadband improves with deep and wide availability of 3G services across India, availability of a range of affordable 3G Smartphones and expansion of relevant content, growth of Wireless Data spread is a natural corollary.

Idea continues its journey in making a small contribution with adoption of the data services. We have now expanded our high speed Wireless Broadband investment to make 3G services available across 2300 towns in 20 service areas including the 3G roaming arrangement in India. In the month of December, we introduced affordable Idea branded 3G smartphones starting at attractive price of Rs. 5,850 with an in-built special data benefit of Rs. 3,500. Our belief is the distribution and the reach of the existing handset manufacturers has to be supplemented especially in the small towns and rural areas, the core market of Idea, thereby giving quality choice to the customers in their handset replacement cycle.

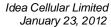
The trickle of change has just begun and we will closely share with you this exciting journey as consumers upgrade their lifestyle with new 3G smartphones. To support our belief the company is making significant sales and marketing investments to present the power of internet to the markets so as to make this elitist internet service in English language relevant for the semi-urban and small town population.

Last quarter I had promised to start sharing relevant 3G KPI's. While we have provisioned services for more than 5% of our existing 106 million customer base, we believe it is important to present relevant and useful information to start the benchmarking process. Hence, similar to 2G EoP, we intend to keep reporting 3G subscribers only on an active basis. Idea as on 31st December has more than 2.25 million active subscribers on 3G platform in the month of December with an average usage of 235 MB per month and 3G Data incremental ARPU at Rs. 79. I hasten to add, these customers naturally have a higher ARPU as their Voice and VAS other than 3G access Data revenue is separately accounted.

As I mentioned earlier our non-Voice revenue as a percentage of our service revenue continues to grow and this quarter stands at Rs. 13.7%. The growth in VAS revenue is mainly led by data services. By next quarter we should be able to provide a split of data, and non-data contribution in our VAS revenue.

To summarize, while 8.8% sequential quarter revenue growth brings back cheers to the company, the business environment outlook remains at paradox with headwinds flowing from uncertain regulatory interventions and macroeconomic environment. Company will periodically share implications of these interventions, take appropriate steps in the interests of our shareholders and is confident to overcome the current regulatory uncertainty phase, emerge stronger, consolidate its position in the Indian Voice market and enthusiastically participate in the learning curve of the evolving Wireless Broadband Data business.

I now request Akshaya to give you more details on the financials.



Akshaya Moondra:

Thanks very much, Himanshu. A very good afternoon to participants from India and good morning or evening as applicable to overseas participants.

On the quarterly performance front, as expected in a period characterized by the festive season, total Minutes of Usage grew by 7.3% compared to last quarter. The strong minutes growth coupled with growth in VAS and roaming revenues resulted in a quarter-on-quarter revenue growth of 8.8%.

Moving on to operating expenses, as a percentage of revenue, network expenses reduced by 2.1% which is partially on account of credits relating to earlier quarters. This was partly negated by an increase of 1.1% in the subscriber acquisition, servicing and advertising expenses. As a result, the standalone EBITDA margin for the quarter improved by 1.2% compared to last quarter. In case of new service areas, EBITDA losses reduced marginally to Rs. 1.72 billion.

Rupee depreciated against the USD from Rs. 48.93 to Rs. 53.27 during the quarter resulting in an exchange loss of Rs. 3.58 billion on long-term foreign currency loans which has been capitalized. As a result, the debt and the capex amounts are higher by Rs. 3.58 billion each. The net debt stands at Rs. 115.7 billion and the increase of Rs. 3.7 billion during the quarter has almost entirely been on account of the aforesaid exchange loss of Rs. 3.58 billion. The Net Debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at 2.41.

Interest and financing cost include a forex loss of Rs. 311 million on capex payables. The cash profit for the quarter stands at Rs. 9.45 billion compared to cash profit of Rs. 7.88 billion in the last quarter. I am pleased to report that the capex of Rs. 9 billion during the quarter after adjusting it for the capitalized exchange loss has been entirely funded by cash profit for the quarter.

Total capex during the first nine months stands at about Rs. 33.7 billion after including Rs. 6.7 billion on account of the forex loss. Our capex guidance stands at Rs. 40 billion for the full year.

Standalone net profit for the quarter stands at Rs. 1.68 billion. Contribution from Indus has increased from Rs. 265 million in Q2 to Rs. 323 million in this quarter resulting in a consolidated net profit of Rs. 2,010 million.

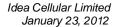
With this I will hand over the call back to Melissa and open the floor for questions. Thank you.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. The first question is from the line of Sachin Salgaonkar from Goldman Sachs. Please go ahead.

Sachin Salgaonkar:

I have three questions. Firstly, after two quarters post-tariff hikes are you seeing any negative elasticity impact and do you see the need to roll back tariff hikes on a selective basis to ensure that the revenue growth remains strong? Secondly, SAC is up close to around 19% on a Q-o-Q basis and your churn



rate has increased, so is there any particular reason which is leading to that increase and was this mainly in established circles or the new circles? And lastly, if you could quantify the impact of ICR on revenue and EBITDA in the third quarter? Thank you.

Himanshu Kapania:

As we had mentioned earlier, about two quarters back we had started our experiment to test change in our promotional tariff that was available for the customers. We changed it in our established circles from 1 paisa per second to 1.2 paisa per second. We believe that experiment has, on an overall basis, gone very well and across the industry the consumers have accepted the change. So we are not seeing any dramatic impact of this on consumer usage pattern and it is our current assessment that there is unlikely to be rollback of revised tariff, but we are closely observing the situation. I assume the second question of yours pertains to our expenditure on sales and marketing, is that right?

Sachin Salgaonkar:

Yes, mainly on sales and marketing but there is a heading in your P&L which is 'Subscriber Acquisition Cost' and I look at that number, it increased to 6.4 billion Vs 5.4 billion in last quarter. So I was trying to understand what led that increase?

Himanshu Kapania:

I think the way you have to look at it is that typically Q3 is a seasonal quarter and invariably the rural customers come back and purchase in larger quantity. If you were to compare our performance, last year Q3 we added 7.6 million in terms of VLR and this quarter again we have added 7.5 million of VLR. Invariably, in the Q3 and if the trend continues for Q4 the gross adds are on the higher side. As regards churn, now I am seeing a lot of analysts have been plotting churn and comparing our churn figures vis-à-vis churn of various other operators. I just want to make a statement that in our assessment Idea has different basis on which we do our reporting and it might be best advised to all of you to check the reporting patterns of others. Our own internal assessment is that the churn we report represents the current state of the industry, there is a hyper competition and there continues to be a very high level of intense war in the market place. Idea churn performance is similar to the churn performance of the industry and even of the leaders in the market place. The third part of the question, I will ask Akshaya to answer.

Akshava Moondra:

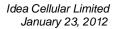
On the ICR there is a significant revenue growth if you look at it as a percentage, quarter-on-quarter because this is the part of business which is in its initial stages and still growing. However, if you look at the EBITDA margin, there is no impact on the EBITDA margin with or without the ICR business. So I think it is growing, but in terms of EBITDA margins, it does not affect the margin percentage in any significant manner.

Sachin Salgaonkar:

Akshaya, just one follow-up question. Just to confirm that ICR agreement is on hold and hence we should not see any revenues and EBITDA from the next quarter or could we continue to see these coming into next quarter also?

Akshaya Moondra:

As Himanshu had mentioned in his opening remarks, DoT had served a notice in December and it was contested at TDSAT. TDSAT has put a stay on any coercive action by the government and the next hearing is somewhere in February. So, it's business as usual.



Moderator:

Thank you. The next question is from the line of Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma:

Just a few questions. Akshaya, can you please quantify the network opex credits that you alluded to in your opening remarks? That is my first question. My second housekeeping question is if you could please tell us whether your capex guidance is a Rupee guidance or a Dollar guidance, because in Rupee terms that would imply a sharp fall off in 4Q, so if you can just tell us how we should look at it going forward? And finally, just one question for Himanshu is, you talked about hyper competition. Can you tell us whether there are markets where your revenue per minute has already started falling compared to the third quarter average?

Akshaya Moondra:

Reena, on the question of network cost, since there is a significant reduction in percentage, I made that point in my opening remarks that there are some write-backs. I will not be able to quantify that. I would just like to make two qualitative comments. One is that because of the way the energy billing happens in the passive infrastructure sector where a lot of electricity billing particularly in certain areas comes with a time lag. Generally, the provisions are made on a conservative basis and as and when the actualization of billing happens some provisions are written back. What also happens in the current quarter is that there is some provisioning which maybe on the higher side on a conservative basis. So, while in a particular quarter the write-back maybe a little higher but this is a cycle which goes on so it does not really have any significant impact on the performance of the quarter. I can also add that generally energy costs in this quarter are seasonally lower and we have also seen constant efficiency coming on the energy management on our towers. So I think all these factors together give this improvement in network cost as a percentage of the revenue.

On the capex guidance of Rs. 40 billion, it is Rupee guidance. As you would have seen that from the peak level of 53 plus the exchange rate is currently around 50 something. So there is some retracement on that account. Frankly speaking, we have not built in the impact of exchange on the capex so much, but we believe by the end of the year it will not be significant to change our capex guidance of Rs. 40 billion

Reena Verma:

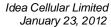
You have to help us in some way to quantify the credit reversals, because the swing in Rupee terms is as high as a billion rupee. If I just take last year's network or last quarter's network opex percentage surely there must be some number that we can work with. Otherwise in the business everything happens seasonally, right? Subscriber acquisition expenses go up and down. So maybe you can help us with some numbers that helps us assess underlying margins?

Himanshu Kapania:

I will just try to address that point. It is the pressure from the analysts who are so much focused on quarter-on-quarter basis and we are forced to give this response. I would urge all of you to look at a longer period of time and if you were to see it on a longer period of time, it all flattens out. So, please see it on an YTD basis over the last year and you would not find these kinds of variations. There is no answer we can provide you on a quarter-on-quarter basis.

Akshaya Moondra:

If there are improvements on YTD basis then there are efficiency improvements happening as well.



Himanshu Kapania:

I will also like to add that if you were to compare our network expenditure with vis-à-vis the leader in the market place, we are almost around the similar levels. You can do similar comparisons.

Moving on to your question on the fact that are you seeing a drop in revenue per minute in any of the circles because of competitive intensity, I think my answer to that is in two parts; a) the competitive intensity which I was trying to explain is completely currently on the trade and on the acquisition side and that is the reason why we are seeing a very large expenditure is happening on the trade, sales and marketing front. Now, has that competitive intensity got into a tariff war? As I repeat we believe that the current tariff is holding itself. However, as I mentioned in my speech, while we continue to have the current voice realisation rate as flat in spite of us having offered higher rate or we are acquiring customers at a higher rate, the incoming/outgoing ratio is adjusting itself to the lowest cost operator. So let me clarify, I do not believe that there will be any reversal of trend at this point of time as far as overall rates is concerned. The battle will be on trade, the battle will be on sales and marketing and unlikely to be on the tariff front.

Reena Verma:

So does this mean that there are not markets where revenue per minute in your exit month is falling?

Himanshu Kapania:

I would not have answer to a very specific question but on a nationwide basis, we maintain on a quarterly basis that rate has remained flat.

Moderator:

Thank you. The next question is from the line of Shobit Khare from Motilal Oswal Securities. Please go ahead.

Shobhit Khare:

Two questions; one is on the YoY minutes growth off 22%. Could you give some color on which regions or which segments or rural versus urban is contributing to the minutes growth just on the point of view of how sustainable this is? And second is any color on next year capex, whether it will be lower or higher than this year?

Himanshu Kapania:

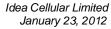
You are right, the minutes have grown by 22% and you can reflect that in the TRAI report that the growth of minutes is across most of the circles rather than any specific. As Idea has been reporting, we have established markets as well as new markets and we are seeing growth in minutes both in our established markets as well as new markets. Obviously, the subscriber growth is more rural led but to be able to say is there any slowdown in any market, we are not seeing any such trend. As regards to the second part, we would not be in a position to give any guidance on capex in this quarter and we will come back to you next quarter when we will be ready with our budget.

Shobhit Khare:

Just a follow-up on this. Basically, wanted to check whether the traffic growth is coming more from a new subscriber or we are also seeing usage increasing in the existing subscribers?

Himanshu Kapania:

I think you must have noticed that MoU per sub has also gone up by 5 minutes, but obviously most of our growth is being because of the fact that we have added 7.5 million incremental VLR during this quarter.





Moderator: Thank you. The next question is from the line of Rajeev Sharma from HSBC Securities. Please go

ahead.

Rajeev Sharma: Just a couple of questions; first question is on the 2G ICR deals, Himanshu if you can provide some

color as to till what extent these deals have grown this quarter and what is the kind of juice left more in the coming quarters or the entire revenue growth on these deals has started reflecting largely? Secondly, do you also report the minutes from these ICR deals on the 2G especially as part of your

total minutes?

Himanshu Kapania: As far as 2G ICR incremental size this quarter, there has been no significant change. Most of our 2G

ICR deals were done quite some time back and that has been reflected in our previous quarters. So nothing significant has happened. I do not have the intricacies of the minutes but I would just make a general comment while I hand it over to Akshaya that, these minutes are so insignificant that in an

overall basis its impact is almost worth ignoring

Akshaya Moondra: I think the roaming minutes are counted in our minutes of use, if that is your specific question?

Rajeev Sharma: So you are saying roaming minutes are not a major part of your total minutes?

Akshaya Moondra: Yes.

Himanshu Kapania: In terms of volume it is very insignificant, in terms of growth it is not at all. We are doing 1.24 billion

minutes a day, the 2G ICR sites up to a small percentage of an overall business and that is also in a far

flunked rural, in very low population centers.

Rajeev Sharma: And separate question is on the tariff pressures which you talked about in your initial comments. The

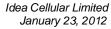
industry went for a base tariff hike somewhere around May. Everybody was quite confident of maintaining it and you still suggest that it should be the case, but you are seeing some pressures. It is because of the spiral effect that Uninor is aggressive in a few markets and that makes you aggressive and now it also makes Bharti aggressive? Do you think if there is some kind of discipline possible or it

would not happen in the next six to nine months?

Himanshu Kapania: Let me repeat the point I was making. Invariably in a market if there is a low cost operator, the

outgoing/incoming ratio adjusts itself to the lowest rate operator and invariably the incumbent operators or the leaders in the market end up getting a higher incoming call. So the impact that you see which you will measure just by reading the tariff rate or outgoing rate itself is not what gets finally reflected in the ARR. That is the point I am making. Having said that it is my belief that in the view of the overall leverage position of the industry, the overall cash position of the industry and the need\ to make incremental investment on 3G and 2G, the sanity on the tariff will remain. The only point I am making that any belief that there is going to be a next round of tariff hike, I am saying that is more or

less ruled out.





Rajeev Sharma: My last question is that your performance this quarter, would you call this as better than industry

average or significantly better or moderately better than industry average?

Himanshu Kapania: We are the first one to report the numbers. We will also observe the numbers as you would.

Moderator: Thank you. The next question is from the line of Sunil Thirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I just have two follow-ups from the previous questions. So RPM remaining flat and your explanation

is that the incoming and outgoing minutes get adjusted. So that basically means that the minutes market

share has been lost out to the low cost operator, is it a right understanding?

Himanshu Kapania: I am not saying the minutes market share has been lost out. The outgoing minutes have gone to a

lowest rate operator and incoming minutes remain with the leader is the point I am making. Even if there is a 0.1 or 0.2% change in the ratio, its impact is felt in the RPM. So, our belief is that 7.3% overall minutes growth in itself is very healthy, which was a concern last quarter for most of the

analysts.

Sunil Tirumalai: Thanks, I will probably take the follow-up on that offline. The next question was just as your comment

made on the previous question. You said the next round of tariff hikes has been ruled out, is that what I

heard correctly?

Himanshu Kapania: That is our current view. Until the hypercompetitive phase does not fall, there is still overcapacity in

the sector.

Moderator: Thank you. The next question is from the line of Vinay Jaysingh from Morgan Stanley. Please go

ahead.

Vinay Jaisingh: Two questions I would like to ask. Sir, you did mention about tariff hike from July and what has

happened on ARPMs for Voice. My question is, if I would put what happens in the next six months assuming, that impact of that tariff revision would not have come in, in the first quarter or the second quarter and you did explain that whenever it does come also these input/output minutes would adjust it. But, is it fair to assume the next six months impact whatever it is, probably on the positive side, would

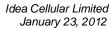
be more than what happened in the last six months? And you have also seen no elasticity lost which

means your traffic growth is also reasonably healthy?

Himanshu Kapania: Short answer is yes. If you recall about three quarters back the question that we have been probed

multiple times, what is the impact of what is supposedly called 15-20% outgoing rate increase. And I had mentioned that over 12 to 15 months its impact is anywhere between 3 to 5%. We still hold a view that the final impact when all the subscribers who have completed their one year or more period of old tariffs move to the new tariff. I may revise it, it may finally increase by 2-4% but it will never go down

below the current RPM, is the view we hold.



Vinay Jaisingh:

Moving on to the second question, your traffic growth if you were to make an estimate for the next 12 months, not for a quarter but would you say as far as Idea is concerned it would be 25-30% or 20-25%, any number you can throw light on?

Himanshu Kapania:

That is the reason why I was giving a qualitative commentary rather than trying to give a specific number. We believe that the juice in the Voice business still exists and the reason why we believe the juice exists is because if you were to look at overall VLR numbers which is reported by TRAI, it is still hovering in the vicinity of 610 to 620 million customers. There is going to be incremental growth anywhere between 250 to 350 million customers who are going to join the category of Voice business and they certainly will bring in a lot more minutes. To be able to ascertain the final numbers, whether it will be at 22% what we achieved last year or it will be \pm 0 to 10%, it is a very difficult answer to be able to give.

Vinay Jaisingh:

One last question, we have spoken about 3G roaming and I understand what TDSAT has done. But put the other way around, let us assume one were to lose the case, is it not a zero sum game for the industry, which means it is not that the revenues of the industry gets lost, somebody may gain among the three of you all or somebody may lose?

Himanshu Kapania:

We are not seeing this as a battle for financials. I believe this is a battle for the consumers. It is in the interest of consumers, it is in the best interest of the industry that the overall choice we provided to the customers and an overall expansion of Wireless Broadband happens in this country. It is our belief that Wireless Broadband is the next growth engine and the overall market for Wireless Broadband will only grow if the number of participants is high and they do a lot of developmental work for customers who are not currently digitally savvy and who are attracted towards the power of the internet. If there are islands that are going to be created, then India is going to be pushed behind and the growth of Wireless Broadband will definitely get pushed behind. So I think we are not looking at one quarter or two quarter or benefit for us or somebody else. We believe in the long run, it is just like the Voice business if there is going to be larger competition, larger coverage that is available that will actually help the overall industry and help the overall 3G market.

Vinay Jaysingh:

But do you think it is a zero sum game in the short-term at least assuming the case is lost out or do you think revenues would be at risk initially?

Himanshu Kapania:

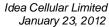
We believe it was clarified to all of us and we have bid for 3G ICR with a clear understanding that 3G ICR will be available when we bid for the auction. So we are prepared to look at any other alternatives.

Moderator:

Thank you. The next question is from the line of Piyush Choudhary from RBS. Please go ahead.

Piyush Choudhary:

Three questions from my side; one is on the subscriber base you had mentioned that you had added a similar number of VLR subscribers as of last year but if we look at the industry VLR adds that have halved year-on-year, so any color on which you can provide and what is happening at the subscriber base addition on the industry side and is it a sign of slowing growth for the industry? And secondly, if



you can provide what subscriber base have migrated to the new tariff plan as of December for your company?

Himanshu Kapania:

It is not fair for me to be able to answer on behalf of the industry. We have maintained that our company is primarily focused on small towns and rural markets and we are still seeing a great run. There are a lot of new subscribers entering the category and that is why we still hold a view that there are a lot of new customers who have not entered the category of voice and will enter in the next two to three year period. I am not able to answer the question on behalf of the industry why some of the operators are reporting lower numbers.

Having said that I just want to remind everybody that the hyper competition phase is a factor which is in a smaller geography of India, more a phenomenon of the metros and the large urban markets and this is probably the area where the penetration is far higher than the existing population. And it is also possible that the dual SIM which was the phenomena started two to three years back is probably on the decline.

Piyush Choudhary:

What percentage of our subscriber base would have migrated to the new tariff plan as of December if you can provide some color on that? And one last question, I want a clarification, our revenue, I am sure it would include the handset and the dongle sale in revenue also which would be increasing. But is that part of non-Voice revenue?

Akshaya Moondra:

That part is included in the revenue; it would not be a part of the non-Voice revenue.

Himanshu Kapania:

Now, as regards to a number of subscribers who have migrated to the new tariff plan, while I do not remember the numbers but if I were to say it is almost equally divided over the four quarters and we have had just about two quarters of the base which we have had an opportunity to be able to migrate to the new tariff plan. However, the new subscribers that we have added during the last two quarters, all have joined on the new promotional tariffs.

Piyush Choudhary:

And just on that handset sales, Akshaya, is that part of the voice revenue?

Himanshu Kapania:

No, it is part of others.

Moderator:

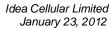
Thank you. The next question is from the line of Varun Ahuja from UBS. Please go ahead.

Varun Ahuja:

I will particularly ask this one question on the VAS, you have seen a significant improvement in the last two quarters. So any specific thing that you have been doing differently, because there is a substantial increase in VAS? And secondly, you mentioned that your handset sales you are bundling certain VAS worth Rs 3,500, so on accounting wise how you are accounting for it? Thanks.

Himanshu Kapania:

First and foremost it is our stated position that value-added services in the developing countries like India is far lower than what we have seen in other parts of the world. So it is a natural phenomena that non-voice revenue, as the market matures, will grow and the driver of non-voice revenue growth are





more and more consumers adopting to text, more and more consumers adopting to Wireless Data and the same is what we are seeing within our operations. We are expecting the value-added services as a percentage to continue to grow further.

Varun Ahuja: On the handset sales you are bundling certain data usage within, how in terms of accounting how

would you accounting for it?

Akshaya Moondra: If the data is given free for a particular period of time then no revenue is recorded against that.

Himanshu Kapania: The Data when it is given free will reflect in the rate per MB and the revenue is shown as zero.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Just wanted to ask two questions; first, in the light of your comment on the roaming minute, we noticed

that at least in the TRAI Data the roaming is about 8% of the revenue, that is what they report. That ought to be a significant number and since you are a fairly major part of the industry, your roaming revenue would not be in that range? That is the first question. Secondly, on your net debt, which has increased during the nine months by Rs. 24 billion? I was just doing a number on free cash flows and the fact that your net current assets have also fallen for these nine months, by almost 16 billion. Just trying to add those numbers with the capex and doing some kind of simple FCF, your EBITDA minus interest, I am unable to kind of understand why your net debt has gone up so much? That is the bottom-

line just I wanted to ask.

Akshaya Moondra: I do not know that figure is 8% as per TRAI and I also do not remember our percentage exactly. What

we have done was we looked at the growth with and without roaming minutes and the growth remains

in the same ballpark so it is not that roaming minutes is affecting the growth in any significant manner.

Srinivas Rao: Even the revenue growth, right?

Akshaya Moondra: Yes.

Srinivas Rao: And on the cash flows?

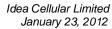
Akshaya Moondra: Now, for the nine months period I can broadly tell you that as of March we had a significant amount of

capex creditors because a lot of 3G equipment had just come with the credit period, so I think the most significant reduction or increase in debt from 31st March level has been in reducing the capex creditors. Ideally, if it came without the credit period than as on 31st March, the debt should have been higher. So if we generally look at the performance for this year, other than the working capital, our cash from operations and our capex is more or less balanced. I think that is a trend which you will see going

forward.

Moderator: Thank you. The next question is from the line of Aditya Sreenath from Quantum Asset Management.

Please go ahead.





Aditya Sreenath: With regard to this 3G KPI numbers, I was wondering if you could give some kind of numbers for the

2G businesses as well because we also heard that the 2G data usage has also gone up quite

significantly.

Himanshu Kapania: As I had promised we will share next quarter.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go

ahead.

Miten Lathia: Are we now operating at 1.2 paisa per second for our new customers as well as migrating our old

customers across all over circles, can I have the status right now?

Himanshu Kapania: We had mentioned in our established circles, we have moved to 1.2 paisa per second and we are

continuously making assessment of the other markets and taking decisions. I do not have a current

update whether we have made any changes in other markets.

Miten Lathia: If you could sort of give us your thoughts on over a 12 months period or a 24 months period, would

your intent be on those other markets in terms of driving because you are at a particular price for a

reason, so I am saying what would you think over the next 12 or 24 months?

Himanshu Kapania: I think it is a very difficult question and this is the question that has been asked multiple times. In the

nine new circles, what is Idea's strategy and our view has been that until we reach a particular scale of operations our approach would be that we will continue to have a calibrated approach. The current strategy for the company is that we will continue to dig deep in our established 13 circles and as far as a new circle is concerned, some of the EBITDA that we earned from the established circles we

continue to plow-back into the new circles. We target ourselves on what we call an EBITDA loss and based on that we will balance our investment in the market on tariff as well as network, to be able to

make sure that we generally achieve the targeted number for these circles. Hopefully, in the long run we will get a number of these new circles in a state of competitive situation where we can compete

with the leaders in the market.

Miten Lathia: Just to take that conversation forward at what level of threshold RMS would your perspective change?

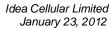
Himanshu Kapania: While the company has a view about it, I would not like to share in the public forum.

Moderator: Thank you. The next question is from the line of G V Giri from IIFL Capital. Please go ahead.

G V Giri: Number one, can you just explain the spike in the tax outgo this quarter? And number two, sometime

back you had said in an answer to one of the questions that around 250 million subscribers can still be added and if I look at your additions of cell sites in 2G, it is about 2,300. When we look at Bharti they are hardly adding any cell sites and the new operators be it Aircel or Uninor or whoever they have

hardly added any sites anywhere. So what exactly is going to get these 250 million subscribers, the



genuine subscribers going to come into the network from and in which geographies and what will make it happen?

Himanshu Kapania:

Akshaya will answer the tax question; I will just give you a short answer to this. It is our belief that the current asset utilization in the Telecom sector offers a lot of scope for better asset utilization so it is not all of it led by coverage expansion; it is largely led by better asset utilization. And if you were to compare our asset utilization with the leaders there is still a lot of scope and also our belief is, in large number of markets, even a leader has a lot of scope to be able to expand a number of subscribers per BTS.

Akshaya Moondra:

On the tax, there is no spike. We have said earlier, that now our deferred tax charge would almost be equal to the full tax rate. So whatever profits you will see as PBT you will roughly see a full deferred tax charge on that. So that is on the tax question.

I would just like to respond a little bit more to the question which Reena had asked on the network expenses. I think the way to look at it is not see a percentage decline from Q2 to Q3 because Q2 was characterized by a dip in volume. If you look at it from Q1 to Q3 the decline over two quarters is not very steep and I think as the volume of business increases continually one should see some improvement in the network efficiency. So I think just look at it more over two quarters rather than a steep decline in one quarter.

G V Giri:

And also sir, on a two quarter basis your MoUs have not really caught up with the Q1 level, it has been that way in the past years also but just in this year I thought the dip was attributed more than usual to the second quarter seasonality when 2Q dip happened. So you have not really come back with Q1 levels and per subscriber MoU despite having a higher active proportion?

Himanshu Kapania:

Obviously, the new customer who is coming in is not going to come at an average MoU level. I just want to remind everybody which is the mistake been done by a number of analysts in their overall calculation when the tariff decline stopped. A lot of analysts assumed that the rate of growth of MoU will continue to be at the same levels when the tariff was on the decline rate. It is a natural process that the overall industry will grow at particular pace. As I said in my commentary, last year the industry has grown by around 11-12%, this year expectation is that it will grow by 15% because of the fact that the tariff has remained flat. To be able to see a very high MoU growth, we would have seen a very significant industry growth which is in my mind very unrealistic to it. It is only a step wise process.

Moderator:

Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Himanshu Kapania and the management for closing comments. Please go ahead.

Himanshu Kapania:

Thank you. It is always a great learning experience and we get very incisive questions. Thank you for the patient and all the very best.

Moderator:

Thank you. Ladies and gentlemen on behalf of Idea Cellular that concludes this conference call.