Vodafone Idea Limited Earnings Conference

July 29, 2019

Moderator: Good afternoon ladies and gentlemen, this is Margreth the moderator for your conference call. Welcome to the Vodafone Idea Limited Conference Call. For the duration of this presentation all participant lines will be in the listen-only mode. After the presentation a question and answer session will be conducted. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Balesh Sharma – CEO of Vodafone Idea Limited and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited along with other key members of the senior management on this call. 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 the conference call participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. With this I now hand the conference over to Mr. Balesh Sharma. Thank you and over to you sir.

Balesh Sharma: Thank you Margreth. Hello everyone. On behalf of Vodafone Idea, I welcome all participants to this earnings call. On 26th July, 2019 our board of directors adopted the unaudited results for the first quarter of FY20. The detailed press release, quarterly report and unaudited results have been uploaded on our website. I assume you had a chance to go through the same.

As usual, I will first share an update on the various strategic initiatives we have undertaken followed by operational highlights for the quarter after which I will hand over to Akshaya to share details of company's financial performance for this quarter.

Let me start with reiterating our five pillars of the strategy which have been shared with you in the past which is 1) Accelerate the integration, 2) Prioritize investments, 3) Drive ARPU through simplification, 4) Focus on fast growing revenue streams and partnership approach to drive value and 5) Strengthening balance sheet. This strategic roadmap is our blueprint basis which all initiatives are undertaken towards improving revenue profitability, cash flows and our competitive position in the market.

Let me elaborate on the progress we made on each of these five pillars:

Firstly, on integration:

We continue to execute on network integration extremely well, which remains our top most priority. Following completion of the network integration in 10 circuits till Q4, our integration continues to move at a rapid pace, cluster by cluster, in the remaining circles. We have already completed integration in major cities like Bangalore, Jaipur, Agra, Lucknow, Hyderabad, Ahmadabad, Rajkot and Trivandrum. As of June end, we had completed the network integration exercise in 452 out of the 681 districts, i.e. 66% of the districts. These districts account for 56% of the population of the country. These integrated districts along with major integrated cities till date cover more than 50% of VIL's revenue base.

This report card was as of June end. Between then and now, the list has already expanded. We had completed 4G integration of Orissa in Q4, but 2G/3G integration was supposed to be in Q1 that got delayed due to the cyclone Fani. Despite the severe on ground challenges, our team strived hard and recently, in the last week, completed the integration there, taking the integrated circles count now to 11. The consolidated district proportion has also moved to 66% as of June end to 70% as of today. We have done extremely well on integration and we are confident of concluding this exercise latest by June 2020 as envisaged in our earlier meetings and calls with all of you.

In addition to the spectrum and radio consolidation in the integrated circles, we have carved out an additional carrier from 2G to 4G in 8 circles, adding 80 MHz to our 4G spectrum. As of today, in 7 key circles that is Delhi, Mumbai, Kerala, Gujarat, Haryana, M&G and Karnataka, we have re-farmed 900 MHz to offer 4G primarily using dynamic spectrum re-farming. This adds another 70 MHz spectrum in select locations and sites where the same has been done. We are in the process of extending the 900 MHz offering to other circles as well. Introduction of 4G in 900 MHz band has significantly increased the coverage footprint in our key cities especially the indoor reach in congested markets and also improving the voice experience through VoLTE.

Additionally, we have re-farmed 2100 MHz spectrums from 3G to 4G in 7 circles on select locations, where the 3G traffic growth was limited and 4G was increasing. The additional 70 MHz in 2100 MHz got released from 3G to 4G band which helped us to increase the 4G capacity that further translated in better customer experience in these geographies. Based on the customer usage, we will continue to refarm 3G spectrum to 4G in the remaining circles. As a result of all these initiatives, in the integrated circles the download speeds here have improved anywhere between 50% and 70% in various geographies.

Apart from the integrated circles, our network activities continue in the non-integrated circles, cluster-by-cluster, and parts of those circles are integrated already. Secondly, even the sites that are currently not integrated, we are working there in terms of deployment of TDD and Massive MIMO and these are yielding results as well. As a result of the TDD and Massive MIMO deployment and integration, the increase in capacity has been higher than the traffic growth this quarter. This reflects in better speeds and therefore better customer experience in these circles.

We are already ranked #1 or #2 for at least one of the two brands in 14 circles in the country based on 4G speeds for the month of June. As certified by Ookla we now offer fastest 4G throughput in circles of Delhi and West Bengal, as well in Chennai.

The progress on network integration is clearly reflecting in improving network KPIs across all circles which has led to enhanced customer experience. However there is a clear timeline - first integrating the network then being able to stabilize the network and getting it to the best shape that we desire. Post that, there is also time lag between network's actual performance versus the perception that the customers carry due to the relatively poorer performance in the previous quarter. To improve customer perception, we are now running several hyper local promotional campaigns targeting specific cities and districts to advertise our improvement in network experience and to improve customer awareness about our brands and network. We are confident that this would lead to better subscriber additions over time.

As a result of the integration exercise, we have removed surplus equipment from nearly 38,000 sites of the total 73,000 co-located sites, further benefiting our cost base. As of June end, we are pleased to announce that we have achieved 70% of our target synergies. Long story short, we are moving at a great pace and are well-placed to realize full Opex synergy of Rs. 84 billion by June 2020.

Moving to prioritizing Investments in profitable areas:

As previously shared, instead of conventional approach of focusing on service areas, we have gone to the next level of granularity and segregated the districts in four quads based on their growth potential and revenue contribution to the company. In high potential districts which are part of Quad A and Quad B, our focus is to target 95% coverage, superior customer experience and therefore higher market share. We have added over 15,000 4G TDD sites during the quarter to augment our 4G capacity and most of the deployed capacity has been in these districts. Further we continue to aggressively deploy Massive MIMO which is a 5G technology bringing it forward into 4G; we have deployed ~4,400 incremental Massive MIMO during the quarter and till date we have deployed over ~6,700 Massive MIMOs. This is a second largest deployment of this technology in the world and makes us unique in this country. We are the only telco which is doing serious level of deployment of Massive MIMO technology. This means with Massive MIMO deployment in our high-priority districts and hot-spots, our capacities and hence customer experience will stand out.

We are progressing extremely well on capacity creation front. On account of various network integration activities, including spectrum consolidation and re-farming coupled with TDD and Massive MIMO deployment our capacity is now more than 1.5 times that of our September 2018 capacity. With such large capacity expansion, utilization levels and congestions have come down. We therefore remain on target to increase our capacity 2.5 times by March 2020 compared to September 2018.

This quarter, our 4G FDD sites have increased by 6,477. Our overall broadband site count stands now at around 393,000 as of June end. The redeployment exercise is still underway and the broadband site count and subsequently the population coverage would further improve on completion of this exercise. We have also added more than 8,600 small cells till date to improve our coverage in dense urban areas. Our 4G population coverage stands now at 68.6% which means 830 million Indians are covered as of 30th June, 2019 compared to less than 50% for each of the brands in August 2018. This means on 4G we now provided incremental coverage to 338 million Indians for Vodafone brand and 229 million to the Idea brand and we remain on target therefore to have 1 billion people covered with our 4G by FY20 end. While our overall 4G coverage stands at 68.6% it is nearly 80% in our high potential districts and therefore we are on plan to reach 95% of 4G population coverage by March 2020.

In the non-profitable districts, we are rapidly consolidating traffic on the stronger of the two networks and rationalizing the weaker of the two networks. By the end of this quarter we exited 14,000 sites. This exercise has enabled us to reduce operating expenses as well as improve the coverage and experience for the weaker of the two networks earlier, without impacting customer experience for the stronger brand and we continue to have revenue from both the brands.

Moving onto the third pillar - ARPU improvement by simplification, rationalization and upselling:

In line with our stated strategy to simplify customer offerings, we had launched 'service validity vouchers' or 'minimum ARPU plans' in Q3 at price points of Rs. 35/65/95 offering bundled voice and data to our customers for a period of 28 days. This quarter, our subscriber base declined to 320 million from 334 million primarily due to churn of low ARPU customers who were on these minimum ARPU plans.

We have taken several market initiatives offering higher value proposition to low ARPU segments to arrest churn. What we are realizing is that these customers recharge with Rs. 35 or one of these vouchers once, second time or third time and then start looking for better value somewhere else. For answering such needs we have come up with a voucher of Rs. 45, which we have tested in four markets. This approach offers full talk time for the customer at 1 paisa per second, which means the customer has to use the benefits within the 28 days and gets a much better value than Rs. 35 at just a marginal increase of Rs. 10. The initial indications from the four circles were very encouraging and therefore last week this product has now been taken all India. We are confident of improving both churn as well as ARPU in the coming months in this segment through this product intervention along with Rs. 69 voucher that we had earlier launched.

While we are seeing churn on the low-end base, our high ARPU base has broadly remained stable. The churn for 4G hand-set base is much lower than the churn of 3.7% that we see on overall basis. We have seen very good response on our entry-level UL plan of Rs. 119 with 1GB data which was launched in Q3, post which we have launched a Rs. 129 and 139 plans offering unlimited voice with 2GB and 3GB fixed per month data respectively. This quarter we have also introduced bigger data bundles at Rs. 229/ 255 offering unlimited voice with 2/2.5GB data per day to upgrade the heavy data users from Rs. 169/199 plans. Additionally, we've launched long validity packs at Rs. 599 for 6 months and Rs. 999 for 12 months to improve customer stickiness. Now that we have the capacity in the requisite markets, we are able to launch these products which will lead to increase in uptake, leading to ARPU increase and will lead to traffic increase that we can now afford to absorb. We believe all these initiatives will therefore arrest churn and improve ARPUs.

The fourth pillar of our strategy is to focus on fast growing revenue streams and partnerships to drive value:

Vodafone Idea continues to maintain leadership in the enterprise mobility space with the focus on growing segments of IoT solutions, cloud offering and carrier services etc. while leveraging Vodafone

Group's global enterprise relationships. Vodafone Idea Business Services has been recognized at the Frost & Sullivan ICT Awards 2019 as 'Enterprise Telecom Service Provider of the Year - SMB segment', third time in the last 4 years, 'Managed Enterprise Wi-Fi Provider of the Year' and 'Enterprise Mobile Service Provider of the Year' for the eighth time in the last 9 years. We continue to do well in this segment. Our enterprise mobility base grew this quarter while we have seen some churn on the retail postpaid users.

On content we will continue partnering with the "best in class" rather than trying to own the value chain. Our list of partners now includes names like Netflix, Amazon Prime, Sony, Zee, Eros, Sun, Shemaroo, Hoichoi, TV Today, Discovery and this list continues to grow longer. As a result, we have witnessed, in the last quarter alone, 27% increase in our average viewers and 23% increase in the minutes of viewership. Our partnership on music streaming services, while it has taken longer than we expected it to launch, it is in progress and we will keep you posted on the same.

Our strategy on partnership extends way beyond content. We have partnered with various financial service providers, e-commerce retailers like Amazon along with Google and Facebook, to drive value for both the partners as well as for our customers.

The fifth pillar - strengthening our balance sheet:

This quarter we received Rs. 250 billion in proceeds on the successful completion of the rights issue. The merger of Bharti Infratel and Indus Towers is also expected to close very soon. Vodafone Idea's 11.15% stake in Indus has an implied value of Rs. 56.3 billion as of June end, which we plan to monetize on completion. We are also exploring options to monetize over 159,000 kms of intra-city and intercity fiber which will provide us further financial flexibility.

Moving onto the operational highlights for the quarter:

As previously mentioned, this quarter was impacted by churn of customers who have recharged on service validity plans in the prior quarters. Additionally, we have seen some down trading of high ARPU customers primarily as the customers moved from unlimited voice and data plans priced at Rs. 169+ to unlimited voice and fixed data plans which are priced lower at Rs. 119 or Rs. 129, as the primary needs for this customer was voice. Both these factors, i.e. churn of customers on minimum ARPU plans and the down trading of high ARPU customers led to the revenue decline of 4.3% this quarter. However, it is important to note that we have seen much better addition of UL subscribers in almost

25% of the districts resulting in positive revenue growth in these districts, in spite of churn of the low ARPU customers.

We had also witnessed some disruption in our distribution channels post the integration that we completed in Q4 impacting us during the quarter. However, this is now behind us. We have changed our distribution across the country, in every geography and every village there were two distributors, one distributing Vodafone and other distributing Idea product. We have created a single distribution layer across the country in Q4 which distributes both the products. This means the better of the two distributors has been retained but this distributor goes to retailers selling one of the two brands for the first time and so does the sales guy. This has taken some time to stabilize and the distribution KPIs were under pressure but now we are gaining strength on that as well and these distributors were able to learn to sell both the brands and stock both the brands on the counters. Overall churn has reduced to 3.7% during Q1 compared to 7.2% in Q4. ARPUs have also improved sequentially to Rs. 108, up 3.8% QoQ vs Rs.104 in Q4FY19.

On 4G subscriber front, we added 4.1 million 4G subscribers taking overall 4G base to 84.8 million subscribers. As we continue to improve our 4G coverage and capacity through network integration and fresh capex coupled with other market initiatives on pricing, we expect to build momentum and improve our 4G net adds. What we are seeing in our integration journey is that it takes us time to first stabilize the network then to build perception and get our distribution right. But when we compare KPIs of the integrated geographies or districts versus nonintegrated districts, we clearly see better performance on speeds, with 50% to 70% speeds improvement measured on the cloud sourced platforms. Better speed is leading to better 4G subscriber addition in these markets versus those not integrated. This is also leading to better HVC addition in these markets versus those not integrated.

As mentioned earlier, our integration strategy was to first integrate the Quad C and D districts quicker than the A and B while we are careful when we go to A & B. Also there is a Doppler effect, so we need to carry the equipment that has been un-installed from these districts to capacitize the other districts and install those. Net-net, the integration versus non-integration KPIs improvement that we are seeing is giving us a lot of confidence, and integration is still to happen in our strength markets and therefore will give you even better results in those markets.

Moving on to another update, as of 19th July, 2019 the board of directors of our associated company Aditya Birla Idea Payments Bank Limited has approved voluntary winding up of ABIPBL subject to regulatory approvals. The merger of Vodafone M-Pesa Limited (VMPL) with ABIPBL has thus been called off and the business of Prepaid Payments Instruments (PPI) and the Business Correspondence (BC) are in the process of closure. The rationale of this call being several changes that have happened both in terms of the regulations relating to payments bank as also the general health of the telecom industry since the time payments bank was conceptualized. The continuing losses, absence of long-term business case and holistic evaluation of the situation led to the decision of winding up of these businesses. Also, this was in line with our strategy of focusing on our core businesses and doing the rest of value creation through partnerships. Now that we are proposing to not have the payments bank as well as the M-Pesa business we will not have the baggage of having our own company, and instead explore the marketplace, and we are already doing that to partner with fintech companies whose products we can distribute henceforth.

To sum up we are very well on track on our strategy on all the five pillars. I will now hand over to Akshaya to take you through the financials of the company.

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

As explained by Balesh, the churn of low ARPU customers coupled with ARPU down-trading has resulted into revenue decline for the quarter. Revenue for the quarter was Rs. 112.7 billion as against Rs. 117.8 billion in Q4FY19.

We have adopted Ind-AS 116 with effect from April 1, 2019. As a result, lease rentals are no longer part of network expenses and other expenses and accordingly these expenses are lowered by Rs. 23.3 billion and Rs. 0.8 billion respectively. Consequently, EBITDA for the quarter increased to Rs. 36.5 billion vs Rs. 15.9 billion after adjusting for one-off credits of Rs. 2 billion in Q4FY19. On a normalized basis revenue decline of Rs. 5.1 billion has resulted in Rs. 3.5 billion drop in normalized EBITDA.

We remain on track to achieve synergy targets and have achieved incremental synergies during the quarter, which has partially off-set the EBITDA decline due to revenue fall. Our overall operating costs, excluding license fees & spectrum usage charges and roaming & access charges have reduced by Rs. 14.8 billion post adjustment of inflation driven cost increases and incremental network roll-out as compared to Q1FY19 pro-forma operating costs. This translates to achievement of 70% of our stated synergy target of Rs. 84 billion.

The 'Depreciation & Amortization' and 'Financing Cost (Net)' for the quarter are Rs. 61.3 billion and Rs. 34.4 billion respectively, higher by Rs. 15.1 billion and Rs. 7.3 billion respectively due to adoption of Ind-AS 116.

Exceptional items of Rs. 8.1 billion during the quarter include integration and merger related costs of Rs. 2.3 billion, and non-cash impairment charges of Rs. 5.8 billion. The impairment charges include impairment of investments in the payments bank and M-Pesa entities of Rs. 2.1 billion following the decision to discontinue the payments bank, wallet and business correspondent businesses in the respective entities. The remaining Rs. 3.7 billion of impairment is either on account of WDV of equipment which is becoming surplus or the historical installation and services costs for equipment which is being redeployed to new locations on account of ongoing network integration.

Capex for the quarter stands at Rs. 28.4 billion.

Post completion of our rights issue, our net debt has reduced to Rs. 992.6 billion as against Rs. 1183.9 billion in March '19. The cash and cash equivalents balance as of June '19 is Rs. 211.8 billion.

With this, I handover the call back to Margreth and open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sachin Salgaonkar from Bank of America.

Sachin Salgaonkar: I have three questions; first wanted to have a little bit more color in terms of revenue decline. Balesh, you did mention that you saw down-trading because consumers were moving from voice and data packs to voice. Just wanted to understand what steps we are taking to prevent that or do we see further room in terms of more decline due to down-trading. Also, are most of the low end consumers out of your network or you see a bit more room in terms of reduction there? Second question, you did mention that 70% of your synergy target is already achieved, wanted to understand do you see any more incremental levers, as you integrate, which you guys could focus in terms of the cost control? And third question is to Akshaya, thank you for providing the net debt excluding lease liability; can you also provide what is the lease liability?

Balesh Sharma: Taking the first question on revenue decline. I could break the revenue decline in two parts, the first part we talked about was decline in the low end, the low ARPU subscribers. One is the direct impact of customers leaving and therefore the ARPU they take away, whatever little it was, but with the numbers that we have talked about, it becomes larger. Second is the impact it has on the reduction in incoming volume of traffic, because these were typically cards being used only for incoming and therefore the minutes goes down, and even at current IUC there is a decline that it causes. Second part is the down-trading in terms of mix of the unlimited customers, with subscribers who were on unlimited voice and data moving down to unlimited voice.

On the first one what we are trying to do is arrest the churn of these customers. We tried to understand why they are leaving us. After a couple of recharges, sometimes 2/3/4 recharges in the Rs. 35+ category, they get into a value seeking mode and they start comparing if life is better going to an unlimited plan if they can have one, and in that situation they go to the market. In many markets, given our integration is still happening, either in reality or in perception, we're still not on top, therefore the choice maybe made for us or against us and the odds remain stacked up against us. We have to try and give them value where they are and that's why Rs. 45 vouchers, as just Rs. 10 more gives them a lot more talk time which is typically what they are looking for. As I said early days with the four circles, and we have quickly gone into all India launch. It gives a much better extraction and much better customer behavior on uptake as we saw already.

This Rs. 45 plan also comes with a capping on 28 days which means while you get a lot more value, if you don't use it within 28 days, there is a forfeiture of it. Therefore it's a win-win, as customer gets a lot more but has to use within the 28 days unlike the Rs. 35 original construct which did not have this. This is giving us confidence on getting the revenue up, getting the uptake and getting the churn down on the non-UL part.

On the UL part, we have tried to take Rs. 119 up to Rs. 129 in the middle of last quarter. We have also launched Rs. 139 which give slightly more data. 1 GB for Rs. 119, 2 GB in Rs. 129 and 3 GB in Rs. 139 plan, that's seeing traction and that will mean the voice customers ARPU, if I separately see the ULV (Unlimited Voice with fixed data) cohort now, the ARPU of that starts going up. On the UL daily data packs due to the incremental data capacities that we now have, we are firing up higher end plans like Rs. 229 and Rs. 255. Uptake of those customers at this point won't be a major number but whatever goes up, they are all high ARPU users leading to stickiness and higher revenue coming from there.

That's the attempt on the revenue decline, the most fundamental attempt is to increase our 4G coverage and capacity and integrate as quickly as we can. As I look at my customer base behavior right now, on the churn in 4G covered geographies versus not covered areas, there is a substantial difference between the two. With every incremental village or town getting covered with 4G, it would help us on reducing the churn. That's on first question.

On the synergy targets, 70% already in bank in terms of annualized number which is very encouraging. On what next, so far when we call it synergy, it is typically coming from de-duplication of cost and not really transformation of cost. We had taken a conscious call when we created the new company, the first step is de-duplicate and get that right and then the second step of relooking the cost and trying to see whether there is another way of doing business. As I also shared once earlier, we started that exercise, and it's in early days right now. We have hired one of the big four consultants to work with us on this. We are looking at every part of cost as well as revenue engine of ours to look for more opportunities and there are many more opportunities. I can't right now give you a guidance on the number, but we are very optimistic that with the two companies coming together and cost mix stabilizing on the synergy side, we will be able to relook the cost component and take out substantial amount of cost further. Over to Akshaya for third question.

Akshaya Moondra: This quarter we have given complete head-by-head impact of the adoption of Ind-AS 116 on the P&L line items. As far as the balance sheet is concerned, we will be able to explain more in the next quarter, and you will get the complete balance sheet in any case.

Sachin Salgaonkar: You have again touched on winding of some of the nonprofit businesses, mainly on the payments bank. Just wanted to understand your thoughts, as in how are you looking at some of the cost opportunities, whether you guys are having some thoughts in terms of revisiting your presence in some of the quad C and D areas which is pretty non-profitable, from that perspective?

Balesh Sharma: This is in line with the quad strategy of ours. We have already been revisiting C and D and for that matter even within A and B if there are geographies where we have an overlap of the two sites and not commensurate return on the presence of those sites. We talked of 22,000 site exits as envisaged in that exercise, so far we have exited 14,000 sites through this exercise. We have some more room with more site exits. Do I see it going way beyond 22,000 sites, as of now, probably not. We will stabilize at 180,000 odd sites, 178,000 is the target of ours, so still keeping it around that.

Moderator: The next question is from the line of Pranav Kshatriya from Edelweiss Securities.

Pranav Kshatriya: What decline in the revenue is attributable to the decline in the IUC revenue which you received? That's my first question. Secondly, on the network opex we are seeing flattish network opex despite synergy benefit coming in, adjusting for one-off which was there in the last quarter. We were typically expecting it to come down further, how should we see this going forward? Last question, you talked about the disruption in the distribution channel. Can you please elaborate what sort of disruption, because as I understand the channel integration was already complete? What led to disruption, can you quantify some of the impact in terms of subscriber addition? If disruption was earlier in the quarter, after normalization, how the numbers are looking like?

Balesh Sharma: Pranav before I hand over to Akshaya for the first two questions, let me take the operational question myself which is on the disruption on distribution side. Let me explain again that we had two distributors everywhere, any village or any geography for that matter. If you take one of the two distributors and make them now the new Vodafone Idea distributor, the sales team of this distributor has to go to every outlet and sell now both Vodafone and Idea. For a minute assume this was an Idea distributor that was retained there, the Idea distributor and his sales team know the Idea product very well, know how to promote that product, understand the Idea business much better than they understood the Vodafone business. There is a new relationship that they have to develop on the counters to be able to push the Vodafone brand which took longer than we thought. Though the brands obviously were already present there before and known to the retailers, but a new relationship for the distributor in terms of accounting, in terms of trends etc. as well as that of a new product to be sold by the sales guy caused complication.

Also the outgoing distributor has to settle all the age-old outstanding and that does lead to a kind of lack of stability in the distribution chain until the new distributor takes over that relationship and the accounts with the retailers. You are right, this was already completed, however the results only start showing after completion. We saw the end of distribution integration in January-February sometime, the months after that we saw impact on distribution KPIs. For example, one of the ways I look at on distribution is how many outlets were activating for you or selling recharge for you and that ultimately reflects in the share of the gross additions in the marketplace, measured through the switch and other ways to monitor the market performance.

Until about May, we saw a reduction of a couple of points on our share of gross additions which have since come back in most markets. We are tracking it very closely, street by street, base station by base station, treating each of them as a factory or P&L production unit and therefore trying to see where it has got down and how it has come back or where it has not come back versus the December-January figures. The disruption has obviously caused some amount of impact, all for good reason because now we have a stronger distributor of the two in every geography and much lesser cost than having two distributors to service each retail outlet.

Akshay Moondra: Pranav on your question on IUC revenue, yes it has been impacted. If we look at quarter-on-quarter the declining number of subscribers is about 14 million but if you do an average for Q4 versus Q1 the decline is about 27 million subscribers, and that has impacted the revenue. Also, since these subscribers were largely recipients of incoming calls, being in the lower ARPU category, it has had an impact on the IUC revenue. The rough impact of this is about Rs. 0.8 billion for this quarter, QoQ variance, as far as the IUC revenue is concerned.

As far as network costs are concerned, there were some one-offs in the last quarter and those were not all in network. There were higher one-offs in network and maybe some credits or debits in other heads. If we take into account the one-offs in the previous quarter adjusted for incremental site roll-out and rental escalation which happens on the anniversary date of tenancy, there is higher energy cost due to more number of working days, and there is a certain element of AMC cost which has increased. If we adjust for this, the synergy realization on the network cost in this quarter is broadly Rs. 1.5 billion or on an annualized basis it is about Rs. 6 billion. There is a continuing benefit on network expenses which is being realized. Also, as I said that in the energy cost we have moved to a pass through system of billing and some of the benefits which are coming are reflected with a certain amount of time lag. I believe that there is room for further improvement in the energy cost compared to what is recorded right now. But some actualizations still have to happen there.

Pranav Kshatriya: This Rs. 1.5 billion you talked about, the synergy benefit is pertaining only to the network cost?

Akshay Moondra: Yes, network and IT cost combined together.

Pranav Kshatriya: Should we see further improvement in this or this should the run-rate or were there some one-offs in this quarter?

Akshay Moondra: No, on the network cost there are no significant one-offs this quarter. As I said, we have achieved 70% of our overall synergy targets. We are on track to achieve 100% synergy targets by Q1FY20 on overall basis.

Moderator: The next question is from the line of Manish Adukia from Goldman Sachs.

Manish Adukia: You mentioned that you have finished the network integration in about 11 service areas, but when you look at subscriber additions especially on the broadband side that's been somewhat weak in the last couple of quarters while one of your competitors has been adding significant number of customers. What in your view will start moving this number up for Vodafone Idea and how far away are we from that? My second question is there were some press reports recently which indicated that telecom operators recently met with the Government of India or rather the Telecom Minister. If you can share what are the one or two key requests that operators like yourself have been making to the government and are there any government initiatives that one could expect to potentially improve the health of the sector in the near term?

Balesh Sharma: On the broadband subscriber additions, if you look at the 4G subscriber addition, we have had an addition of 4.1 million subscribers in the quarter, that's a net addition. If you look at broadband, it is 3G and 4G combined, so 3G goes down and 4G comes up but now being internalized and that's how 4G goes up, which means in that geography we've got 4G and therefore the 3G customer while going out stays on 4G with us. This number is below what you probably expected and below the run-rate that I was having in earlier quarters and that is right. Now this is a mix of two parts, one is addition of subscribers and second is churn of subscribers. Encouraging news from my point of view is that the addition of subscribers is higher than the previous quarter negated by a higher exit of subscribers on 4G side. The higher 4G exit was linked to the exit of the low ARPU subscribers because some of those guys carried a 4G handset and sometimes used some marginal 4G data with us and therefore would show as a 4G subscriber with us. However when they moved into SIM consolidation post the Rs. 35 impact, they melted this SIM out into the primary SIM that could have been my other brand or somebody else's brand, and therefore this subscriber stopped being seen in my network as a 4G subscriber.

We are working on reducing that churn and already overall number of customers leaving has gone down, the churn has come down to 3.7% and as that keeps improving the exit of 4G subscribers will reduce. Those who are on 4G subscription with unlimited usage, the churn is much lesser. With a growing unlimited subscriber base and new additions of 4G coming, and of course the 4G coverage increasing along the capacitization that goes on every day, I'm very confident that the 4G numbers would keep going up. Will it reflect in overall broadband subscribers depends also on 3G part. I'm more closely watching the 4G, the HVC and the UL base which are all showing encouraging results especially on gross additions and improvement of churn will therefore reflect in the net number.

On the second question over the Telecom Minister meeting, I do not know whether this is really the right forum for me to reflect on this question. I can give you a sense of what is already in the public domain. The minister on day one in his office had already written to the Finance Ministry and other Ministries talking about some of the steps he would request the government to take and these were all steps that one would want as the industry. Whether it's COAI or individual operators those were the things that we had been pressing for, for example, review of levies specifically custom duties that was increased in the previous financial year. For specific reasons and situations at that time, it was increased from 10% basic custom duty to 20% on telecom equipment. There has obviously been a request from the industry. Similarly, GST from 18% could be going to the slabs lower and therefore benefit the uptake of customer sale in the industry. Similar such other cost initiatives that have been talked about by the industry repeatedly in the past, the new minister has taken those up which is very encouraging.

Manish Adukia: Thanks so much Balesh. Just one quick question for Akshaya; you mentioned Rs. 0.8 billion impact on IUC this quarter, and last quarter you had mentioned that you were net receivers of about Rs. 4 billion IUC. If I'm just doing the math's right so about 3 billion is what used to receive as net IUC, is that the correct number?

Akshaya Moondra: Rs. 0.8 billion is the change quarter-in-quarter in the incoming IUC revenue. The other figure which we had given, which you are talking about is the impact of IUC reducing from 6 paise to 0 and that is not a quarter-on quarter delta. That's an absolute figure and that figure is also constantly coming down. That impact would be roughly Rs. 3.8 billion for this quarter.

Moderator: The next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora: Having seen few months, are you happy with the outcome of the introduction of service validity packs. What's your assessment of subscriber loss, revenue gain/loss and cost savings due to this initiative and what proportion of customers are on the Rs. 35 pack now? That's question number one. Second regarding the non-spectrum debt, what is the nature of this debt and when most of this debt will come up for renewal, and finally any changes to capex guidance?

Balesh Sharma: Rs. 35 voucher, It was a bold move and made sense to do that because a lot of these subscribers were not adding anything major to the revenue and were incurring cost, and therefore consolidation of these subscribers who were also dual-SIMing was in the interest of the company and the industry. The churn has been higher than what we thought it would be. Our belief was that once the subscriber chooses to be on this Rs. 35 voucher for a month or two he or she will continue to be on this voucher for long. To repeat what I said earlier, our realization on this has been that the value on the Rs. 35 and Rs. 65 is not in line with what the customer was used to or was wanting.

On the other end we learnt that when we don't put a cap on the benefit that we give, and if it is an incoming only subscriber, he doesn't necessarily burn even the value that has been given on Rs. 35. The relatively serious users of this product want more value, those who are not despite Rs. 35 being minimum recharge per month can continue for longer than one month using balance given on Rs. 35 by using it purely for incoming. Therefore, we have tried to come up with this new product of Rs. 45 which on one end gives customers a lot more, on the other necessitates the usage of all the benefits within the 28 days, and therefore if the customer does not use it in the 28 days is gets forfeited. It's a win-win as for the value seeking Rs. 35 customer who intends to use the SIM-card for both outgoing and incoming as there is a lot more value loaded. The customer may not seek an unlimited plan with already sufficient talk time, as high as about 70 minutes, being offered at Rs. 45. On the other hand the customers who are using it only for incoming and did not intend to really pay the company anything if they could, would then have to pay Rs. 45 per month in this product.

Akshaya Moondra: On the non-spectrum debt, it is a fairly long-term debt. I can give some guidance, for the remaining part of this financial year the external debt becoming due for repayment is about Rs. 41 billion, and similarly in FY21 the amount is about Rs. 42 billion of principal repayment.

On the capex guidance, our capex objectives remain the same which is 2.5x the capacity which we had at the time of merger, 80% 4G population coverage overall and 95% 4G coverage in priority districts. We are constantly working to see how these objectives can be achieved with further optimization of capex, whether it is in the form of better pricing or in the form of better configuration and network planning. Those exercises are on but our objectives of achieving coverage and capacity remain unchanged.

Kunal Vora: would you say that there is a downward possibility and not really upward revision possibility from what you guided already?

Akshaya Moondra: I don't see any possibility of upward movement. There could be some downward improvement based on the factors that I just explained to you.

Moderator: The next question is from the line of Rajeev Sharma from SBICAP Securities.

Rajeev Sharma: Akshaya, you just mentioned about external debt of Rs. 41 billion due this year and Rs. 42 billion next year, if you can just confirm that number, and what is the spectrum charges which are payable to the government in this fiscal year and next fiscal year? Second question is to Balesh, now that you have brought down the distributors from two to one, do you think the next movement will be bringing down Vodafone and Idea, two separate brands to one single brand given that costs are under pressure, revenues are under pressure? Is that something you may think of or that is a complete no-no? And lastly Rs. 45 plan could lead to further pressure on **A**RPU or it will not see any pressure on ARPU in your view because the way it is priced there is a possibility that there is more pressure, so will you be okay if that is the outcome?

Balesh Sharma: To start with the distribution one first, since distribution is integrated, you were saying whether we will integrate the brand but it's not necessary the corollary of this. We have integrated the distribution to be able to take out cost, once the sales guys can be trained on both the products which is what has happened now. We can continue to have the two products separately running, technically, perennially. But as I have said before it is a dynamic market which we will keep evaluating. The cost of incrementally running two brands isn't much higher than that of a single brand because it is only the A&P cost that remains now, with the distribution cost and the retail cost of two brands having been taken out.

On retail front also if you walk into a store of brand A, the brand B customers can be serviced or sold, so cross sell and cross serve is already operational in most cases. Even on retail footprint we have de-duplicated or are in the process of completing the de-duplication, so cost of running two brands are now practically reduced to cost of advertising and promotion and that we believe is being disproportionately returned in terms of incremental extraction that you get by being two brands out of four in the market place rather than being one out of three which also applies on things like retail space etc. and gives you advantage. However, as I said this is dynamic and we keep evaluating it, keep looking at options and we will choose a course accordingly in the coming quarters.

Akshaya Moondra: Rajeev, on your question of external debt, the figures of Rs. 41 billion and Rs. 42 billion for external debt principal servicing schedule is right. On the DoT instalments for the remaining part of the financial year, the instalment due including the interest component is Rs. 57 billion.

Rajeev Sharma: What about the next fiscal year?

Akshaya Moondra: The annual installment then on a continuing basis is about Rs. 120 billion.

Rajeev Sharma: Do you think you may need some more funding at some point of time given these repayments and given the pressure which is there on the business, maybe in 3 to 4 quarters?

Akshaya Moondra: No, I don't think over the timeframe that you are talking about, we will need additional funding as we have always mentioned in the past. As we mentioned, the Indus monetization should happen once the Indus and the Bharti Infratel merger is complete. Also, the fiber monetization is something which we are working on and definitely that provides us more flexibility and optionality of supplementing our funding if need be.

Balesh Sharma: On Rs. 45 dilution, we have done various modeling, of course any product that you do has impact on both sides of the revenue table and this one could, but we know that there is much lesser to lose because on the non-UL, majority of the subscriber base sits on Rs. 35 plan and not on Rs. 65/95 plans. Those on Rs. 95 plan are anyways very close to Rs. 119/129 plans and can be uplifted up rather being brought down to Rs. 45. All the modeling that we have done indicates a clear upside on this when we went to four markets and tested it out, and we saw clear benefits of doing it hence the all India launch.

Moderator: The next question is from the line of Sanjay Chawla from JM Financial.

Sanjay Chawla: Can you share the number of unique 4G sites you had as of June end and on how many sites you have got L900 now and how many L900 we should expect by March 2020? That is the first question. Second question is how many low utilization sites did you exit in Q1 and were most of them from ATC this time compared to the previous quarter?

Balesh Sharma: Sanjay let me start with the second one first; from merger till Q1 of this year we have exited 14,000. I don't exactly remember the split between the two, sometimes you give notice in one quarter, but the impact of it only comes in when you finally remove the equipment from there because until then the rental remains due. ~14,000 so far have been exited and equipment's removed from those sites.

Sanjay Chawla: 14,000 is the cumulative number or is that the incremental?

Balesh Sharma: 14,000 is the cumulative number, about 10,000 is what would have been done till Q4 in terms of physical removal of equipment and now 4,000 more this quarter.

Akshaya Moondra: On exits, there is no specific correlation with any specific vendor. We just keep on selecting the sites and exiting on basis of what makes economic sense. We have not really tracked as to whether we exited more of a specific vendor but there is no specific quantum biased in favor of any particular tower operator.

Balesh Sharma: Unlikely to be so, because these sites are widespread across the country. Since it's not circle specific but district specific strategy, it flows into this districts which may be predominantly Indus or predominantly non-Indus.

On the number of LTE 900 and 4G, I think its competitively sensitive information, we would not like to share at the moment. I have already talked about geographies where we are doing it.

Sanjay Chawla: By fiscal year end we expect 178,000-180,000 overall sites and all of them would have a 4G equipment?

Balesh Sharma: That's the number of sites we will be. Our integration completes in June 2020 and not March 2020 so there could be a lag.

Sanjay Chawla: One question on your P&L, if we are looking at your other expenses or G&A cost without the impact of Ind-AS 116, there is some increase quarter-on-quarter, is that due to any provisioning due to the distribution related disruption and bad debt provisions there or what is the cause of that?

Akshaya Moondra: There is nothing on account of any disruption that you are talking about while some incremental bad debt provision is happening on account of BSNL delays and inability to pay, that is the only reason, which is more in the normal course of business.

Balesh Sharma: The distribution impact that we talk about, if it all can only have positive impact on the cost because of the lesser acquisition cost.

Sanjay Chawla: You mentioned there is some receivables due on account settlements.

Balesh Sharma: Those are from within the distributor's money to the retail, and has nothing to do with the principal. Those are just complex market workings where for years you keep servicing a retail outlet, and now you are not going to be any longer, so the old files open up that you have to settle.

Sanjay Chawla: You mentioned on 4G churn, there was some higher exits this quarter and mostly at the low end because some consolidation going on there as well. What is the profile of this low end 4G customer in terms of ARPU, in spending and data usage, who have churned out in the last quarter?

Balesh Sharma: More often than not, this customer has two SIM cards and there is a behavior on one SIM card where you see him or her as a low-end customer. On the other SIM, this customer has got a 4G Unlimited product. He was continuing to use the second SIM card primarily because it would have been the number circulated somewhere, this could have been the number used for OTPs, etc., so you take a month or 2 or 3 to be able to change your banking details etc. and then finally get rid of the number because you don't want to continue paying. Since this customer was using 4G on one of the two SIM cards even if both the SIM cards for example were within my brands, I would see one number of 4G customer reduced. It's related to Rs. 35 plan churn and the account you are losing is of low end.

Moderator: The next question is from the line of Varun Ahuja from Credit Suisse.

Varun Ahuja: Can you share the content cost, how it has trended over the last 2-3 quarters, the pro forma of both the companies on a joint basis. Lastly one for you Balesh, what do you think is the rightful market share that would you strive for, once the integration is achieved? How would you like to measure that whether it's in revenue or in subscriber, given that now it's more like an active subscriber base, previously when it was more a revenue focus? What would you think is the right market share for Vodafone Idea once you have a network which is integrated fully?

Balesh Sharma: Let me take the second part of the question. I have said this before, for us as a new company if there is a line we draw in sand, it's about being able to give great customer experience especially in our higher priority markets, rather than saying this is my target customer market share which I see as a derivative or a resultant. I'm saying I will ensure 95%+ 4G coverage in those markets and capacity as required, so that our experience in those markets will be at least as good as or better than anybody else. These are markets of my strength and higher market share in terms of overall subscriber base (2G/3G/4G) but I have disproportionately lesser 4G even in these markets. I will stand to gain as those 2G/3G customers now will be able to stay on with my current two brands rather than leaving us to go to another one because we did not have 4G coverage or capacity.

The war we are fighting is about integrating very rapidly, creating coverage and capacity across markets but specifically in the Quad A and Quad B which amount to 90% of our revenues and therefore the customers there would stay on. To give you a flavor, nationally our data market share today is below 20% based on the third-party apps that publish those results and if you look at my customer market share in such market or nationally it's much higher, in the higher 30s. Even in these markets of my strength, the customer market share would probably be even higher, around ~40%+ but my data market share would probably be still in the early 20s, so there is a clear delta of 20%. If I can get that right which means if I can get these customers to move from non-data to data users in those markets of my strength and give them no reason to leave us, and they move from normal voice usage to data usage and from data usage to unlimited data usage, then my revenues will follow and since majority of my revenues are residing in these markets that should lead to stabilization and growth of revenue market share rather than loss. If I look at how I am targeting and how the whole team is focused on, it is not on a particular number on CMS or RMS, but a particular goal to reach on each geography as per the quad strategy in terms of coverage, capacity and therefore experience.

Akshaya Moondra: Varun on your question of content cost, we will not be able to give you specific figures but what I can confirm is that between Q4 and Q1 our content cost has remained more or less consistent. There is no change in the content cost.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: On the GST receivable from the government, which ministry keeps talking about and we keep hearing for the industry around is Rs. 300 billion. What is that for us?

Akshaya Moondra: Sanjesh, I will not be able to give you the exact figure right now but it is a significant figure. Whatever capex is being incurred, on that GST is mostly getting stuck today.

Sanjesh Jain: Would it be more than Rs. 50-70 billion?

Akshaya Moondra: I will not be able to give you figure right now, but the figure between industry players could be quite disproportionately distributed.

Balesh Sharma: Depending on who has spent capex in which part.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Balesh Sharma for closing comments.

Balesh Sharma: Thank you Margreth and thank you everybody for joining the call, but two more minutes to again summarize everything that we have presented in this call. We as a management team are very confident that we are on the right strategy. We are tracking very well on all pillars of that strategy, fundamentally on rapid integration and getting the synergies upfront. We are looking at geographical prioritization, we are looking at being able to do further than the synergies already in account.

We see encouraging green shoots in the areas that are integrated versus non-integrated. As we go to our areas of strength with our integration, which happens between now and June 2020, we stand to gain a lot more because these are areas where we are already stronger. We are not able to see the difference between integrated versus non-integrated as we have not reached our areas of strength, it will be a different case when we get to areas of our strength. Our financial results and commercial results so far have not reflected the benefits directly of our integration, but are clearly visible in the fact that the capacities have gone up and therefore the experience has gone up. Already the third-party apps are showing us as #1 or #2 in 14 markets. #1 on Ookla in three markets and these are all going to reflect in improvement of perception over a period of time and therefore better 4G extraction. Thank you.

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