Idea Cellular Q1FY14 Results Conference Call

August 2, 2013

Moderator: Good afternoon ladies and gentlemen. This is Inba, the moderator for your conference call. Welcome to Idea Cellular Conference. For the duration of this presentation all participants' lines will be in the listen-only mode. After the presentation a question-and-answer session will be conducted. We have with us today Mr. Himanshu Kapania – Managing Director of Idea Cellular and Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular along with other key members of the senior management on this call. I want to thank the management 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 discussion on today's conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. With this I hand the conference call over to Mr. Himanshu Kapania. Thank you and over to sir.

Himanshu Kapania: Thank you Inba. On behalf of Idea I welcome all participants to this earning call. Yesterday, our Board of Directors adopted the un-audited results for the 1st quarter of financial year 2013-'14. The detailed press release, quarterly report and the results have been uploaded on our website and I assume you had a chance to go through the same.

Recently, the Chairman of Hindustan Lever used the term 'VUCA', a term coined by the US army war college which stands for Volatility, Uncertainty, Complexity and Ambiguity. In this dynamic and fast changing world another profound thinker, an American scholar, N. Taleb who brought to the world of concept of Black Swan, recently introduced the term, 'Anti-fragile.' In his own words, "While fragile cannot resist change and falls, resilience resist shocks and stays the same, but anti-fragile gets better." It is a singular property that allows us to deal with unknown, to do the things and to do them well. Since the November 2012 spectrum auction, Indian telecom industry is displaying anti-fragile properties in this VUCA world. While Indian corporations across manufacturing and service sectors seem to have produced its worst results in the last 5 quarters and most companies, bankers and financial experts have given up hope of an economic recovery; Indian telecom industry in spite of being battered by hyper competition, uncertain regulation, unpredictable tax regimes and high debt is showing signs of anti-fragility with disciplined approach to investments, costs, growth and tariffs.

In this negative uncertain VUCA environment, Idea Cellular is among few companies which hold the beacon of positivity and hope. The company is moving forward with full belief, rigor, passion and agility. Our resolve to grow and make a difference in India's wireless market is strengthening every quarter. Consistent, competitive, responsible and profitable growth is the long term mission that the company has embarked upon. We have shown success on all these 4Cs, a term borrowed again from HUL Chairman's AGM speech.

This quarter Idea is pleased to report 18% year-on-year standalone revenue growth and 18.8% year-on-year consolidated revenue growth including contribution from Indus. A) Idea's growth is consistent as the company's sequential quarterly revenue growth in Q1FY14 is 7.2% on the back of 8.6% quarter-on-quarter growth in Q4FY13 and 5% quarter-on-quarter growth in Q3FY13. B) Idea's growth is competitive as the company has maintained its status of fastest growing Indian Telecom Operator. Idea has further strengthened its revenue market share position by 0.9% to 15.7% in January to March 2013 quarter versus October to December 2012 quarter as per the latest TRAI release. Similar trends are exhibited on competitive standing in VLR market share and minutes market share where Idea's incremental market share performance is far ahead to its cumulative share numbers. C) Idea's growth is responsible and sustainable as the company continues to steadily expand its network footprint, now covering over 308,000 towns and villages across India. This growth will remain socially relevant as its core consumer franchise include balance between affluent and the bottom of pyramid subscribers. The existing customer and the first time entrants will be served well with Idea's maintaining world's lowest voice and data tariffs. Idea growth paradigm built on Michael Porter's "Shared Value Business Model" is sustainable as it not only creates economic value for company's shareholders, its employees and partners but also creates a huge value for its customer and society at large by addressing its needs and challenges.

Few recent examples are worth mentioning on a work for the community. When the recent flash floods hit Uttarakhand and a natural calamity of this magnitude struck the nation, Idea was on the forefront in assisting hapless tourists to call back or helping families identifying last known location of the missing people through **cell** site mapping while crediting lakhs of rupees as free talk times in customer accounts and setting 24/7 disaster relief helpline services. Similarly, the shared value growth model is taking Idea's investment to deep rural and hinterland markets including the naxalite belts of Maharashtra, Andhra Pradesh, Madhya Pradesh, Chhattisgarh, Jharkhand, etc., and serving low economic zones including high tribal belts.

The Idea's growth is profitable surpassing all market projections. The company is pleased to report a robust year-on-year standalone EBITDA growth of 43%, consolidated EBITDA of Rs. 20,763 million represents highest ever growth of Rs. 6,408 million between Q1FY13 and Q1FY14.

As I had mentioned before; the company remains young at heart, nimble on our feet and laser sharp in its execution. Even though the journey is unpredictable and the future can no longer be extrapolated from the past, Idea with anti-fragile properties is ready for this discontinuous change. As business performance becomes complex and ambiguous Idea is making every effort to manage paradox of headwinds and tailwinds.

On the regulatory front there is no change to the position we shared with you last quarter including inconsistent and baseless tax demands, the pending transfer of operating Spice licenses of Punjab and Karnataka to Idea, the pending approval for commercial use of Idea's 3G spectrum in Punjab for which company had paid Rs. 322 crores in the 2010 auction. Similarly, the 3G intra-circle roaming case is widely reported in the media and we have no incremental information to add.

Moving on to the business performance, as is customary, we start with an update on Idea's competitive ranking. As per the latest TRAI gross revenue release for the period January to March 2013 Idea had the highest revenue share improvement in Q4FY13 by 0.9% to 15.7%. The incremental revenue market share for Q4 Vs Q3FY13 was at an astonishing level of 45.8%. The top 3 operators garnered more than 100% incremental revenue market share reaffirming that the consolidation process in the mobile industry is on its way.

As the hyper competition phase eases, the Indian Mobile market is expected to return back to higher growth levels. Idea is consistently delivering 1.7X growth multiplier to the industry performance and company expects to get maximum mileage during the next phase of industry growth. The performance of Idea on five standard parameters for the period April to June 2013 quarter is as follows:

<u>Point #1, Gross revenues</u> - The absolute standalone revenue in the AMJ (April-May-June) quarter is at Rs. 65,355 million grown by Rs. 4,404 million i.e @7.2% on sequential quarter basis. But Q4FY13 gross revenue included IRU income on 11,094 towers (which were with Idea Cellular Tower Infrastructure Limited -ICTIL). The same is not accounted in Q1FY14 as ICTIL is now merged with Indus. If we dig deep into Idea's revenue achievement quarter-on-quarter, service revenue excluding contribution from non-core businesses like infrastructure, devices and ICR revenue, Q1FY14 has been the best quarter for Core Mobility business with

9.8% gross revenue growth over Q4FY13. The multiple drivers for this robust revenue growth in Q1FY14 are classical factors namely steady growth in Voice Minutes, explosive growth in Data volume and improvement in average realized rates. The Voice Minutes in this quarter expanded by 2.8% on quarter-on-quarter basis to 147.3 billion minutes slower than expected but Data volume exploded @20.8% quarter-on-quarter to 13.8 billion megabytes. The value-added services contribution increased from 15.2% in Q4FY13 to 16.0% in Q1FY14 an overall quarter-on-quarter improvement of 0.8%. In line with market expectation the Average Realized Rate Per Minute (ARPM) improved by 2.5 paise per minute from 41.2 paise per minute in Q4FY13 to 43.7 paise per minute in Q1FY14. The improvement in voice realized rate and significant higher contribution from Value Added Services has led to this sharp improvement in ARPM.

The analysis of rate improvement has two components. Firstly, since December 2012 Idea started clamping down on quantum of promotional free and discounted minutes offered to new customers and its impact was reflected in lower churn in Q4FY13. From March 2013 we followed through with clamp down on U&R (Usages & Retention) activities for existing customers. Our effort of reducing promotional minutes or modifying discounted tariffs on value vouchers or raising processing fee on the same discount tariff vouchers is more or less complete. The company now observes the impact of this change on voice elasticity and pace of new customer acquisitions. Nevertheless, even the improved voice realized rate for Idea is still below the company voice rate realization achieved 18-months earlier in Q3FY12 and the earlier quarters. Telecom industry was probably the only sector deflating prices for the last 4-years and the cycle now has been reversed.

Second, significant contribution to improved ARPM is higher value added services contribution. Data as a percentage of revenue has increased from 6.6% to 7.2%, an improvement of 0.6% just in one quarter led by high data traffic volume growth. The non-data VAS has also held on to itself with 8.8% contribution to revenue in Q1FY14, an improvement of 0.2% from 8.6% in Q4FY13.

It is important to state the improvement of Idea's ARPM is also a statement from the company. Idea wants to compete even in markets where our competitive position ranges from number 2 to number 6 or 7 on the strength of its brand. We wish to attract customers on the strength of our network, customer centricity, brand salience, company processes not as a discount player. It is a statement of growing confidence of the company to compete. This quarter again Idea continued its trend of improvement of Average Revenue Per User. The ARPU in Q1FY14 is Rs. 174, an improvement of Rs. 26 per reported subscriber over the last 3 quarters.

Point #2, Cash profit and EBITDA – The double bottom line growth had multiple drivers including revenue trajectory from Voice and Data business, scale benefit and better cost management. The company is happy to report that out of Rs. 10,351million incremental consolidated Idea gross revenue growth between Q1FY13 and Q1FY14 Rs.6,408 million has translated into EBITDA growth on a Y-on-Y basis with 61.9% of incremental gross revenue flowing into EBITDA. Idea's consolidated EBITDA margin has improved from 26.1% in Q1FY13 to 31.8% in Q1FY14, an improvement of 5.7% margin in the last 1-year. Similarly, Idea standalone basis EBITDA margin on Y-on-Y basis has improved by 4.9% in spite of accounting for one off regulatory charge of Rs. 250 million reflected in license and WPC charges.

With nearly 5-years of operations in Bombay and Bihar circles and as combined both these circles have crossed 10% RMS our cut off point for operational profitability the established service area definition now includes both these circles and thus established circles have increased to 15 service areas. The 7 remaining new service areas are the licenses and Spectrum won by Idea in November 2012 auction and these new circles now contribute to 5.2% of Idea's revenue. It is our endeavor to increase Idea's competitiveness in these 7 important new markets in the near future while maintaining a strategy of calibrated investments. The EBITDA margin in 15 established service areas continued its steady rise and has reached competitive level at 31.9%. This quarter standalone Idea cash profit is healthy at Rs. 17,438 million bringing down debt to Rs. 102,199 million and reaching an enviable net debt-to-EBITDA level of 1.39. With shorter technology life cycle Idea has completely shifted all network active assets to a useful life of up to a maximum of 10-years in line with global trends. The company is pleased to report its highest quarterly profit after tax on standalone basis at Rs. 4,829 million though boosted to a certain extent the dividends from Indus.

Point # 3, Active Subscribers – With discipline in terms of trade schemes and new customer acquisition offers the previous years increasing trend of multi-single user is on the decline. This effort has helped Idea reduce its overall subscriber customer acquisition and marketing cost by 3.8% largely due to fall in customer churn by 4.8% compared to Q1FY13 levels. The fall out of this approach is the gross additions in the market. Customers buying new SIM have fallen and the pace of VLR growth of the mobile industry is slower than in the period 2011-12. To quote TRAI VLR release till April 2013 the industry annual net VLR growth from May 2011 to April 2012 was 106.5 million which has fallen in May 2012 to April 2013 to 1/3rd level at 37.7 million VLR growth. In spite of the steep industry VLR decline Idea new subscriber growth fall is muted. In the period May 2012 to April 2013 Idea net VLR addition is 14.1 million out of industry growth of 37.7 million, an incremental VLR market share of 37.4% leading the market. In fact, the combined incremental VLR share of the top 3 operators in the same period is 101.5% against last year's share of

60.9% indicating the pace of industry consolidation. As of 1st May 2013 Idea's VLR market share is 16.6%, an improvement of 1.1% from 15.5% VLR market share as on 30th April 2012, the ARPU improved by Rs. 18 during the last 1-year from 156 in Q1FY13 to 174 in Q1FY14.

Point #4, Minutes of Use – As a company clamped down on free and promotional minutes the pace of Voice Minutes growth is slower than market projections. Idea is reporting steady 2.8% sequential quarter Minutes growth and 12.5% Y-on-Y growth to 147.3 billion minutes in Q1FY14. With an onset of early and heavy monsoon the Voice Minutes will be under threat especially due to lower usage by rural customers. Actual impact of price elasticity on Voice Minutes due to market discipline will only be known later during October to December 2013 quarter. Anyhow in the last one year Idea's MOU per subscriber has been on the increase with 19 minutes improvement from 379 minutes usage per sub in Q1FY13 to 398 MOU per sub in this quarter. Idea maintains a steady pace of capital investment on GSM business with an addition of 2,114 GSM sites during the quarter. As on 1st July 2013 Idea operates 92,208 GSM sites and company still holds a view that GSM business will continue to grow as another 250 to 300 million new customers will enter Indian mobile markets especially customers from rural markets and bottom of pyramid users in urban markets. The company is making steady progress in long distance fiber expansion crossing 75,000 kilometers and increasing our points of presence to 2,460 PoP for critical 128 cities primarily to serve Idea's high speed bandwidth requirement. The company has embarked on an ambitious plan to strengthen top 25 cities 3G capabilities and getting ready to handle speeds up to 42 Mbps and more. The NLD traffic growth has been steady at 15.9% on year-on-year basis reaching 12.6 billion NLD minutes during Q1FY14. Idea's ILD growth has been robust after the company acquired its own license in 2010. The company achieved 83% Y-on-Y growth in international voice calling segment reaching to the levels of 1.27 billion ILD minutes during Q1FY14. Company is also making steady progress on expansion of its ISD capacity.

Point #5 – Mobile Number Portability - Mobile number portability was implemented nationwide on 20th January 2011. During the first 2.5-years Idea has led the MNP business across all operators for over 27-months. Idea has a net MNP subscriber gain of 7.35 million customers as on 23rd July 2013. All of these customers have ported from other existing live mobile networks. The company is proud of its record and that one out of every 4 existing mobile customers who choose to port out preferred to be with Idea reaffirming growing preference for brand 'Idea.'

Moving on to the Wireless Data business – The pattern of Q1FY14 blended 2G and 3G Mobile Data performance is similar to the last quarter. In the current quarter while overall voice customer growth was steady at 3.4 million net additions Idea had higher incremental net quarterly data customer growth of 4.7 million in Q1FY14 on a back of 4.5 million Mobile Data users growth in Q4FY13. The overall EOP of Idea's Mobile Data users using EDGE and/or HSPA platform has reached 30.9 million penetrations of 24.7% of 125 billion. After a strong Data realized rate improvement in the previous quarter Idea held on to the Data ARPM in this quarter. The sequential quarter revenue growth of 19.3% is driven by 20.8% of Data traffic growth from 11.4 billion megabytes to 13.8 billion megabytes this quarter. The Data ARPU is steady at Rs. 54 per data user.

We are happy to note that global companies like Facebook and Google have noticed the unique Indian consumer need to use their applications on basic 2G GSM feature phones or low end smartphone devices. In a recent ET special feature report, Facebook shared how they are building different versions of Facebook for diverse type of mobile users. A basic Facebook version to attract a basic phone EDGE user to a slightly higher Facebook version for $40 'Low end smartphone' user and a full feature Facebook application for a $600 smart phone user. With every newer generation phone besides the unit price decline, technology is becoming more powerful converging the experience of a smartphone with a laptop. The megatrend of digitization is advancing even more rapidly and the fundamental changing the way consumer and society works. Idea's Mobile Data revenue as a percentage of service revenue is at 7.2% of service revenue. In the last 1-year Mobile Data contribution has increased by 2.7% of the service revenue. This trend is led by 92.2% Mobile Data traffic volume growth on Y-on-Y basis. The company in Q1FY14 reached Data volume of 13.8 billion megabytes a clear testimony to company's ability to manage global scale operations not only in Voice business but now also in Wireless Broadband business.

Moving on to the <u>3G business</u> – With the Honorable Delhi High Court order of no new 3G subscribers in Idea's Seeker circles the number of existing 3G users in service areas of Delhi, Bombay, Tamil Nadu including Chennai, Karnataka, Calcutta, Rajasthan, West Bengal, Bihar, Assam and North East are falling. The natural churn in 3G seeker circles has increased and traffic has declined. But Idea's 10 3G spectrum circles have more than compensated for the loss in the 'Seeker Service' areas. 3G active users this quarter has grown by 400,000 numbers on a sequential basis in spite of fall in 3G intra-circles Seeker roaming circles. EOP of 3G customers is now 5.5 million. Idea is pleased to share detailed KPI on 3G performance including volume of 3G data traffic, data usage per 3G customers and 3G data ARPU per 3G subscribers in a quarterly release. Idea is the first company to transparently share the full 3G information beyond 3G user number reporting. We are confident over time more Operators would come forward with their 3G KPI for the market to benchmark performance against the best-in-class. Idea has currently 10.5 million 3G device owners out of its reported base of 125 million and 8.7% 3G device penetration. We understand the developed economies have reached 35 to 45% 3G device penetration. The journey of device migration to 3G devices is a long drawn. Idea 3G data ARPU has steadily been climbing and is now at Rs. 109, an improvement of Rs. 20 in the last 1-year. This gives confidence that once the customer uses Idea 3G network his experience is good thus the immediate focus of the company is to increase 3G device penetration on Idea network. Idea progresses on its distribution plan through its own channel selling 3G high speed dongles and smartphones. The company in April to June 2013 quarter launched two new smartphones Idea 7th and 8th model launch in the last 18-months breaking the price barriers of Rs. 5,000 smartphones with a launch of ID-920. While 3G network expansion was slow this quarter with only 341 new 3G sites being added but Idea's commitment to grow 3G business in India remains high. The 3G Data traffic growth on a sequential quarter basis has been encouraging at 21% in Q1FY14 reaching 6.3 billion megabytes on back of 15.9% 3G data volume on quarter-on-quarter basis in Q4FY13. The company in the current quarter was largely able to hold on to its Mobile Data rates.

Data profitability is a hotly debated topic in similar economies within South East Asian telecom world, with data volume growing by leaps and bounds demanding significant capital investment Mobile Data business team has to move away from incremental cost model over voice business to full cost and separate data P&L model. Existing 3G data prices in India are among the lowest in the world and lower than its counterpart prices in Indonesia, Malaysia and China and similar sized economies. The need of the hour is to invest in capex, sales and distribution, marketing, content, application and promotional 3G devices to grow the 3G market rather than reckless drop in 3G access rates. The market is in its infancy state and needs the support from operators to develop the business. India does not have a strong alternative either in terms of fixed line network or sufficient PCs or laptop penetration and onus falls on Mobile industry to offer high quality Broadband Services to the Indians.

Moving on, recently the highly acclaimed best global brand study consultant Interbrand completed their study on Indian brands. Idea brand is ranked at #21 Indian brand with a valuation of US$815million. Globally, the value of strong brands and the role they play in enhancing business performance is widely accepted. Our brand continues to win multiple accolades in India and across Asia and stands apart as a strong Indian warrior competing with well entrenched foreign brands.

To summarize, Idea with its consistent network investment, marketplace agility, customer centricity and emphasis on building world-class Indian brand remains on course for performance-driven leadership in the

Mobile business. The company's strong balance sheet gives Idea confidence to overcome the current volatility and uncertainties of India Wireless business and benefits from emerging triple play telecom opportunities in Voice, Data and Video. I now hand over to Mr. Akshaya Moondra for more details on the financials.

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

Before moving on to quarterly performance, let me first explain the reporting changes from previous quarter. Firstly, the scheme of Idea Cellular Towers Infrastructure Ltd or in short ICTIL's merger with Indus became effective on June 11, 2013 and so ICTIL has ceased to exist. Accordingly, the IRU revenue and depreciation on the towers earlier given to Indus under an IRU arrangement by ICTIL are no longer accounted in the standalone financials. With this goodwill on consolidation of Rs. 17.8 billion is appearing in Idea's standalone balance sheet which gets eliminated while consolidating Indus.

I would also like to reconfirm that Idea's standalone figures in our press release and quarterly report continue to refer to Idea and its subsidiary and from this quarter it excludes ICTIL. Secondly, from this quarter onwards we have reclassified Mumbai and Bihar service areas as established service area. However, earlier quarter numbers are not restated.

Moving on to the quarterly performance on a standalone basis, the revenue at Rs.65.4 billion is up by 7.2% which but for ICTIL demerger would have been up by 7.9% compared to last quarter. The quarter-on-quarter revenue growth was driven by improvement in blended ARPM by 6.1% and increase in minutes on network by 2.8%. This has resulted in an impressive EBITDA margin of 28.2%, an expansion of 3.5% compared to last quarter. If the previous quarter is restated for ICTIL merger with Indus, then the comparable quarter-on-quarter EBITDA margin improvement is actually 4%.

During the quarter, the useful life of certain network equipment has been revised from 13 to 10 years. With this revision all active network assets now have a useful life not exceeding 10 years. Accordingly, an additional depreciation of around Rs. 1800 million was charged to P&L in this quarter. The estimated impact of this change for the full financial year is around Rs. 4,500 million including the charge for this quarter. I would like to clarify that ICTIL merger with Indus has an insignificant impact at the EBIT level.

The net debt as at the end of this quarter stands at Rs. 102.2 billion compared to Rs. 115.9 billion for the last quarter. The net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at a very healthy level of 1.39. The reduction in net debt has resulted in reduction of interest and finance cost despite the exchange loss of Rs. 230 million during the quarter. The standalone net profit for the quarter stands at Rs. 4.8 billion after accounting for a dividend of Rs. 838 million from Indus. The standalone cash profit for the quarter stands at Rs. 17.44 billion while the capex for the quarter was Rs. 3.3 billion.

As for the consolidated financials the contribution from Indus to the net profit was Rs. 637 million as compared to Rs. 412 million in the previous quarter. The dividend income gets eliminated while consolidating Indus and hence the consolidated net profits stand at Rs. 4.6 billion.

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

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

Sachin Salgaonkar: I have two questions. First question is on Revenue Per Minute. I wanted to understand your thoughts if this 6% Revenue Per Minute hike is sustainable and do you think Idea witnessed any negative elasticity leading to slightly lower-than-expected Minutes growth? Second question is I want to understand why Idea took an approval for equity raising right now; I mean your key regulatory payments are at least 18 months away and as you rightly indicated Idea is in an enviable net debt-to-EBITDA position, so I want to understand the reason for timing of this being right now.

Himanshu Kapania: Let me start with your first question. Yes, as we had mentioned we had a 6% improvement in average realized rate and we have also mentioned separately that growth is never a line function; it is always a step function. There is a model that we have pursued in the past and in that model for us the theme always had been growth. The model in the past was driven mostly by subscriber growth which led to volume growth. Now, we are experimenting with the second model of correcting the rates which had fallen to unreasonable levels. While we were growing at a very good pace in terms of revenue its translation to EBITDA was not at a healthy pace. We have now moved on to the second model where we clamped down on a large component of free and promotional minutes. We started the clamp down for new customers, its effect was seen on churn and then we have done clamping down on existing customers especially on our U&R programs as well as value vouchers, which give discounted minutes. This activity from our side is now complete. Now, we wait to see its overall impact on elasticity. On your specific question of have we seen impact on elasticity? It is an obvious factor that there would be an impact of elasticity when the overall rate changes. You are aware Q2 or the monsoon period is a weak quarter for us because we have a very higher percentage of customers from the rural areas and rural customers typically tend to speak less during the period of monsoons. So we wait to see if the overall impact of slower minutes growth than what we had also projected on account of elasticity has effect during the season. The right time to be able to give a clear indication of that would be in the period of October to December. Having said that, industry is operating in a disciplined manner. Same kind of fear was seen when we started reducing the trade margins on subscriber acquisition. Given the fact that in spite of trade margin reduction, Idea has 37.5% of incremental VLR share, we have been able to hold on to VLR growth and we are extremely confident that even with this (ARPM) change we will be able to hold on to VLR growth.

As far as the second question is concerned, while the larger portion of the answer will be given by Akshaya, I am going to make two or three important points on the need for equity raising. You are absolutely right that we have reached an enviable position of net debt-to-EBITDA. You are also absolutely right that for running our operations we do not need any cash. You are also absolutely right that we have a huge amount of headroom available to be able to increase our overall debt which has fallen down to very low levels. Having said that there will be bunching of payments that is going to happen. License renewal for us is due in 2015 and 2016. In our discussion with DoT, there is a possibility that DoT may ask for payments one or one and a half years before the license renewal and we need to prepare for that eventuality. Secondly, as you are aware that at this point Idea has not completed its Pan India footprint for the 3G and Wireless Broadband and we will evaluate opportune point of time for these. Having said that, this is an enabling resolution; this is not a decision of capital injection at all. We are very committed to be able to take any form of capital injection only if our business model gives sufficient return on investments as well as return-on-equity. If you noticed over the last one year, return-on-investment, return-on-capital employed, return-on-equity has been going up and we are reaching very competitive levels of performance and there is no reason for us to be able to do capital injection unless we are convinced as management that we will deliver business model which will enhance the overall return-on-equity. I will hand it over to Akshaya to add.

Akshaya Moondra: I have just very few incremental points there. Firstly, I think as Himanshu mentioned that the government stated policy until now has been that the extension of licenses has to happen 18 months before they actually fall due for renewal. Our earliest of the licenses come up for renewal in December 2015. Theoretically this could come in for extension and payment somewhere in April or May next year. We are just going by the stated policy. An approval from shareholders after board approval gives us a 12 month window to do if we so decide to do. This is an enabling resolution. We want to have that flexibility rather than starting to do something when we are close to that point of time.

Just one more point on the elasticity. I would like to mention is that one way to look at elasticity is what the elasticity is in terms of minutes of use. However, we also look simultaneously at elasticity in terms of revenue itself and the money value of revenue. We take our decisions based on both elasticity on minutes and elasticity of revenue.

Sachin Salgaonkar: This is very clear, Akshaya and Himanshu. Just a couple of follow-up questions. Firstly, Himanshu, you have mentioned on experimenting on second set of models. Now is it also true for the new circles or is it only true for the circles where you are an incumbent operator?

Himanshu Kapania: I mentioned to you that in circles where we are #2 to where we are #6 and #7, we are moving with a lot of confidence to be able to compete with the leader in that market, not on the strength of discount, but on the strength of our brand. We have confidence on the strength of the network that we have deployed in markets that we operate as well as on the quality of our customer service and the processes. We have been in the market for 18 years and confidence, on a quarter-on-quarter basis, of the company is growing and that is the reason we have gone for the changed model.

Sachin Salgaonkar: And last follow-up question is, Akshaya, you mentioned about enabling resolution of QIP being valid for 12 months. Does that mean if in the first 12 months you do not need money to raise then perhaps there will be a second extension for the next 12 months or how should we look at it?

Akshaya Moondra: Yes, if the period of 12 months expires then we have to go to the board and seek an approval again, if it is still required. If things become clear by then and this is not required, then we do not need to go to the board.

Himanshu Kapania: I just want to add that we are equally conscious of our dilution and there is no reason for us over-dilute if there is no need to dilute. Importantly if we will generate competitive and better returns on equity, then only we will inject this capital..

Moderator: Our next question is from Suresh Mahadevan of UBS. Please go ahead.

Suresh Mahadevan: I had one or two follow-ups. First one is obviously a lot of this RPM upside has come primarily on promotional tariff adjustments. I just want to understand, do you think the industry will at some stage hike headline tariffs because obviously headline tariffs fell quite a bit when there was excess competition. Now that competition is a lot less intense, when do you think we can expect some readjustment or reversion to headline tariffs? That is question #1. Second question is, with improving RPMs and growing data do you really feel there is going to be a lot more of frenzy from the spectrum? Obviously 3G was the time when we saw quite a bit of bidding and probably in hindsight maybe operators, perhaps Idea was a little exception because you only bid where you were very strong, overbid for spectrum, do you foresee such a situation because clearly there is a deadline with respect to spectrum coming up for renewal, but also the industry is seeing a little bit of marginal impact or tailwind in terms of better RPM, better margins, etc. I would really appreciate your color on both these questions.

Himanshu Kapania: Let me attempt to answer both the questions. Let me start with ARPM. As I mentioned to Sachin, the methodology for improvement on rates is not on a line chart on a quarter-on-quarter basis. Our model modifies rates in one-go that is why there has been a large change which has taken place last quarter. Now the improvement in our understanding would happen on a natural basis of a higher contribution from value added services which also has a significant contribution to ARPM. As far as changes on the Voice front, we have to wait and see an overall impact of this change on our growth model. For us the central piece remains our overall growth model and we want to retain our double-digit growth and in fact outdo the kind of projections which all the telecom experts have made and we remain focused on that. At this point of time, we are also closely observing the change that has taken place on the Voice side. Having said that, the Data, the way it is growing, will result in the overall RPMs to grow because the contribution of value added services will continue to grow. Now come back to the second situation, you are right there was a very unreasonable and unsustainable price paid in 2010 for the 3G spectrum. Is there a possibility of the same happening again in the industry? I will tell you what was different in 2010.

In 2010, there was no clarity or forward path of any other spectrum being available. However, the situation is quite different now. Government today has far more quantum of spectrum lying with it, then it is being in use by the private sector. It has a large quantum of spectrum available in the 1800 band, it has some spectrum available in 2100 and 2300 MHz band and over and above that there is spectrum available in the 700 MHz band. So the quantum of spectrum that is available to our understanding is more than 40% of the spectrum allocated today. There are also negotiations in the government to release some spectrum from the defense. So there will be oversupply of spectrum than demand. This is our own assessment and there is no need to panic for purchase of spectrum. It is our belief the government and the policy makers want to grow Wireless Broadband business. It needs serious policy interventions from the government as India has amongst the lowest penetration of Wireless Broadband. Obviously the spectrum valuation has to be reasonable enough for investors to come in and put large amount of equipment funds, to grow the Wireless Broadband business.

Suresh Mahadevan: Thank you. Really looking forward to auctions, the industry is doing much better because I think the last 5 years have been truly challenging. As an analyst I can say it was very challenging, but clearly running the operation you would have felt the challenges as well. All the best.

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

Shobhit Khare: A couple of questions. One is that for Idea we have seen a relatively better RPM improvement this quarter around 6%, while other operators have reported around 4%. So just wondering what has led to a better performance for us? And also what, in your assessment, is the risk that pricing discipline which we have been seeing in the last 2 to 3 quarters breaks at any point going forward?

Himanshu Kapania: You are right, we also noticed that. The only explanation that we can give that we have gone for changes across all our 22 circles. It is a known fact that Idea did not have a secular and a similar market share across 22 circles. We have our established circles, , where we had a higher market share and the new circles where we have very low market share. We were earlier following a differentiated pricing strategy across these circles, and as I explained in my opening speech, we have gone with lot of aplomb and confidence to be able to cut down and clamp down on our promotional minutes and free minutes even in our new circles. That is the impact that you can see of improvement of 2.5 paise on an overall basis. We do not have the KPI numbers of others on the data with as much granularity as we have shared and you will notice that there has been a good incremental contribution of Data for us over the last one year itself, about 2.7% improvement have come in Data which is also helping the current growth of overall ARPM.

Moderator: We will take our next question from Reena Verma of Merrill Lynch. Please go ahead.

Reena Verma: Just a couple of questions from me. Firstly, on the QIP and fund raising efforts, can you please perhaps reconfirm that this money will be used or raised only related to spectrum payments and is not being raised for a general M&A purpose, if that is possible for you to say so please? My second question is stemming from Page #14 of your quarterly report where you say that the balance sheet of Idea gives you confidence to benefit from emerging triple play telecom opportunities in Voice, Data and Video. I just wanted to understand why you think the balance sheet is a source of benefit with regard to market growth and what you were thinking here, is it with reference to LTE plans or is it with reference to M&A again, if you can please clarify that? My next question was on your Revenue per Minute and related to that your comments that the whole exercise of cutting promotions is now complete. Just wanted to understand why it is not an ongoing effort, why you are able to say so certainly that the exercise is complete?

Himanshu Kapania: Let me first address your question #1. The objective of QIP, If and ever we are going to have capital infusion in the company; and that is why I want to underline that if and when, it will not be for funding our current capex. Currently the company is generating free cash flow and we can manage our current operations. We do not need any support of capital injection for managing our current capex. We have also started declaring dividend last quarter. Capital infusion need could be basis of license renewals and/or additional spectrum; if and ever company finds that the overall valuation of the spectrum be reasonable to generate shareholders returns. The company has to be convinced based on spectrum pricing we can make a business model that far exceeds the spectrum value we need to pay including the cost of being able to borrow whether in form of equity or in form of debt.

The third possibility is that policy makers are changes in spectrum trading policy. The market today has a lot of companies who purchased spectrum, but are unable to use spectrum and there are possibilities of changes on a policy front which could be in form of spectrum trading or spectrum sharing. We do not want to rule out any of that. We are waiting to see a benign policy which will help grow the Telecom business and which can help us to be able to give better returns to the shareholders and our investors. Our focus of fresh capital infusion will be for incremental growth not being able to generate from current operations.

Page 14 that you talked about it more refers to not so much from telecom experts or analyst who focus on this, but on media which keeps hounding us about 100% FDI on an overall basis and company like us have to keep reminding the world that we have a strong balance sheet, we have ability to raise our own fund and we do not need an external party to be able to help raise funds. That is why we want to reaffirm the situation.

As regards to the third point on ARPM, what we are seeing at this point of time is that revenue models do not get changed. These models are tweaked on a periodic basis and we need time to understand the impact of these ARPM change. If we were to go back in Q3 of last year, when we started reducing trade margin and when we started reducing promotional minute for new customers, we waited and stayed course on that path for now over three quarters and we can see its impact on churn and sales & distribution cost. So, the experiment that we have started on ARPM, the change process is complete and its impact is extremely positive in this quarter and we have to see how long this impact continues to help growth. So the central mission that we are on is; growth mission and we will continue to be able to modify our revenue models to achieve growth which is consistent and which is profitable and sustainable and competitive. I hope that answers your question.

Reena Verma: Would you like to share with us any thoughts on what might be the risk to the anti-fragility?

Himanshu Kapania: Maybe Akshaya will like to try?

Akshaya Moondra: No comments as of now.

Himanshu Kapania: We have a traditional risk of volatility that you are seeing in the marketplace and we are closely watching the risk. We have been battered over the last 5 years as Suresh mentioned and we were able to overcome. In 2009, we were a very small company, we were #7, we moved to a clear #3 and we have grown about 7% in revenue market share. So we are war-ready, we are like warriors on the ground and every day we are ready to battle this. To us, Idea is among the truest example of ‘Anti Fragility’.

Akshaya Moondra: Reena, if I may just add there. If you look at the factors which have contributed to the improved performance in this quarter, these are not one-offs. These represent a direction which the industry and the business is taking, and to that extent I would say there is not that much of a risk and these are sustainable by nature. Of course, as Himanshu said earlier and as everybody is looking for is that what happens to the demand and what is the elasticity factor. We have to see that while one develops this model.

Moderator: Our next question is from Kunal Bora of BNP Paribas. Please go ahead.

Kunal Bora: A couple of questions. First, can you provide some views on margins going forward. There has been a significant 570 bps margin improvement over the last one year, do you see the current margin levels are sustainable. I understand there could be some pressure in Q2 as it is a seasonally weak quarter, but otherwise are you seeing any cost pressures excluding say, the spectrum payouts? That is question #1. No. #2 is already almost 25% of your customers are using Data. At what level do you think that number could saturate, what do you think is the potential for data penetration in India amongst your customer base? And lastly are you seeing any impact of 3G ICR ban on your high end customers in the circles in which you do not own 3G spectrum?

Himanshu Kapania: I will request Akshaya to talk about margins first.

Akshaya Moondra: As I was telling in response to Reena's question the step jump in margins was supported largely by improvement in realized rates as a result of reduction in promotions. Definitely what has been achieved, subject to seasonality as we have seen in the past years, we expect that this should sustain. I think in terms of cost pressures, the major cost pressures which are more predictable by nature we are seeing is in terms of energy cost increasing, but that is about it; the rest of it is normal inflationary pressures. The only thing I would want to add is that while there is a step improvement, if we look at the returns they are better than before but telecom companies are still not recovering their cost of capital. So to that extent I would not see that there is any reason why these (margins) should not sustain at current levels.

Himanshu Kapania: Let me address the other two questions. Your question on, we have reached 25% data penetration, where will it go? It is more important to dissect the current 25% customers, . As we reported there are 30.9 million customers who are currently using Data, only 10 million of them own a 3G device, so the maximum growth that we are seeing surprisingly is coming in from EDGE services and most of the growth which is currently coming in is from small town and rural markets. There is a lot of potential that we are seeing of Data, the need to access internet, even from a mid sized towns, smaller towns and beyond youth. We are also seeing applications which are beyond an email and social networking and number of applications which are becoming popular on the entertainment side and information side. Having seen this, there is no reason for us to believe that in the long run, if all types of consumer want to enter the bandwagon of accessing internet then why cannot penetration go up to as high as 70 to 80 or even higher percentage. That is what we are seeing. We were also surprised by the kind of profile that is entering the category or wanting to access data.

As far as the last question is concerned on 3G ICR, first and foremost, in our assessment we have a strong case and it is only a matter of time. We are still very hopeful the courts will get the contract back to its normal course as was the commitment at the time of the auction. It is about 3 months that ICR has been banned. At this point of time, we have seen that the customer that we acquired on 3G in the seeker circles we have been facing churn, the overall volume of 3G usage in these markets has also started falling. But have the customers left us for their 2G business. At this point of time, No. Our 2G business continues to grow. A lot of them have actually moved on to using EDGE on to our network and left the 3G services. We are not seeing a huge amount of pressure for our existing GSM business, but our growth on 3G in the seeker circles is not happening. However, it is more than compensated by growth in 3G volume & subscribers in our own 3G spectrum circles. This is an overall impact.

Akshaya Moondra: To add on to that in terms of overall impact on the company, we are getting compensated by the better performance in the circles where competition has been eliminated because the seekers cannot add any subscribers. So it works both ways, operators are benefitting in the circles where they are providers because there is lesser competition than before.

Kunal Vora: There is one follow-up to this. What would you prefer, would you prefer to buy 3G spectrum in these circles or would rather want to win the 3G ICR litigation and continue with this given a choice?

Himanshu Kapania: Our preference has been very much known that is why we enter into agreement, and there is no change in our stand.

Moderator: Our next question is from Sachin Gupta of Nomura. Please go ahead.

Sachin Gupta: Just two questions; one is obviously on this Data penetration rates that you are talking about and obviously if we get into the environment where the Voice pricing is rising or is stable, but is the Data penetration rises faster than expected, do you anticipate any risk of cannibalization which has been a bit of a common phenomena or a common problem elsewhere, so just some thoughts on that would be appreciated? And secondly I guess Himanshu one of the opening remarks you made is that the data economics has been a challenge, and India does not have the fixed alternatives as well so I was wondering in that regard are you happy with your network roll out? Is there a risk that you are going to accelerate from the network coverage we have in the country. Another small question, your D&A schedule actually has changed on the asset life has changed, is there something major that happened in the past quarter for the auditors to reassess the D&A policy?

Himanshu Kapania: I will ask Akshaya to talk about D&A, let me finish the first two questions. #1 question is if the data penetration increase will there be cannibalization from data line to voice? You are right in the developed world some degree of cannibalization has been noticed, but India currently operates world's lowest voice rates, our voice rates are anyway between $1/5^{th}$ to $1/10^{th}$ of the developed economies. Even in developing economies of Indonesia or China or in Malaysia our rates are at least half or one-third their rates. Given that and also the fact remains that currently the IUC regime is not so conducive. We believe that cannibalization especially on the local call volumes may not be a serious problem for the telecom sectors. Having said above, that is why that comes to the second important point is on data rates. That is why we have been repeatedly saying that if you were to grow the wireless data business, we have to continuously make larger investments in network as well as in handsets as well as growing application and content and if there is going to be cannibalization it is a natural process that data rates in India will again be rebalanced so that there is no more cannibalization.

Coming down to the second part of your question on network roll-out, as far as our company is concerned, we have been very consistent in our network roll-out. As I mentioned in my opening speech not only is it the 3G sites that we are increasing but also on the fiber rollout we are increasing our number of PoPs and these PoPs help in growth of high speed wireless broadband. We have 128 cities in the country where we have focused PoPs and we currently will be able to offer 21 mbps. We have identified 25 cities where we are increasing it to 42 mbps and it is our plan at this point of time in the next 2 to 3 years we would have taken all important cities to over 100 mbps. We are conscious of above facts and we are continuously investing to make sure that we are ready at the pace at which consumers adopt data. Data roll-out is extremely expensive and current realization on data is unsustainable and our belief is over a period of time the rates will only go up. I will give it to Akshaya to answer the third part.

Akshaya Moondra: Sachin on the question of depreciation I think it is our own prudent decision and we do this at least at the beginning of each financial year and look at the life of assets. We might have chosen to continue with the 13 years life and there are equipments on our network which are continuing to be used for that period of time but we thought given the way the industry and technology is developing, it was prudent to reduce the life from 13 years to 10 years so that is what we have done and as I mentioned in my opening remarks that now all our active network equipment is having a life of 10 years, nothing more than that. That is the point we wanted to reach and we have reached that point.

Moderator: Our next question is from Vinay Jaisingh of Morgan Stanley. Please go ahead.

Vinay Jaisingh: Very two small questions because most of the questions you all have addressed. First on traffic, the traffic this quarter did not grow probably because of ARPMs moving up but do you think it was because of the traffic the slowdown in the next quarter catching up in this quarter itself any thoughts on that. On the same part, where do you think traffic should grow for the country as a whole in the next two years, just a percentage number where do you believe that it would grow would be very helpful? That is my first question and the second is on capex. With us spending so much in depreciation, due you think the 35 billion capex number is going to be a little less? That is it from my side.

Himanshu Kapania: Okay, let me address the question of traffic. You are absolutely right that monsoon has arrived in the country earlier this time and typically in the month of June it is mostly in the southern part of India that gets affected. It is the first time that even North India has been equally affected, and we have been seeing some of the falls on account of early arrival of monsoon. On an overall basis it is difficult to be able to only mention about traffic, but our belief is two front; first and foremost that the GSM growth will continue to happen. We have had a slower growth in the last one year primarily because there were far too many multiple SIM single user customers and they are far easy availability of SIMs at much lower prices than to buy recharge coupons for existing customers. That trend is on the decline and once that gets over, you will see the new customers who are continuously entering the category, growth will be seen in the Industry. We reiterate, the GSM will continue to grow for a reasonable period of time, at least for another 250 to 300 million VLR customers will be added. I cannot only talk about traffic but on an overall basis our own internal assessment is revenue growth for this year and at least for the next two to three years will be far faster than what has been in the last two to three years. We are also extremely hopeful that Idea which is doing 1.5 to 1.7x revenue that of the Industry will continue to lead the revenue growth. I hand over to Akshaya to do the second part.

Akshaya Moondra: Vinay, the change in life of assets is not really going to impact the capex that we are incurring so I would say Rs. 35 billion is what we are keeping for now, that is good and good for I would say a couple of years to come for running the current business. Currently our capex is mostly growth driven and there is hardly any replacement capex there. As we go forward, probably the element of growth capex would come down and the element of replacement capex would come in, but it could happen at a gradual pace. So to answer your question, is 35 billion capex for a year looks good? yes, it looks good for now.

Himanshu Kapania: Just to remind Vinay and everybody on the call that most of our investments have been from period of 2009 to 2013, or at best from 2008 onwards, so we have almost a very recent network. We are far away from any form of replacement.

Moderator: The next question is from Sanjay Chawla of JM Financials. Please go ahead

Sanjay Chawla: I have two or three questions. One is, on the interconnect cost, this has grown by 1.7% at the consolidated level quarter-on-quarter whereas the traffic growth was 2.8%, so if you could just share your thoughts on that, why it has been slower than minutes growth. Secondly what was the reason for the decline in your sales and marketing cost which is around 11% sequential decline in the absolute cost alone at the standalone level because churn level still went up and gross adds were pretty stable quarter-on-quarter so what contributed to the cost decline? And finally there is Rs. 11 billion of cash inflow on account of change in working capital, they are two items there, Rs. 400 to 500 crores increases happened quarter-on-quarter, long term liabilities have gone up and there were short term loans and advances have gone down, so despite that the net debt reduction has been a bit lower, so just wanted some clarity on that.

Himanshu Kapania: I will let Akshaya talk about the first and the third question. I will address the question on sales and marketing. You are right, the sales and marketing costs have gone down by 11%. There has been a slight higher churn this quarter over the previous quarter. As we have mentioned, we are stay put on the program we started of reducing trade margins and even in this quarter we have reduced the trade margins we were offering to the trade in comparison to what we were offering in the last quarter. That is the one area which is very significant contributor to decline in cost. The second area which Akshaya can reconfirm is that our devices sale was far lower this quarter and which is also affecting a lower sales and marketing cost.

Akshaya Moondra: Sanjay, the absolute number of gross adds have been lower in this quarter also, so that also contributes to the reduction, on the sales and marketing side. On the working capital I did not get the complete details, but let me try and explain it to you. This always happens from Q4 to Q1. In Q4, we pay the service tax and the license fee at the end of March whereas in every other quarter we pay it after the quarter end, so there is a release of working capital from Q4 to Q1 every time. And it is the reverse from Q3 to Q4. Secondly, because of ICTIL demerger happening, there have been some current assets which have gone out, some liabilities which have been reclassified so just by looking at those figures it may not be possible to get the complete picture, but I think the net cash flow or the cash increase which you are saying is clearly reflected in our overall surplus funds which have increased by about Rs. 1000 crores.

Sanjay Chawla: Akshaya, I was just simply adding up your free cash flow, it is around 1400 crores, your cash profit less capex, and adding 1100 crores of volume working capital inflow that gives me 2500 crores of potential reduction in debt but your debt reduction is only 1300 to 1400 crores although part of that I believe is due to FX gains and losses, 400 crores, but that still leaves about 600 to 700 crores of gap, which I am not able to reconcile.

Akshaya Moondra: It is largely because of ICTIL demerger but I think this requires detailed discussion we could take it offline. I think it must have to do with ICTIL merging with Indus and their balance sheet going out and there was an element of current assets there, which have gone out of our balance sheet, because now if we look at Idea standalone balance sheet, then there is a goodwill on consolidation which comes there and some of that probably is reflecting there.

Sanjay Chawla: Your interconnect cost has grown by 1.7% sequentially, which is lower than your traffic growth in the mobile business, so what could explain that.

Himanshu Kapania: Obviously there are two reasons, 1) ILD traffic growth has been lower this quarter over previous quarters and the second is that SMS termination rate, if you may recall, have undergone a change. It used to be 10 paise and after TRAI ruling it came down to 2 paise. These are two significant factors, which has made the change.

Sanjay Chawla: Idea is a net payer of SMS Interconnect?

Akshaya Moondra: More or less balanced.

Himanshu Kapania: But it would reflect, as accounting is not on net balance.

Sanjay Chawla: Himanshu, just a follow up on your sales and marketing question. Device sales I have excluded while working out the decline in the sales and marketing cost, so that I understand has contributed to 25 to 26 crores, but that is separate, is there any discretionary cost element also which has gone down this quarter in sales and marketing.

Himanshu Kapania: No discretionary cost, absolutely no discretionary cost, the cost of trade margins has gone down along with gross adds. These are two, very significant factors.

Akshaya Moondra: But just, I think Himanshu's answer is on the cost of acquisition that also includes the A&P and there is some decline there also, so it is a mix of both figures.

Sunil Tirumalai: Most of my questions have been answered, but I just wanted to ask on the new circle profitability. The new reporting without Mumbai and Bihar, the losses over there have come down, kind of indicating that the Mumbai and Bihar circles are making loss, just wanted to tie this in with your comment about 10% market share being the benchmark for profitability.

Himanshu Kapania: Let me repeat, the experiment we started, we have had all round clampdown on free minutes and all round clampdown on promotional minutes whether it is established circles or new circles. The losses in our seven new circles have come down this quarter over the previous quarter, so that is the real answer.

Sunil Tirumalai: Would you be able to comment on the profitability in Mumbai and Bihar.

Himanshu Kapania: On an overall basis as we said, 10% is a right number, at which the circle starts making EBITDA positive, and we hold on to that statement.

Sunil Tirumalai: And finally on the churn, if you could comment on the increase that we saw quarter-on-quarter is that something to be worried about, just your comments would be helpful.

Himanshu Kapania: These are minor changes. We have changed our model from a 10% quarter-on-quarter churn now to between 4.5 to 5.5 number and we are closely watching the situation and we hope to able to maintain at the same levels.

Sunil Tirumalai: But you think this is in any way linked to your further reduction in commission?

Himanshu Kapania: The reduction in commission always will bring down a churn.

Sunil Tirumalai: No, in the sense that the retailer being less incentivized to ask a customer to retain Idea SIM Card versus pushing some other SIM card.

Himanshu Kapania: If you have lower schemes for trade then the propensity to be able to offer multiple SIMs continues to fall. Lower trade scheme and a lower consumer scheme helps in reducing churns.

Akshaya Moondra: What you are saying is, it will impact the gross adds, it will not drag the existing customers.

Sunil Tirumalai: No, in a situation when only you are continuing to reduce and others might still be holding on, that is the suggestion that I was talking about.

Himanshu Kapania: We are not disruptive on an overall basis, we are more or less aligned to the market situation.

Moderator: The next question is from GV Giri of IIFL. Please go ahead.

GV Giri: No.1 on 3G, you said that in the circles where you are essentially impacted due to stay order on 3G ICR, some of your customers are still stuck with you for 2G and you have not had a very bad reaction on your customer base. Now on the circles that you have your own 3G spectrum in, are you seeing any net positive result or there also it is sort of neutral, that is #1? And no 2, assuming that in your 3G traffic your capacity is not uniformly used up, but there might be pockets of concentration, etc., since you are growing your traffic at a fairly rapid pace now, how many quarters of capacity do you think we have left and can you stretch it out by your debottlenecking efforts.

Himanshu Kapania: No.1, as I have mentioned in the opening speech that the circle that we have our own spectrum, has more than offset for the circles where we had intra-circle 3G roaming arrangements and that is why on a quarter-on-quarter basis overall we had 400,000 subscriber increase and on a quarter-on-quarter basis we have a 21% traffic growth on 3G in spite of a fall in traffic in the seeker circles.

Coming to the second part of the question is that we still have huge capacity on 3G at this point of time and the capacity utilization is anywhere between 10% to 15% so there is a lot of scope for us to be able to use capacity in our circles. That is not a area of worry at all.

Moderator: Thank you very much, ladies and gentlemen, due to time constraint that was our last question. I would now like to hand the floor back to Mr. Kapania for closing remarks.

Himanshu Kapania: Quarter-on-quarter is an exercise which really helps the company to be able to understand how the market is thinking and the kind of incisive questions that we get from analysts helps us in fine tuning our overall strategy. So, thank you so much for logging into Idea Conference Call, and giving your valuable inputs. All the very best.

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