Vodafone India Limited Conference Call

May 11, 2022

Moderator: Good afternoon, ladies and gentlemen, this is Margreth, the moderator for your conference call. Welcome to the Vodafone Idea Limited 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. 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. Ravinder Takkar – MD & CEO of Vodafone Idea Limited and Mr. Akshaya Moondra – CFO of Vodafone India 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 this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions on today's 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 call over to Mr. Ravinder Takkar. Thank you and over to you, Sir.

Ravinder Takkar: Thank You Margreth, A warm welcome to all participants to this earnings call. Yesterday, our Board of Directors adopted the audited results for the quarter as well as full financial year ending March 31, 2022. All the results related documents are available on the website and I hope you had a chance to go through the same. As usual, I will start with a briefing on all our strategic initiatives and key highlights for the quarter. Post this, I will handover to Akshaya to share details on the Company's financial performance.

<u>The first priority area for us remains focused network investments</u>

We continue to follow a focused approach to investments, biased towards our 17 priority circles which contribute over 98% of our revenue. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas.

We have focused on refarming our 2G & 3G spectrum to 4G, which has added incremental 4G sites with minimal capex needed for software upgrade. We have closed around 32,000 3G sites during the year, while we added around 35,000 4G FDD + TDD sites. Resultantly, our broadband site count is moderately higher YoY at 455,264 vs 452,650 last year. The re-farming of 3G spectrum to 4G on majority of sites in various cities has substantially enhanced the GIGAnet 4G capacity which is now over 2.9x compared to September 2018, just after the merger. During the year, we have also invested in upgrading our core and transmission network.

Over the last several quarters, our network investments have been impacted on account of cash flow constraints in-spite of which we have managed to offer superior customer experience as reflected in our consistent top ranking in several league tables across data and voice. We have the highest rated voice quality in the country as per TRAI's "MyCall" app data for 15 out of 17 months between November 2020 and March 2022.

Our focus on leveraging new technologies and partnerships for a better tomorrow for Vi users has led us to showcase a wide range of 5G use cases during our 5G trials in Pune and Gandhinagar, to make our enterprises and citizens smarter. During our 5G trials, we had displayed many industry first use cases like "Network slicing", "VoNR" (Voice over New Radio) as well as several use cases related to enterprise and B2C.

<u>Moving on to market initiatives</u>

Effective November 25, 2021, we increased the prepaid tariffs across all price points including unlimited plans as well as combo vouchers by 20-25%. All these initiatives have been ARPU accretive, benefits of which have flown in this quarter as well as the last quarter. In comparison with pre-hike Q2 ARPU of Rs. 109, and adjusted for difference in days in the quarter, Q4 ARPUs are up 16%, reflecting the impact of tariff hike.

We also continue to focus on increasing 4G/UL penetration to help improve ARPU through various incentives and handset financing tie-ups. We are running several campaigns in select locations to incentivize our 2G handset customers upgrading to 4G devices including cashback on monthly recharges.

<u>On Business services –</u>

This will always remain a strength area for us owing to our long standing relationships with our enterprise customers as well our relationship with Vodafone group. We are progressing ahead in our stated strategy of transformation from Telco to TechCo. Our planned expansion of services beyond connectivity has seen good traction. We are working with partners and customers to build Private LTE solutions to drive Industry 4.0. On our Industry first Integrated IoT, we have seen numerous deployments of our Smart mobility, Smart Infrastructure solutions across FMCG, Manufacturing and Automotive sectors. Our Integrated IoT solutions are powering EV ecosystem across the value chain of tracking, battery monitoring and charging infrastructure management. The solutions have demonstrated RoI for our customers in their digital journey. We are working on our cloud strategy through a combination of our own assets and strategic partnerships in order to accelerate digital transformations for enterprises. Our long standing relationships with our customers continues to be our differentiator. We have been recognized by several CIOs in the country, global technology analyst and research firms for our IoT, Cloud, Mobility and Business Communications solutions.

<u>The next strategic initiative is driving partnerships and digital revenue streams</u>

We are aggressively executing our digital strategy through partnerships, with the objective to become a true integrated digital services provider.

In line with our focus to offer the best of entertainment services to our customers, we recently launched Music service on Vi app for our entire base. The service has been launched in partnership with Hungama Music. With this integration, Vi users can now listen to music on Vi app free for 6 months, for both android users and IoS users.

As Vi continues to strengthen its partnership portfolio, we partnered with Nazara Technologies a premiere gaming and investment firm to launch first gaming service, under Vi Games, accessible from Vi App by all Vi users. This service is available in two categories - Platinum and Gold Games, which offer incremental monetization opportunity.

Last but not the least, our next offering to Vi users is our newly launched service - Vi Jobs & Education on the Vi App in partnership with "Apna" that offers free priority access for Vi customers to India's largest job listing. This service will be available for all Vi customers at no additional cost. Further, Vi Jobs & Education in partnership with leading English learning platform 'Enguru' offers 14 days of free trial with unlimited interactive live classes conducted by experts. For our users we have some discounted pricing post the free trials while they will continue to have free access of some of the interactive, gamified, industry specific self-learning modules.

Another major initiative, Vi Jobs & Education in partnership with Pariksha offers the aspirants of Central/State Govt. jobs, one month free subscription to 'Pariksha pass' making the process of applying to Government jobs convenient for Vi users. This also includes unlimited mock tests across 150+ exams. At the end of the free period, users can continue at a nominal subscription fee.

On the back of all the digital initiatives, just in a period of last three months we have witnessed considerable growth in our Monthly Average Users (MAUs) on our digital app and we believe further acceleration is in pipeline in coming quarters. Our focus on our platform capabilities to build a digital ecosystem with our partners for a differentiated experience will help drive customer stickiness as well as provide incremental monetization opportunities.

Moving on to other highlights for the quarter

We registered the third quarter of sequential growth with revenue for the quarter growing 5.4% QoQ, which now stands at Rs. 102.4 billion, aided by the tariff hikes effective 25th November 2021. On equal day basis, this quarter we witnessed growth of 7.7% QoQ, highest since merger. Even on YoY basis, this is a first quarter with positive growth with revenue up 6.6% YoY.

The subscriber base declined to 243.8 million vs 247.2 million in Q3FY22, because of the tariff interventions especially on the entry level plans where we have seen maximum churn. However, the 4G subscriber base continued to grow and with 1.0 million customers added in Q4, 4G base now stands at 118.1 million. ARPU improved to Rs. 124, up 7.5% QoQ vs Rs. 115 in Q3FY22. On equal day basis, ARPUs are up 16% vs Q2FY22.

While data volumes were broadly flat for the quarter, daily data volumes were up 2.1% QoQ in-spite of price increase. We continue to see the increase in the data usage per 4G customer which now stands at ~13.9 GB/month vs ~12.9 GB/month a year ago. The overall data volumes in Q4FY22 thus witnessed healthy YoY growth of 7.9%.

A quick update on some of the major developments in the industry

Following the TRAI consultation on 5G pricing, all the operators had requested the pricing of 5G spectrum to be reduced by 90-95% and operators be given lenient payment terms like no upfront payments, longer moratorium period and lower interest rates. This will ensure the operators have sufficient capital to make necessary 5G investments and further the cause of 'Digital India' vision. TRAI has incorporated several of the operators' requests and the 5G spectrum pricing has come down by ~36%. TRAI also recommended the spectrum payments to be spread over the life of spectrum vs 50% upfront payment as in the previous auction, another step to help operators manage their cashflows more efficiently. We continue to engage with TRAI and DoT on some of these matters and expect finalization of auction details to happen in the next few weeks.

Let me talk about the **subsequent developments related to reform package**

The comprehensive reform package announced by the Government in September 2021 for the Indian telecom sector addresses several structural, procedural and liquidity issues. We have already opted for deferment of Spectrum and AGR dues as well as conversion of interest arising from such deferment into equity to improve our liquidity position. The effective date for calculation of the Net Present Value of the interest being converted to equity is January 10, 2022. The Net Present value (NPV) of the interest liability on moratorium period amounting to Rs. 161.3 billion towards AGR dues and deferred Spectrum liabilities has been confirmed with the DoT. With this, we expect the conversion process to conclude in the coming weeks.

Further, in line with the announced reform package, on March 29, 2022, the DoT issued direction to return the financial bank guarantees related to past spectrum auction. Till date, Bank Guarantees amounting to Rs. 160 billion have been returned, including reduction in BG's required for LF&SUC payments.

On fund raising

Both the Promoters jointly agreed to make a fresh preferential equity infusion of Rs. 45.0 billion. The shares were issued to the promoters at a price of Rs. 13.3 per equity share which is at a premium compared to floor price as per SEBI regulation. Vodafone Group, contributed Rs. 33.75 billion and Aditya Birla Group contributed Rs. 11.25 billion. The proceeds from this raise were used for working capital requirements, servicing and repayment of existing debt and general corporate purposes including capex.

The combined shareholding of Promoters after this preferential issue is ~74.99%. Post conversion of interest into equity, the government shareholding is expected to be ~33% while the Promoters will continue to hold ~50% on combined basis. This fund infusion reflects the promoters' continued commitment to VIL and their belief in long term prospects of the Company.

Further, the Board has also approved an additional fund raise of up to Rs. 100.0 billion through equity or equity linked instruments and/or other permissible modes in one or more tranches.

We believe, the government reform package and related developments, return of bulk of the bank guarantees till date, the industry wide tariff hikes and the recent promoter infusion are significant positive catalysts for the company. All these developments are being perceived positively by the investor and lender community aiding our on-going discussion on further fund raise. We will make suitable disclosures on the fund raising as appropriate.

With that, I handover to Akshaya who will share the financial highlights for the quarter.

Akshaya Moondra: Thanks Ravinder. A very good afternoon to participants from India and a good morning or evening as applicable to overseas participants. As Ravinder mentioned, average daily revenue for the quarter improved by 7.7% compared to last quarter aided by tariff interventions effective November 2021. Adjusted for Ind AS 116 impact, EBITDA was Rs. 21.2 billion for the quarter. This was higher by Rs. 3.2 billion compared to Q3 EBITDA of Rs. 16.5 billion post adjusting for one-off of Rs. 1.5 billion in network and IT costs. The improvement in EBITDA is on account of higher revenue, which is partially offset by higher subscriber acquisition costs due to higher gross additions during the quarter. It is also important to note that over the last three quarters, as we have seen sequential revenue growth, we have also witnessed strong EBITDA growth with the operating leverage playing out.

Capex spend was Rs. 12.1 billion in this quarter. With this, FY22 capex stands at Rs. 44.9 billion versus Rs. 41.5 billion in FY21.

As most of you are aware, we have successfully completed the preferential equity raise of Rs. 45 billion from the promoters. The board and shareholders have also approved an additional fundraise of up to Rs. 100 billion through equity or equity linked instruments in one or more tranches. We are in discussion with banks and investors for further debt and equity funding for investments.

The gross debt as of March 31, 2022, was Rs. 1,978.8 billion comprising of deferred spectrum payment obligations of Rs. 1,138.6 billion, AGR liability of Rs. 659.5 billion that are due to the Government. The debt from banks and financial institutions declined to Rs. 180.7 billion from Rs. 230.8 billion in last quarter, with significant bond repayments in this quarter. The cash and cash equivalence were at Rs. 14.6 billion. As a result, net debt at the end of the quarter stood at Rs. 1,964.2 billion.

As covered by Ravinder in his opening remarks, we have confirmed to the DoT on the Net Present Value of Rs. 161.3 billion towards the interest liability on moratorium period related to AGR dues and deferred spectrum liabilities. Post conversion of interest into equity, the debt will go down by this amount. The accounting treatment of this will be done once we issue the shares to the Government. Post the conversion of Rs. 161.3 billion, the Government shareholding in the company will be around 33% and the promoters holding will be around 50%.

With this I hand over the call back to Margaret 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 Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Thanks for the opportunity and congrats on consistent revenue growth in last three quarters. First question is on tariff, is the tariff hike benefit largely in the revenue now, or can we expect more in the coming quarter. Also annualized EBIDTA even after tariff hike is around Rs. 8,000 crores, while it's a good number compared to where it was, it's still low considering the high data usage. How do you expect to increase this further? Would you be dependent on tariff hike?

Ravinder Takkar: Thank you Kunal. Unless there were more questions, let me see if I can answer the two that you asked. On the tariff hike, I would say largely in the last two quarters, the price increase has flowed through into the results that we have seen. We saw our revenue growth in Q3, and we have posted our revenue growth in Q4 as well. I would say most of that has already flown in. There may be flow through on long benefitting plans, but I would say most of it is already flown through. Your question about the annual EBITDA, of course, we have seen improvement as was mentioned by Akshaya as well. We will see further improvement of EBITDA taking place through several products, one of which is more unlimited 4G adoption, which has continued to grow as of course, the mix of customers changes more and more from 2G to 4G unlimited. We expect revenue and EBITDA to grow as a result of that. The second increase will take place also as a result of some of the initiatives that we are doing around the digital area. As I said, we are starting to see good traction in those spaces. Hopefully, that eventually will lead to further revenue increases and of course resulting in ARPU increases that will take place accordingly. Last, which you talked about, is dependent on tariff hikes. We certainly believe that the industry needs more tariff hikes. We are just coming out of this one and this one is just getting settled in. But my hope is that we can see as industry see more tariff hikes. We've always stated that we would like to see the ARPU at least in the short term go up to Rs. 200 and then further increase up to Rs. 250 in the longer term, Rs. 250 or higher in the longer term. That is really the way in which we expect EBITDA and ARPU to grow.

Kunal Vora: On the first point, which you mentioned on unlimited 4G. If I look at the 4G additions, I think this year was about 4 million, lower compared to 8 million in FY21, and about 25 million in FY20, so it's been slowing down. Has the 4G opportunity largely played out or you see further growth coming in from the upgrade. I mean, like there will be some growth, but bulk of growth is behind now.

Ravinder Takkar: I don't think that the bulk of growth is behind us. We have a significantly large 2G base today. As we could see, there's a significant amount of 2G base as smart phone penetration increases, as our 4G coverage increases as well. We expect that over time, large part of this customer base eventually will migrate over to 4G and as a result, we see that certainly as an opportunity. I think we have seen that migration playing out already, and as we said, the pace has been maybe a little bit slower, but impacted by pandemic. As our coverage is improving and the quality of the network is improving, we have seen now three quarters of continued 4G subscriber growth that has taken place. We believe that there is a significant opportunity still from our base to continue to drive 4G and UL penetration.

Kunal Vora: You didn't mention cost savings as way to increase the EBITDA like you are in active discussions for tower renegotiation. What are your expectations from that? When do you expect to close that?

Ravinder Takkar: I think I've just answered and Akshaya will answer in more detailed. As you know when we had announced the merger, we had taken a fairly large target of over Rs. 8,000 crores of cost reduction over a 4-year period, we delivered already those cost reductions in the about 2-year period. Additionally, we had taken on a second project for further cost reduction of approximately Rs.4,000 crores, which was again delivered, in the last over 18-month period. The final numbers were all delivered in the end of last quarter. We believe our cost structure now is very, very competitive compared to our industry peers, as well as overall for the size of the network and the quality of the customer base and other programs that we are running. We always continue to look at opportunities for cost reduction, as we always should and we believe that materially, most of the cost structures have reached the right place where they should be. Of course, on tower contracts and so on those are opportunities that do come up and as tower renewals and rentals come up, there are further opportunities that we continue to pursue as well. So, cost optimization is not ever finalized. This is a continuing ongoing process, but I would say the big projects, which we had undertaken at the time of the merger, and then 2 years after the merger to deliver big savings have all been completed and we find our cost structures in a very, very competitive position. Akshaya if you want to add anything more, particularly in regard to the negotiations.

Akshaya Moondra: The tower negotiations are ongoing and we hope to conclude those soon, but beyond this, we will not be able to mention anything because these are ongoing discussions.

Moderator: The next question is from the line of Vivekanand Subbaraman from Ambit. Please go ahead.

Vivekanand Subbaraman: I have two questions. The first one, Ravinder what is your view on the tariff outlook in the near term, considering the cost pressures that customers are facing during all around inflation? We've seen that in the November, December tariff hike there was no adverse impact on demand basis your results and the results of one of your large competitors. How should we think about tariff hike say to get the ARPU up from the current 124 levels to the 200 levels that you are aspiring for in the near term. Second one is for Akshaya, in the notes there is a mention of Rs. 81.6 billion of money due in FY23 to lenders and another Rs. 68 billion long-term maturity of debt categorized as current liabilities, due to breach of covenants. What is the likely repayment scheduled for FY23 and since the DoT guarantees were returned on 29th March, is this having any bearing on your ability to negotiate lines of credit with bank?

Ravinder Takkar: Let me take the first one and then Akshaya will answer the second question. On the tariff outlook, as you mentioned, the price increase was very well taken, as you have seen in the results announcements that everybody is doing. We believe all of that tariff increase was absorbed and that has resulted in ARPU increases and revenue increases appropriately. As we look forward for further tariff increase, which I think is your question, first of all, I think we have to look at the fact that if we consider, let's say a short-term ARPU target of Rs. 200 and we look at the share of wallet from a telecom services perspective, compared to what we would call as the value that these services provide overall in the quality of daily life of the customers. It is very much essential services and provides a very good experience. The amount of data bundled are quite large.

Generally speaking from inflation perspective, as well as from a need and a share of wallet, telecom continues to be a very, very small piece of the overall consumer spend. We believe that this should create opportunity for us to continue to further increase tariffs down the road in the future. It takes time to do these things but certainly, I don't think that this will become the impediment at some point in the next one or two tariffs increases that the prices will become too high in terms of affordability of the customers. Even I would say that if we look at in this price increase that has taken place, the amount of churn or the reduction in customers is significantly small. It's not a very large number. As we noticed that it mostly related to lower-end customers and some consolidation that takes place in the market rather than people moving out of this particular category. We don't see that as a challenge. There would be some consolidation that takes place, but there is a long way to go, and the share of wallet is so small that we don't see that as to be a challenge in the short term.

Akshaya Moondra: On the question that you asked relating to the debt servicing. We have about Rs. 81.6 billion of debt servicing in the next 12 months, out of which a portion is going to be repaid out of cash margins which will get released or which have largely gotten released on return of bank guarantees. That would leave about Rs. 60 billion of debt to be serviced which will largely be serviced out of our internal cash generation. As regards the Rs. 68 billion which is appearing in current liabilities because of breach of covenant, these breach of covenants have been there for a while and this is just a technical accounting presentation. There is no likelihood of this being repaid over the next 12 months.

Lastly, the bank guarantees return was an important factor in terms of our discussion with the banks and after the bank guarantees have been returned, our discussions which had started post the reforms package with our lenders have progressed, and we are now looking at getting the bank facilities tied up post the return of these bank guarantees.

Vivekanand Subbaraman: I just have a couple of follow-up questions. One is with respect to the affordability and tariff hike outlook. Ravinder, is it fair to assume that the journey that the industry had embarked on in the last few years to correct tariffs, will that continue? And do you think that the churn being very low and given no consumer is leaving the category, will this mean that the pace of tariff hikes can accelerate versus what we saw in the last three years, or do you not foresee any change in that?

Ravinder Takkar: I think this is an industry topic, so it's very difficult for me to say, because this is dependent on multiple variables. But if I was to be telling my perspective, the pace can go faster for sure and I think there is an opportunity to do it. For the value that's provided to the customers, this is certainly not something that will create a challenge from an affordability perspective for the customers. We are providing great value even at the lowest end of the pyramid for great connectivity, so, these are all of possibilities but, sometimes they take a little bit longer.

From my perspective, all of these can actually move faster and certainly can be accelerated and I don't see any impediments for tariff hikes and the industry repair from not happening. I see that absolutely the right direction that we are moving in.

Vivekanand Subbaraman: Akshaya, the Rs. 81.6 billion debt servicing that is due in the next 12 months, you said that out of this we will be looking to repay Rs. 60 billion from the cash flow generated internally. Did I get that correct?

Akshaya Moondra: You are broadly right. Generally, the way to look at it is that there is an overall funding requirement which we have in our business plan. If I were to earmark, then this debt will be primarily repaid out of our internal accruals. Although, the other way to look at it is that there's a total need of funds, there is a total source of funds, and these are in most cases fungible. But that's the way to look at it, if you were to specifically earmark anything as the source of this repayment.

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

Sanjesh Jain: A question from my side. First on the tariff, sorry for sticking on it again on the affordability side, if we go back to pre Jio times the starting tariff used to be a recharge of Rs. 5. Now, the starting recharge is Rs. 99. Though on an overall basis, we are at a significant discount, but on the affordability, I think there is a significant increase in the prices. Do you think the ability to take the prices in the 2G segment versus 4G segment, there is a significant disconnect that a significant portion of tariff hike from here will come from 4G side and we see a limited headroom from here to increase the 2G side? Can you help us understand this?

Ravinder Takkar: Sure Sanjesh, let me try to do that. Yes, you are right that several years ago, the situation was such that you had even a very-very small recharge amounts that the people could do for a certain amount of usage. While there was a capability to recharge a very small amount that did not necessarily mean that their spend was limited to that. It could be that people were recharging on a daily basis, on every two-day basis and so on. In the end the monthly spend was not necessarily just limited to that, so from an affordability perspective versus the size of the ticket, I would say that that is certainly not the case. People may spend a smaller ticket item, but they were doing so many different recharges that actually the amount that they were spending was larger. In this case, actually what the benefits that the customers get, the total number of minutes and obviously now data as well that they get is significantly larger with a single recharge that could be done as opposed to the multiple recharges.

As you have talked about pre Jio times, if you look at the industry ARPU, as I mentioned before, it was over Rs. 200 w ARPU at that time and that is not inflation adjusted, and time value money adjusted. If you take that as real money basis, that would be much-much higher than more than Rs.350 to 400. So, from that perspective actually the affordability of the sector has become much-much more compared to those early days. The opportunity to actually go back up and raise tariffs has certainly not decreased. In fact, I think that opportunity absolutely exists.

Lastly, I on the other part that, since two and a half years ago, we didn't charge anything to just keep incoming going, then we moved up to Rs. 35, then Rs. 49, Rs. 79 now Rs. 99. We don't see people moving out of the category as I mentioned before. We see people potentially doing SIM consolidation. In the example that you talked about; it is very possible that the person who was recharging Rs. 5 a day was spending some other amount of recharges on another SIM at the same time, and they probably had four, five, six different SIMs that they were using at the same time. So, that consolidation has also resulted in the number of SIMs in the market going down, but not necessarily the number of users. The overall spend actually doesn't necessarily mean that the person is actually spending more now compared to before, they may actually be spending less, which again comes back to the point that I think there is an opportunity for us to do this without effecting the wallets of the customers to a point that they feel that this category has become too expensive.

Akshaya Moondra: Ravinder, if I may add, to some extent what you are saying is right, that in the earlier regime we had a fairly wide range of ARPUs which has contracted because of the pricing structure. Going forward, probably you will see that there will be lesser price increase as a percentage at the lower end and probably a higher price increase for higher usage, basically following the principle that if you use more, you pay more. Ultimately that is generally the rule in most businesses and we will gradually move in that direction, whereby the distribution of price increase may not be exactly a given percentage on all price points.

Sanjesh Jain: Fair enough. My second question on the premiumization which Ravinder mentioned earlier on 2G to 4G. If I look at last few quarters that premiumization has significantly decelerated. And the digital services, we haven't seen for other operators, those services materially adding to the revenue. In absence of these two premiumization, we are now heavily dependent on tariff hikes and these tariff hikes have to come on more regular basis. Is that a fair understanding or this is just a transitionary phase, and you think industry is phasing out for a much better monetization of digital resources?

Ravinder Takkar: I think you are right Sanjesh that first of all the movement from 2G to 4G, as I had mentioned earlier, we certainly see that as an opportunity, and I would not necessarily say that that opportunity is sapped out or there is very low opportunity there. A large part of our base today is on 2G, it is a loyal base of customers that use it. As 4G penetration increases, as handset penetration increases, these people will move to 4G, and we certainly continue to see that as an opportunity. I do not think that that opportunity is small or should be underplayed. I think that is a significant opportunity which we have, and we will continue to explore that and hopefully push that agenda forward.

With regards to digital services, digital services is very much, a longer play, but the strategy that we have chosen is distinctly different from some of the other players in the industry. Our strategy is very much partnership driven. Our strategy is about deep integration with key partners that we work with where we are curating experiences, we are providing specialized services to our customer base and in a way allow for usage of those services to be done in a very specific manner. I believe this provides us with the best opportunity for monetization compared to maybe some of the other methods where you have to build end to end services, you have to have the startup ecosystem to mature and so on. We are not doing any of those types of things. We are more going with the, who are the lead players, who are the right players to partners, and we don't compete with them. There's a true partnership opportunity and we believe that this will drive a very-very nice way in which the ecosystem of our customers and our strengths can be coupled with the partners to drive adoption of these digital services. Yes, they do take time to develop, but as I said, we have seen significant engagement increases and certainly some level of monetization starting to happen, and I believe that this will only accelerate as we go forward.

Sanjesh Jain: Thanks. This is a question on the cost side and the capex side. Cost side, how much we are believing that the renegotiation on MSA side with the towecos could help us in the coming year in terms of cost reduction from renegotiation? What should be the fair assumption there, that's one? Number two, on the capex side in absence of fundraising, is it fair to assume that we will be investing close to Rs. 10 billion per annum? And out of this, how much are we investing in the maintenance capex? One thing I wanted to understand is considering that there is a restriction on the capex and cash flow side, what's the situation on maintenance capex as of today?

Akshaya Moondra: On the tower rentals, we already mentioned these are ongoing discussions, so I will not be able to give you any indication at this point of time. As far as capex is concerned, we have had this limitation for some time and in the last two years we have incurred annual capex in the region of Rs. 40 billion per annum. As Ravinder explained, we are actively in the stages of closing our funding discussions so definitely this will increase from the figures that we have seen in the last two years.

In terms of what is maintenance capex, it is very difficult to identify in the telecom environment, because you replace the existing technology with a new technology whether you call it a maintenance capex or not. Most of the time, you do not replace an old equipment with a new equipment because of end of life. Mostly it is replacing with a new technology and it is very difficult to identify what is maintenance capex separately. All that I can say is whatever we have seen in Indian telecoms at least, everything is based on technology. There are equipment which you depreciate over nine years, but they are continuing to be used because the equipment continues to work, so really speaking no replacement capex. Especially in the context of our network, we also had some surplus equipment coming out on account of merger and consolidation, so we have sufficient spares available from a maintenance capex perspective.

Sanjesh Jain: Fair enough. Just one last question. On the 4G and 5G, considering that the 5G option is around the corner, can there be a situation for VIL to leapfrog from 2G to directly 5G in some of the location? Is that a possibility or do you think the transition requires us to first move to 4G and only then to 5G?

Ravinder Takkar: Sanjesh, I think 5G in my view is an add on to 4G. There is a SA opportunity that exists which is standalone 5G opportunity, but technology is not even quite ready yet. The standards are still being finalized. We are starting to see some very-very early roll outs of that across the globe. But frankly, I think that technology is still a little bit far away and probably given the mid band spectrum, from a coverage perspective and so on, it is not the right deployment that will take place today. So, we believe it is more layering on top of 4G.

When you specifically say for us whether the rollout would take place where we would skip 4G and go straight to 5G, actually the radio technology that's coming through all the radios, 2G, 3G, 4G, 5G are all integrated into single equipment. So, from an equipment and a capex perspective, you can deploy the equipment in such a manner that actually it covers all bands and provides all technologies rather than saying that we will have to deploy new 5G equipment and a new 4G equipment separate from each other. You can consolidate and put a single unit. In a place where we don't have a 4G coverage, if were to deploy 4G and 5G, we would use to it together rather than saying that we skip 4G. So, there's no separate equipment that we buy first for 4G and then you buy separate equipment for 5G, you just consolidate and put a single radio which will cover 4G and 5G as long as you have the right spectrum bands for it.

Moderator: The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I got a couple of questions. Firstly, if I look at on the engagement side, the voice volumes are down on a sequential basis. Data volumes are sort of flat. If adjusted for number of days also, it's up only 2% so clearly Vodafone Idea is losing out on the volume market share. Do you ascribe this entirely to the network capacity or is it more to do with the infrastructure available at an opportune time? How do you see this and what will it take to address it? My second question is regarding the network cost. This quarter there was a dip in the network cost, and I think if I look at IndAS 116 adjustment was slightly higher for network cost. What exactly is happening and why this is so, that I wanted to understand.

Ravinder Takkar: Pranav, I will take the first one, then I will leave for Akshaya to answer the second one. First of all, let me talk about the engagement part and maybe I'll take a minute to answer that in a more holistic manner. Somehow there's this feeling that there is lack of engagement from the customer side so let me address. While the overall number of minutes may have slightly declined, the MoUs per sub that we have within our network is in some ways quite strong. We have also seen in reality a slight growth in that space rather than a decline, because the important thing is to not just look at the total minutes, you have to look at MoUs per sub which is the right metrics to look at. If I look at the growth that we are starting to see over a period of time and the change that we have seen, you will see we are no different from where the industry and the trend that they have seen so, I think that's the first part.

The second part is on the data side which you have talked about. We are approximately now at 14 GBs per subscriber per month of data consumption. On a DRR basis is growth of 2.1% compared to last quarter and on a year-on-year basis it's approximately 8% increase. A customer that is engaged at 14 GBs per month, which is probably one of the largest amounts across the world, looking at any mobile subscribers, I would not refer to them as not engaged customers. They are absolutely engaged. If they are not abusing the network, that they are not necessarily just guzzling data, it is a good thing as we don't want abusers of capacity within our network. Our customer base at 14 GB is a very-very engaged customer base.

When we start adding on other things like the digital monthly active users, which I talked about, the numbers are going up. If you look on the social media and we don't necessarily always talk about it, but the social media and the engagement that we have from our consumers overall, I will say that we have a very engaged customer base. If we talk about enterprise customers and the engagement that we have, again, we find a very-very large and a very important set of customers that have been engaged. It is reflected in crowd sourcing third-party apps that are giving us leading numbers and we are best network on voice as well as on data. I would say that there is somehow feeling that we are losing out on the engagement with the customers is absolutely an incorrect perception. It is not the right way to present the numbers, I think it needs to be looked at in that regard. have been very comfortable and confident that our customers are very well engaged, and they continue to be engaged going forward and we don’t see that to be very different. In some cases, actually, we see that to be more positive compared to some of the other industry trends. Akshaya, over to you on the second topic.

Akshaya Moondra: Pranav, also to your point, on capacity where we have coverage, there is no limitation. Otherwise, there was no way we would have the best download speeds if capacity was a limitation, so capacity and quality of network is definitely not a concern.

On your question on the network cost, the post IndAS-116 figures in network cost partly are in depreciation and financing costs. I will try and explain it to you based on the pre-116 figures where we have seen a decline of about Rs. 211 crores quarter-on-quarter. Out of that, we have already given a disclosure that Rs. 150 crores is a one-off, which leaves about Rs. 61 crores. This Rs. 61 crores reduction is primarily on account of reduction in energy costs, which is on account of two reasons. One is we saw two less working days and that directly converts to a lesser energy cost for the quarter. Secondly, while the diesel price has currently increased but if you look at from Q3 to Q4, the diesel price has actually declined on an average, and that has also resulted in overall lesser energy costs. So, the real cost reduction quarter-on-quarter on a pre-Ind AS 116 basis is about Rs. 61 crores.

Pranav Kshatriya: A follow-up on that. If I look at the MoUs are around 610 minutes, the competition is roughly 850-900 thereabouts. Even on the data usage per customer it is around 14 GB, the competition is closer to 19 GB. So, clearly if I look at the comps, it is a much lower than what your competitors are doing.

Ravinder Takkar: I agree with you on the absolute numbers but that's not the point. The point you are leading to believe that it means lack of engagement and that is the part that I was trying to question and say that is absolutely not the case. It's not an issue of engagement with the customers. The point is that if you have a situation in which you have a set of customers who are using 20 GB of data, I don't know what that looks like and I can't comment on what other people do. But we find that we have a very engaged set of customers, and the metrics are going in the right direction and that engagement is quite high and that's what I was trying to refer to. It's not necessarily just about the fact that we have a number which is different than others, that doesn't necessarily mean that we have a lack of engagement. That was what I was trying to make sure that you will understand. That stats are of course available to you. Akshaya, go ahead.

Akshaya Moondra: As Ravinder explained, our absolute figures maybe lower and that applies to our ARPU, our data usage per sub or minutes usage per sub, because that is a reflection of the difference in the overall subscriber mix. What we were basically trying to emphasize is that if you look at the data usage per sub per day trends, from Q1 of this financial year it has been generally flattish and our trend is not different from the others. As far as the voice is concerned, while our reported Q4 MoU per sub is 610 minutes, if you adjust for difference in the number of days, it is 623 which is a marginal growth on the previous quarter. And this growth of minutes of usage per sub is coming after a decline of several quarters, which is the trend we have seen. What we are trying to explain is that actually the level of engagement with positive developments that have happened is showing an improvement on the voice side compared to the trends that we have seen before and on data side, we are more or less in line with the industry trend.

Pranav Kshatriya: Akshaya, one last question if I may. On 5G how we should see the company strategy panning out considering there is fair bit of spectrum available? Would you want to wait for a year or so before you start investing in 5G because the ecosystem is still not ready and possibly the cost may come down in that period. What does company think about 5G from a timing perspective?

Ravinder Takkar: Pranav, maybe I can answer that question first and then Akshaya can add to that. On 5G, as you know the TRAI team has come out with a set of recommendations that they have given to the DoT. The DoT is looking at those recommendations. I think our understanding is that they have gone back with some clarifications and modifications which are in the process and we will hopefully see a finalization of those in the coming weeks. I understand that there is internal approvals including cabinet approvals and so on that need to take before an auction happens. On some of those elements, we were working with the TRAI and there have been significant improvements especially on upfront payments and so on. There has been some reduction in pricing that has taken place, which has been helpful. Although we had asked for more and we will continue to ask for more price reduction with the DoT and all players in the entire industry are very much aligned on that part.

Also, they had made other changes in regard to the spectrum caps, which used to be earlier on the overall holding of the spectrum. Those have now for these auctions come down to within bands, which is quite important and critical because it allows for a very fair distribution of spectrum to take place between the players as opposed to a particular player holding a lot of spectrums so, all those guidelines are going in the right direction. What our strategy would be and how we would deal with the auction itself is dependent on the finalization of policies and the NIA and the details that come out once those have been finalized. As you can imagine, this is not something that we will be able to discuss today or before the auctions, but generally I would say that the TRAI has looked at this topic very carefully and the DoT continues to be engaged with us on some of the other recommendations that we are asking for and we hope to get even more improved terms than what TRAI and DoT are recommending at this point.

Moderator: The next question is from the line of from Piyush Choudhary from HSBC. Please go ahead.

Piyush Choudhary: Some of my questions have been answered. Just two which are interlinked. If there is more financial flexibility, what would be the desired level of annual capex by the company? And in that scenario which would be your focus circles where you will deploy the capital, applying the 80-20 rule which will be your focus circles for deploying that incremental capex?

Ravinder Takkar: Piyush, we have always said that we have 17 circles which are our priority circles, where 98% of our revenue comes through. Any capex that we deploy will always be given a priority to those circles and we have continued to demonstrate that in the last almost three and a half years since merger. To answer your question, if we had more capex then of course the priority will always be to those 17 circles. The amounts are a bit hard to say because financial flexibility is a very relative term, but certainly where we would spend the money and where the capex would be going to, would be in those priority 17 circles.

Akshaya Moondra: Ravinder, if I may add, in terms of our priority as you know we have a certain gap between the 2G coverage and 4G coverage and wherever we have 4G coverage already, we have good capacity. Our priority in terms of capex investment would be to cover the currently uncovered 2G areas where we don't have 4G coverage, and which will basically help our objective of then migrating our 2G subscribers to 4G networks and to unlimited plans thereafter.

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

Ravinder Takkar: Thank You Margreth.

We have reported three quarters of sequential growth and 4G subscribers are gradually growing despite all the tariff interventions. We remain focused on providing superior data and voice experience and are building a differentiated digital experience adding several digital offerings over the last few months. This will further help improve momentum in 4G subscribers. We successfully completed first tranche of fund raising in the form of preferential equity contribution of Rs. 45 billion from our promoters. We also continue to actively engage with lenders and investors for further fund raising. All these initiatives coupled with the significant liquidity provided by the Government reforms package and the recent tariff hikes will enable VIL to make network investments and compete effectively to improve its competitive position.

I thank you all for joining this call. Have a good rest of the day. Thank you.

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