“Vodafone Idea Limited Q1 FY24 Earnings Conference Call”

August 16, 2023

Moderator: Good afternoon, ladies and gentlemen. This is Nirav, the moderator for your conference call. Welcome to the Vodafone Idea Limited conference.

For the duration of this presentation, all participant lines will be in the listen-only mode. After the presentation, a question-answer session will be conducted. Should you need assistance during this 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. Akshaya Moondra – CEO of Vodafone Idea Limited; and Mr. Murthy GVAS – CFO of Vodafone Idea Limited, along with other key members of the senior management on this call.

I want to thank the management team on behalf of all the participants for taking valuable time to be with us. Given that the senior management is on this conference call, participants are requested to focus on key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that discussion on today's call may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risk that the Company faces.

With this, I now hand the conference call over to Mr. Akshaya Moondra. Thank you, and over to you, sir.

Akshaya Moondra: Thank you, Nirav. A warm welcome to all participants to this earnings call. On Monday, our Board of Directors adopted the audited results for the quarter ending June 30, 2023. All the results-related documents are available on the website, and I hope you had a chance to go through the same.

Let me provide a brief on our strategic initiatives and key highlights for the quarter. Post this, I will hand over to Murthy to share details of the Company's financial performance.

<u>Our first strategic initiative is our focused investment approach.</u>

We continue to follow a focused approach to investments biased towards our 17 priority circles, which contribute over 98% of our revenue and around 93% of industry revenues. This helps us in utilizing our CAPEX effectively while ensuring that we continue to offer superior customer experience in these areas as our network investments have been impacted on account of liquidity constraints.

Despite this, over the last 1 year, we have added more than 1,500 unique 4G towers and about 13,400 4G broadband sites. As a result, our broadband coverage as well as capacity has expanded. In our relentless pursuit to offer better 4G experience to our customers, we took upon a challenge to cater to the crucial connectivity requirement for the constantly moving Mumbaikars. We partnered with the best human network, the Dabbawalas, to test and improve the network for offering a superior network experience to its users. We got them to torture test Vi GIGAnet to understand where the network was seamless and where it needed strengthening on parameters such as data, voice calling, video streaming, gaming, et cetera. The team traversed the length and breadth from Mumbai City, testing the network strength of Vi GIGAnet across 22 wards and over 550 locations. Based on their feedback, a team of Vi network engineers continued to reinforce the network and the locations having weaker experience.

Today, we are confident that we offer superior network connectivity even in the nooks and corners of the city and the Dabbawalas are testimony to it. We also have the highest rated voice quality in the country, as per TRAI's MyCall app data for 28 out of 32 months between November 2020 and June 2023.

<u>Moving on to Market Initiatives:</u>

Our brand 'Vi', continues to garner good reception, building brand affinity across all customer segments in the country. The company continues to make extensive progress on the marketing front by communicating key differentiators to consumers, entering into alliances and introducing various innovative products and services.

With the holiday season, Vi promoted its International Roaming packs with 'Truly unlimited data and calls' on Digital. Vi is the only telecom operator in the country to offer truly unlimited data and call benefits on international roaming.

A unique night data pack "Chhota Hero" was launched to allow customers to snack on content during the night with unlimited data.

At The MOMMYs 2023 awards, Vi won 'Best Social Media Brand- Telecom' and 'Best use of memes'.

At AFAQs Marketers 'Xcellence Awards 2023, Vi won 5 awards - 1 gold, 1 silver and 3 bronze in the categories of Best use of influencer marketing, Best use of Instagram, Best use of short form video, Best performance marketing and Best use of influencer on YouTube.

We continue to focus on getting more customers on 4G/Unlimited plans for further ARPU improvements. We have seen ARPU growth for eight consecutive quarters now. Q1FY24 ARPU stands at Rs. 139 compared to Rs. 135 in Q4FY23; growth of 2.9%. You may recollect that in May we had piloted change in entry level pricing where the validity of Rs. 99 plan was reduced from 28 days to 15 days in Mumbai. We have expanded this to 11 circles now and we continue to observe the space and will make further interventions as we go forward. It is pertinent to note that there is no impact on ARPU in Q1FY24 as these changes were introduced in further 2 circles only by end of June and in other circles post Q1. That said, tariff rationalization on the higher usage plans and moving to a structure of paying more for using more remains critical to ensure the operators make reasonable returns on their massive network and spectrum investments.

<u>Moving on to Business services</u>

Business Services or enterprise segment, is one of our strength areas owing to our long standing relationships with our enterprise customers as well as our ability to leverage from the experience of Vodafone group in various global markets. We continue to make progress in line with our stated strategy of transformation from Telco to TechCo for our enterprise offerings. Our planned expansion of services beyond connectivity has seen good traction and we continue to work with multiple partners to make our offerings more relevant to enterprise customers.

We continue to strengthen our focus on the MSME segment. On World MSME Day 2023, we reiterated our commitment to catalyse the digitalization of MSMEs for enabling inclusive growth of the Indian economy, by launching our 360 degree program ‘Ready for Next 2.0’. The program supports MSMEs in digital adoption, transforming their businesses and helping them unlock the growth potential of their business.

Vi Business launched the ‘Unlocking MSME Growth Insights Report’. This report was a summation of the insights captured over the last 1 year of running the Assessment tool covering nearly 1 lakh respondents across 16 industries. The report also helps businesses to understand their own digital maturity and also of the industry that they compete in.

ReadyForNext 2.0 Digital Self Evaluation tool is an enhanced version with a more dynamic and personalized assessment which is focused on the MSME industry and annual turnover of the enterprise customer. With solutions like Vi Ads, email & device security, our exclusive MSME offerings are tailor made to enhance productivity, collaboration, customer reach and security in today's digital era.

To address the growing need for reliable and secure networking solutions, Vi Business has launched Hybrid SD-Wan, an enhanced proposition designed in collaboration with global tech leaders. Vi Hybrid SD-WAN helps businesses simplify and optimize their network infrastructure and enhance their security posture, while ensuring cost efficiency.

The next strategic initiative is driving partnerships and digital revenue streams

We have set a strong digital roadmap for the company and have been executing the same through strategic partnerships, in our continuing journey of being a truly integrated digital services provider. Over the last few quarters, we have significantly expanded our digital portfolio with addition of music and video streaming, gaming and e-Sports, jobs, education and digital advertising and we saw almost 25% YoY growth in daily users.

We have seen a strong traction on each of the digital services during the year. Recently, we launched a converged proposition 'Vi One' bundling mobility, fiber and over-the-top (OTT) subscriptions bringing convenience and value to the consumers under a single plan. It is an industry first for prepaid market. It has been launched in 12 cities across 3 circles of Mumbai, Maharashtra and Gujarat. While we are currently testing this out with our own You Broadband, we shall soon roll-out this proposition in other markets in partnership with other Broadband players.

Amongst the existing categories, while we continue to drive scale on our existing propositions on music & video, we are also working aggressively to have a strong proposition for the connected TV segment to get the next leap of growth, particularly to fuel monetization. Similarly, on Gaming, we have an exciting pipeline with a set of new partners coming on board to help accelerate the growth on both, user adoption and engagement. We shall announce the same in this quarter.

Based on all the transformation the Vi App & Vi Movies & TV app saw last year, we have seen significant improvement in our customer ratings on Play Store taking our app ratings to one of the best in Industry. We continue to maintain the same trend.

Vi Ads, our Ad-tech platform, continues to grow with newer brands coming on board as well as healthy trends on sustained campaigns from some of our key advertiser brands. Given our focus on the SME segment for Vi Ads, we also had Vi Ads as one of the key offerings into the MSME program – Ready For Next that we launched on the MSME day.

We would like to reinforce that we will continue to have a disproportionate focus to build a digital ecosystem with our partners, enabling a differentiated experience for Vi users, which will help us to drive customer stickiness as well as provide incremental monetization opportunities.

<u>Moving on to other highlights</u>

When we look at the industry revenue trend over the last few years, industry revenues are growing primarily due to regular price increases and customer upgrades. We also, for the first time since merger, witnessed annual revenue growth last year. We are confident that with the investments coming on-stream, we will be able to make more meaningful improvements in our overall performance and participate in the growth opportunities.

During the quarter, we registered improving 4G subscriber base for eighth quarter in a row and the 4G base now stands at 122.9 million. However, the overall subscriber base declined to 221.4 million vs 225.9 million in Q4FY23.

Despite subscriber loss, we registered the eighth quarter of sequential growth in average daily revenue for the quarter. Revenue for the quarter stood at Rs. 106.6 billion, a QoQ improvement of 1.2% aided by improvement in subscriber mix and 4G subscriber additions. ARPU improved to Rs. 139, up 2.9% QoQ vs Rs. 135 in Q4FY23 primarily aided by 2G to 4G upgrade and migration of subscribers to higher ARPU plans.

The overall data volumes were up 3.5% QoQ and we continue to see the increase in the data usage per broadband customer which now stands at ~15.7 GB/month. We have also seen an increase in voice minutes per sub for the third successive quarter.

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

Murthy GVAS: Thank you, Akshaya. A warm welcome to each of you.

<u>On the Quarterly Performance:</u>

As Akshaya mentioned, we continue our average daily revenue growth journey for the eighth straight quarter with quarterly revenue of Rs. 106.6 billion registering a QoQ improvement of 1.2%. This is also the eighth consecutive quarter of growth in ARPU and 4G subscribers. Quarterly EBITDA excluding IndAS116 impact was at Rs. 20.2 billion compared to Rs. 20.7 billion in Q4FY23, marginally lower primarily due to higher network expenses on account of seasonality and SG&A costs, partially offset by the reduction in roaming and access charges. The increase in SG&A charge is on account of higher amortization due to the downward revision in life of subscribers while the actual cost incurred has reduced quarter on quarter.

Excluding the impact of IndAS 116, the Depreciation & Amortisation expenses and Net Finance costs for the quarter stood at Rs. 41.7 billion and Rs. 54.6 billion. The reported post IndAS 116 Depreciation & Amortisation expenses and Net Finance costs for the quarter stood at Rs. 56.2 billion and Rs. 63.8 billion respectively. As explained during last quarter's earnings call, Q4FY23 had one time impact of reversal of accrued interest on account of government equity conversion.

Capex spend for the quarter stands at Rs. 4.5 billion.

The total gross debt excluding lease liabilities and including interest accrued but not due as of June 30, 2023 stood at Rs. 2,117.6 billion comprising of deferred spectrum payment obligations of Rs. 1,337.4 billion and AGR liability of Rs. 668.6 billion that are due to the Government, debt from banks and financial institutions of Rs. 95 billion and Optionally Convertible Debentures amounting to Rs. 16.6 billion. With cash & cash equivalents of Rs. 2.5 billion, the net debt stood at Rs. 2,115.1 billion. It is important to note that the debt from banks and financial institution has reduced by Rs. 57 billion during the last one year.

Further, we have submitted a letter to DoT that we propose to pay Spectrum Auction Instalment of Rs. 1,680 Crore towards 2022 Auction, which is due on 17th August 2023, by availing the grace period of 30 days with interest, in accordance with the terms of Notice Inviting Applications.

With this, I'll hand over the call back to Nirav and open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: First question is on the minimum recharge. Now that we have rolled it in 11 circles, how has been the initial impact of it on the subscriber churn rate, acceptance rate? And what is the potential benefit to the revenue we could see over a period of time because of this?

Akshaya Moondra: Thanks, Sanjesh, for the question. Actually, I would just want to add that we have actually expanded it to 12 circles. But in the 12th circle, the structure was a little different, and that's why we set that to 11 circles. So, in Haryana, we had done somewhat differently. Now this has definitely given us in this quarter, which is, I mean, in the current quarter, a positive revenue uplift net of the impact of some loss of subscribers. And I would say that the impact on the subscribers in initial period is not very much, but we will have to observe it for a longer period of time. And hence, I will not be able to kind of quantify the benefit of this. But definitely, we have had this in Mumbai for about 3 months now. Even after 3 months, this is showing a positive impact. In the other circles, this was launched later. But the circles which have been launched later have a higher component of these subscribers and definitely, that will give us benefit going forward. I hope that answers your question.

Sanjesh Jain: What have we done differently in the Haryana circle?

Akshaya Moondra: So, in the other circles, we had said that the pricing point of Rs. 99, the validity was reduced from 28 days to 15 days. In Haryana, we had actually removed the Rs. 99 price point and introduced an interim price point with the same benefits and with the validity of 28 day. The price point was Rs. 127. This, we had done as a trial in a one circle.

Sanjesh Jain: Second, on the comment which you initially made that we need to charge the customer as they use more pay more kind of a structure. This has been in discussion now for many years. While we have seen that unlimited remains the majority of the subscriber at least on the 4G and 5G, again, we have gone to the unlimited data pack, which is exactly opposite to what we have been talking, do you expect in the near term, say, in a year or 2, we will go to a more tier planned structure and unlimited will be for the higher end of ARPUs? Is it really a possibility or it's just an ambitious expectation?

Akshaya Moondra: I would say this is a very high possibility. You have heard at least 2 players specifically saying that that is the right way to go. And I would just say that today also, these are not unlimited in nature. You have a limit of 1 GB per day or 1.5 GB per day. The only point I want to highlight, which I have kind of mentioned in my earlier calls also is that today, we are equalizing the price in a way for somebody who uses in a wide range of 5, 6 GB per month to 28 GB per month. And that is where we believe that this is not the correct pricing structure. And the basic philosophy behind this is that at the entry level pricing, significant changes have happened over a period of time. And we believe that now the requirement is that pay as you use more should actually start applying. And the compression of the ARPU range that we have seen in the last few years, where if I were to just say generally, the ARPU range started from 0 because you could stay on the network without paying anything to a level of as high as Rs. 1,500 to Rs. 2,000.

Now that has largely compressed today to a level of Rs. 100 or Rs. 150, you pay for the GST from there and almost everybody can meet their needs at a plan of Rs. 500-600. So, at the entry level significant improvement has happened, which is good. But at the upper end for higher uses, the ARPU levels need to go up. And I believe this will happen for sure as we start rationalizing the tariffs.

Sanjesh Jain: The next question is on the postpaid category. We have seen, again, increased competitive intensity there in this quarter. And one of your peers is aggressively pushing the converged plan. While we have been protecting our postpaid customer, how is the postpaid customer not reacting to the competitive intensity? And are we worried because we cannot offer that kind of a converged planning over a medium term on the postpaid subscriber base?

Akshaya Moondra: So, on the postpaid, you would have seen that there is a marginal improvement. While there's an overall decline in subscribers, in postpaid we have seen a marginal improvement. This is somewhat coming from M2M. On the consumer side, it has kind of been more flattish. But I would say that we are holding on to our postpaid base. I know converged offering has its benefits. But until now, we have not seen it making any significant impact on the market as such in terms of movement of subscribers. As I mentioned in my opening remarks, we have also launched Vi One, where we are offering broadband plus mobility plus content with our own subsidiary, and we also intend to expand it with other broadband fiber-to-home players. And so, we will also have this offering. It's a means of attracting customers, but I don't think it has contributed to churn in any significant manner.

Sanjesh Jain: Got it. The next question is on the customer loss. It was somewhat low last quarter, but we have again jumped back to that 5 million, 6 million run rate we had for many, many quarters. When do you think this can sustainably decelerate and we go to a positive territory or until you think that we invest significantly into the network that looks a tough task?

Akshaya Moondra: We are doing interventions. Last quarter, we saw a good result. It was somewhat helped by the fact that competition had raised tariffs and we followed later on. So, maybe last quarter was better. But definitely, I mean, compared to the figure of 6 million where we were before that, we are down to 4.5 million. So, there is some improvement. And we will continue to make efforts to reduce this. But any significant improvement, whereby we can arrest this completely and start participating in the industry growth will require us to expand our 4G coverage and invest in 5G. So, that, is essential for this to be changing the direction from negative to positive.

Sanjesh Jain: Last question from my side is on the finance costs. I thought once we have converted the interest on interest on the equity, this was supposed to settle at lower than Rs. 63 billion kind of run rate, which was there until Q3. But again, we are back to the Rs. 63 billion. Why has the finance cost gone up? I think that conversion to equity would have taken some pressure off the finance costs, right?

Murthy GVAS: So, Sanjesh, as we explained in last quarter, the accrued interest for over 9 months was reversed, and therefore, what's coming in now is the period cost. The benefit of reversal that happened last quarter is not available this quarter. That was more of a one time, and that's the reason why I mentioned that even in my remarks.

Akshaya Moondra: Sanjesh, what you're saying is right that the conversion will impact and will reduce the financing costs to the extent debt is converted into equity. So, in that sense is correct and that is reflecting in our financing costs. And maybe you can have a separate off-line discussion with us so that we can explain you because finance cost is a lot of these month to month movements, which can kind of not make them comparable. But the conversion does reduce the interest, that point that you're making is absolutely correct.

Moderator: Next question is from the line of Aditya Suresh from Macquarie Group. Please go ahead.

Aditya Suresh: Mr. Akshaya, I had 2 questions. The first was more strategic. I'm trying to understand what's guiding your spending choices. And I guess the specific question was about sales and marketing versus CAPEX. So, when I look at sales and marketing, absolute spends have been steady over the past 3 quarters, the absolute level of spend in sales is now more than twice that on CAPEX, it is also kind of much higher compared to any time in the past 5 years. So, can you help throw some light on this in terms of what's guiding the choices here in terms of spending sales, marketing versus CAPEX?

Akshaya Moondra: Did you have one more question? Or this is the only question here?

Aditya Suresh: The second question was more on cash flows, where I was hoping for, if at all possible to get a number on what was CFO less CAPEX, less lease and less interest payments in this quarter?

Akshaya Moondra: So, let me answer the first question, and I'll understand the second question after I've answered the first question. So, it says the comparison which you're making between SG&A and CAPEX is not so much a question of choice. When you're looking at the SG&A expense, you have to be competitive in the market. And the current SG&A costs reflect the market intensity. However, you would have noted, and as Murthy had explained in his opening comments, that some of the P&L charge of these expenses have been impacted because of the change in life of customer. But quarter-on-quarter in absolute terms, these costs have reduced for us from Q4 to Q1. And also, we had reduced these costs from Q3 to Q4. So, for2 successful quarters, we have actually reduced the cash cost in this category.

However, we have to be competitive in the market. But the interventions we've made to focus on the quality of customer and eliminate some waste there has given us positive results in being able to contain that cost. If you are not competitive on that front, then ultimately you will see a challenge on revenue growth, which will suffer. So, it's not so much a trade-off. Our current CAPEX is based on our current liquidity situation. But we are in the process of making funding arrangements. And once we are back to investment, as I mentioned, I don't see any reason why that will not help us to kind of grow our business and start participating in the industry growth.

Aditya Suresh: Great. And the second, just to clarify, I was hoping for an update on the cash flow statement. So, is there a number which you are able to share on cash from operations less your CAPEX, interest and lease payments?

Akshaya Moondra: You mentioned lease payments, I mean, let me just tell you that while our reported financials are based on lease accounting 116, we also, in our quarterly report, gave data which is more reflective of cash EBITDA. And to that extent, our cash EBITDA has been north of Rs. 20 billion for the last few quarters. So, that represents cash generation. The CAPEX figures are also reflected. This quarter, it was Rs. 4.5 billion. That is the actual CAPEX incurred, but the actual cash outflow, again, is much lesser. So, regarding financing cost, broadly speaking, the cash outflow would be in the region of Rs. 3 billion to Rs. 4 billion in the quarter.

Aditya Suresh: I guess the real heart of the question was actually I was trying to understand like are we able to get to pay our suppliers and have the organic means to do that? And based on your answer, it seems like on the cash basis, we can continue to pay our suppliers and remain in operations while we're kind of looking for that external funding.

Akshaya Moondra: So, Aditya, just to be clear that we have had an accumulation of vendor payments, which was kind of reflected in our financials. This particular quarter, which is Q2, we had significant payments of debt for which, as we have disclosed to the stock exchange, we have received a letter of support from the promoters also of up to Rs. 2,000 crores or Rs. 20 billion, so that is there. With cash generation and with that support from the promoters, we will be able to manage our payments in this quarter.

From next quarter, actually, our debt servicing burden goes down significantly. So, we are roughly at the level of Rs. 5 billion in the next quarter for debt servicing, followed by about Rs. 17 billion in the following quarter and another Rs. 5 billion. So, if you look at over the next 3 quarters following this quarter, our debt servicing is only Rs. 27 billion as against our cash generation in the same period of about Rs. 60 billion. So, once we are through with this quarter and we are able to manage our payments with the help of the support from promoters and also some nonoperational cash inflows, which we are looking at, we will be able to then manage and start unwinding the vendor dues from the next quarter.

Moderator: Next question is from the line of Hemang from Anvil Shares. Please go ahead.

Hemang Kotadia: Sir, what is the status of the funding that we are going to tie up with the promoter and nonpromoter? And any incremental debt funding? That was my first question. And second question, on the CAPEX front. So, if we are not getting the funding upfront for 1 or 2 quarters, so what would be the CAPEX guidance for the current year? That are the 2 questions I have.

Akshaya Moondra: So, thanks, Hemang, for the question. On the funding, I had given some commentary last quarter. I would say that in the last 2 months, our discussions with multiple groups of investors on both equity and equity-linked instruments has progressed. It has gained a lot of momentum, and we have seen a very good progress in the last couple of months, particularly in the last 1 month where some of these discussions have started progressing to a level of due diligence or proposals being discussed with these investors. We are making good progress, and we expect to conclude these discussions in the coming quarter. So, that is as far as the equity funding is concerned.

As far as debt funding is concerned, we have been engaged with a consortium of banks for a long time. Generally, their ask is that equity also needs to be tied up. So, as we already disclosed that the promoters have already given support for Rs. 2,000 crores of equity, some external equity needs to be tied up. And with that, the bank funding will also be tied up. So, we expect to conclude all these funding arrangement in the coming quarters. And once that happens, then we will be able to continue our investments. Any specific CAPEX guidance, we will be able to give only after that is tied up. Until then, our current level of CAPEX, which we are incurring in the last quarter, would be a representative level of CAPEX for us.

Moderator: Next question is from the line of Aliasgar from Motilal Oswal. Please go ahead.

Aliasgar Shakir: First question was on the subscriber churn. Now I see that in this quarter as well as in the last few quarters, the churn is mostly at the overall level, while 4G and data customers have kind of remained flattish, in fact, seen moderate growth. So, if you could just give some color, this subscriber churn, is it happening in basically feature phone customers who may -- I don't know, whether they are consolidating with the tariff increase we have taken in recharge vouchers? Or is it typically the smartphone customers who may be probably churning out probably if they are upgrading to a data or 4G connection? So, if you could just give some color in terms of where is this churn basically that we are seeing?

Akshaya Moondra: So, you see at some level, the churn happens across the ARPU levels and across all kinds of users, and some of this is rotational churn as you would see in the industry, so that churn is across board. But if you see where it is skewed, the fact that our ARPUs continue to increase, our 4G subscribers continue to increase, that is a reflection of the fact that the churn is more skewed towards the lower ARPU subscribers. And as you said that as the entry-level prices kind of start increasing at the minimum participation price, you would see some consolidation of dual SIMs happening, although that was not the factor for us in the Q1 because we had just done this for any significant period of time only in Mumbai. But at an industry level that would be a factor. But mainly to answer your question, it is skewed towards the lower ARPU categories of subscribers for us.

Aliasgar Shakir: So, I mean, just a quick follow-up. Basically, we're not really seeing customers moving out probably as they upgrade to 4G. I don't know if we are able to track that.

Akshaya Moondra: I mean, we are able to track that. As I said, there is addition of subscribers in all categories. There is churn of subscriber in all categories. The overall industry churn is much higher. I mean that's the nature of the industry today, that you have a significant higher quantum of gross adds in the industry and the net adds is quite less compared to that. And that is because there's a lot of rotational churn. So, if you will look at churn in every operator, while the quantum may vary, but everybody sees churns across categories of customers whether it is 4G, whether it is higher ARPU or lower ARPU.

Aliasgar Shakir: Second question on the tariff hike. So, I mean, we have followed the other player in taking tariff hike in the minimum recharge category. But there has been some, I don't know, reservation in tariff hikes in the unlimited plans. So, I mean, if you could just give some sense in terms of how the situation is there. Would we take the lead over there? Or I mean, because of the churn that we are seeing, we may be ready to take a lead over there? And what could be time lines that we could see? Or do you think this will be some time away, any tariff hike in unlimited plans?

Akshaya Moondra: I had mentioned in the last earnings call also, at this point of time, we would expect the market leaders to take the lead in making any tariff changes. We have always reiterated that tariff changes, and I mentioned that in the early part of today's call also, that tariff changes in the higher level of consumption are absolutely essential for the industry's health. So, if the market leaders are taking any actions, we'll be very happy to follow. That is something which we have been reiterating all the time. In terms of whether we can take the lead in making these price interventions, we would be able to do that once we are back to investing. But till then, we would look at the market leaders, and we'll be very happy to follow.

Aliasgar Shakir: And last question, I'm sorry if I missed it. You mentioned obviously the Rs. 1600 crore spectrum repayment. But apart from that, what are the other repayments coming up in this year? I think you did mention, I don't know if I missed it.

Akshaya Moondra: Yes. I mentioned that we have slightly more debt repayment in this quarter, and that is why we have received a letter of support from the promoters to support us to meet those obligations. So, that is regular debt obligations, which are more than the usual. As I said, that this quarter, we had higher debt servicing for which we are getting that support letter from promoters. But from next quarter, our debt servicing goes down significantly. And next quarter, it is only Rs. 5 billion of debt servicing that is there. So, there's a bit of, let's say, the overall debt servicing in this year is less than last year. However, the fact that it is kind of a little more bunched up in Q2, we needed the support from promoter. But once we are towards the end of this quarter, actually our external bank debt will be less than Rs. 60 billion. Really speaking, the external debt, which is the bank debt, will come down significantly post this quarter, and our debt servicing going forward will be much less.

Aliasgar Shakir: So, did you mention that Rs. 60 billion of overall repayment coming up in this year apart from this Rs. 1600-odd crores spectrum payment that we have in 2Q?

Akshaya Moondra: No. The total debt repayment including the spectrum payment was more in the region of about Rs. 70 billion.

Aliasgar Shakir: Rs. 7,000 crores, right, basically, apart from the Rs. 1,600 crore odd we have for the 5G repayment. And this Rs. 7,000 crores is coming up for repayment by what time?

Akshaya Moondra: Q1, we have already paid. So, this figure of Rs. 7,000 crores is from Q2 to Q1 of next year. It would be sufficient to say that this debt schedule and business information is available in our annual report. You can take a look there, the quarterly detail is given. Without getting into too much detail there, what I'm telling is that for this quarter, we'll be able to manage our payments with the promoter support. And from next quarter, our cash generation will be more than debt obligation, which was not the case for the previous few quarters. And so, we will then be in a much better position, be able to kind of reduce our vendor payables, which have accumulated over a period of time.

Moderator: Next question is from the line of Aditya Chandrasekar from UBS Group. Please go ahead.

Aditya Chandrasekar: A couple of questions from my side. Firstly, on the 4G subs, so every quarter we have typically added 1 million to 1.5 million subs in the last, say, 4, 5, 6 quarters. This quarter has almost been flat, I think, 0.3 million subs added this quarter. So, just wanted to see how you're looking at the 4G subs trend. Are we seeing the impact of the competitors having 5G and therefore, are 4G subs also kind of preferring competitors because of their 5G service? Though, I don't know, performance-wise, it makes a difference, but I just wanted to get your thoughts on that.

Akshaya Moondra: So, let's say, our 4G subs last quarter, the increase was 1 million, roughly. And that was in a situation where our net subscriber loss was much lesser, this and which I said was largely coming from the benefit of there being a price intervention by competitor, which we have actually done in this quarter. So, that has given us a benefit in the last quarter. This quarter, we have seen a larger churn of subscribers. So, that has also impacted the net addition of 4G. But growth of 4G subscribers remains our focus area, and we continue to work on that as to how to just upgrade our subscribers.

Now one is, of course, you upgrade subscribers from 2G to 4G is one category. Secondly, is within the 4G segment also, you try to move the subscribers to a higher plan. Amongst the 4G subscribers also, you will have some subscribers who are not on dual plan. And that is another area which we continue to focus on, and that is why you have seen that our ARPU has actually grown from Rs. 135 to Rs. 139 in this quarter. While 4G is a good measure of what is happening, but the most important measure to our mind is the growth in ARPU. And that is what we continue to remain focused on.

Aditya Chandrasekar: Are we seeing any impact of any kind of increased churn because the competitors have 5G now especially in the 4G subsegment?

Akshaya Moondra: It would be wrong for me to say that it is having no impact at all because definitely we don't have 5G, and competition has 5G, but I would say it is not significant. There has been no significant impact that we are seeing until now because of 5G. And as our funding gets started, we will roll out 5G also. So, it's a matter of time, not that we will not roll out 5G.

Aditya Chandrasekar: And secondly, on the minimum recharge plan, so Bharti has increased it to Rs. 155, and I mean, assuming that the JioBharat phone picks up, et cetera, that's at around Rs. 125-odd, what stops us from taking our plans from Rs. 99 Rs. to 155? Because the subs don't really have another option, right? I mean we will see some churn, but I just wanted to get your thought process on that.

Akshaya Moondra: So, maybe, Aditya, you joined a little late. We had a discussion on this topic, but we have also withdrawn the 28 days validity plan. And in 12 circles, our minimum entry plan for a 24-day validity is Rs. 155 already except in Haryana, where we have a non-unlimited plan, which is still available at Rs. 127. But in 11 circles, minimum entry plan for 24 days validity is already Rs. 155 for us also. And we will continue to expand this to other circles. We've been a little staggered in our approach of launching this, and we've continued to expand this to other circles also.

Aditya Chandrasekar: And lastly, the promoter support of Rs. 2,000 crores, is it from both promoters? Just wanted to check.

Akshaya Moondra: We have made a disclosure to the stock exchange that it was from one of the promoter entities.

Moderator: Next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: And I'm sorry, I joined the call late. So, if you already answered some of the questions, you can skip them. So, I wanted to understand on the letter of support from the promoter, can you provide some d etails whether it will be debt, it will be equity and like what are the time lines?

Akshaya Moondra: So, the letter says that the support could be either direct or indirect, direct would be more in the form of equity. If it is debt, it would be, in some way, supported by the promoters is what my understanding is. That is what the promoters have in mind. So, funding will be made available as and when required by the Company. If it has to be equity, then you are already aware that there is about 30 to 40 days' time line required for completing the process. Any bank funding which is based on promoters support can be arranged fast. So, depending on the time when this is required, they will arrange accordingly.

Kunal Vora: So, when do you need the funding? You mentioned it will be provided as needed. So, when do you need the funding?

Akshaya Moondra: There are multiple discussions happening on funding. At the earliest, this may be required in September. And it may not be required at all depending on some other discussions which are happening.

Kunal Vora: Second is on the 5G rollout obligations. Like what do you need to do? How much CAPEX will you need to do if you want to meet them? And what are the implications if you are not able to meet the obligations?

Akshaya Moondra: The CAPEX for just meeting the MRO obligation is not very much. I'll not want to get into figures at this time. Needless to say, our intent is to not look at only doing the MRO thing, we would want to roll out a commercial network. Just in terms of consequence, we had done some calculation. In any case, out of the 17 circles where we have acquired spectrum, and 2 of the circles we have already filed for compliance, where we have done some minimal investments. But in the remaining circles, as per the NIA, there is liquidated damages, which are applicable. If we look at the 15 circles where we have not rolled out currently, over a period of 26 weeks, this amount is up to order of about Rs. 12 crores to Rs. 13 crores.

Kunal Vora: And on the SG&A cost, like if I look at last 2 years, it's an increase of almost 70% while the network cost is flat. Is there a way we can go back to the levels of SG&A costs you had 2 years back? Or something has structurally changed and thus we need to build on top of where the cost is right now?

Akshaya Moondra: SG&A cost is a direct reflection of the number of gross adds adding in the industry. Now one of the factors which has also impacted the costs starting somewhere in the COVID period is because the SIM prices have gone up. That has started correcting and that part should come down. However, the market competitive intensity has gone up because of which the level of gross adds has gone up and that has taken this cost up. We would be very happy if initiatives are taken by the industry to kind of curtail this practice because if you really look at the total industry cost being incurred at a net add level, this is very, very high. But it has to be a bit of an industry concerted action, whereby the gross acquisitions are driven more by the quality and the desire of the customer rather than by market incentives, which seems to be happening right now.

Kunal Vora: But if the churn level does go down, do you think the SG&A costs can come down meaningfully from current levels? Or we should not bill that?

Akshaya Moondra: Yes. If the level of gross additions comes down, that will definitely reduce the cost.

Kunal Vora: And lastly, on the postpaid, the customer additions, prima facie it looks strong. Is it M2M or it's like real customers?

Akshaya Moondra: So, on the postpaid in this quarter, the consumer numbers, there is a marginal change improvement, and the bulk of the increase is coming from M2M. However, we have made interventions in our postpaid strategy, both in terms of GTM and also in terms of some of the organization structures. So, we are looking at better performance in the postpaid segment going forward.

Just one point, Kunal, I wanted to clarify is also and again, maybe you can have a discussion with us offline. But the P&L charge of the SG&A costs is somewhat also impacted by the change in life of customers. So, the percentage increase that you may be seeing may be higher than it actually is. So, maybe you can have an offline discussion, we can give you what is the real increase in cost. It would not be as high as the percentage you are indicating, but I don't have a figure with me right now.

Moderator: Next question is from the line of Yung-Juen from AR Capital. Please go ahead.

Akshaya Moondra: Nirav, if somebody is speaking, we are not able to hear him.

Moderator: There is no response from the participant line. We'll move on to the next participant. The next question is from the line of K. Thakkar from KSL.

K. Thakkar: This is regarding exchange submissions about the litigation amounts which you have already submitted to the exchange. Can you just throw some light on your engagement with the concerned ministry and/or authorities about resolution of the said litigations? As we all know, with due respect to the court, this litigation we have a history that goes on for years and years and not just for months for whatever reasons, which kills the near purpose of ease of doing business. And I mean, the reason is this amount totals to near Rs. 30,000 crores. And can you throw some light on how much amounts have been paid out of the Rs. 30,000 crores? And how much have been accounted for?

Akshaya Moondra: Let me give you a broad idea. I had quickly looked at this list. This is the first time these disclosures are being made by all companies based on new regulation, and it's a fairly long list. I will give you an overall picture, and Murthy can add as required. If you look at our list of litigations, the main litigation on the regulatory side of a significant value is the one which is relating to one time spectrum charges which is right now in Supreme Court. Other than that, I mean, relative to the context, the other regulatory litigations are not that large. The other larger amounts which are appearing are in the income tax litigation. Unfortunately, the way the income tax litigations works is that there is a judgment by a higher authority, according to which some of the demands are not correct.

However, since the income tax assessments work on an assessment year basis, even some subjects which are covered by earlier judicial pronouncements at a higher authority, the same demands keep on getting raised each year, then you have to take it to tribunal to be setting based on the previous judicial pronouncements. So, this is a cycle to be followed. Now definitely, as an industry, we would be representing and we keep on representing this with the relevant ministries. Anyway, as far as DoT is concerned, we are constantly engaged with them. And as I said, there is only one major litigation left.

Income tax is not specific to telecom. This is generic. And we need to make a structural change so that the department should not really be raising demands in case there is a matter which has been decided favorably by a higher judicial authority. For that structural change, we need to make that representation stronger so that this unnecessary litigation can be avoided. I hope that's the point you're trying to make.

K Thakkar: Yes. Because I mean you all are in a better position. These things do come in talks with your investors as well to secure funding because every time it seems that this is the only Company which is facing a lot of litigations and I mean, it is taking a lot of time to get a resolution. So, that is the reason that your engagement with the relevant or concerned authorities of the ministries to come up with some solutions where it is faster enough for going through the court procedures every time. That's it.

Akshaya Moondra: Thanks for that suggestion.

Moderator: Ladies and gentlemen, I now hand the conference over to Mr. Akshaya Moondra for closing comments.

Akshaya Moondra: Thank you, Nirav. We have reported 8 quarters of sequential growth in several key metrics, including ARPU and 4G subscribers. We remain focused on providing competitive data and voice experience at locations we are present and are building a differentiated digital experience, adding several digital offerings in recent months.

We continue to remain engaged with our lenders for further debt fundraising as well as with other parties for equity or equity-linked fundraising to make required investments for network expansion and 5G rollout to compete effectively. These discussions have gathered momentum and progressed well over the last couple of months. We have been improving our performance in the last 8 quarters with limited investments, and we are confident that with the investments coming onstream, we will be able to make more meaningful improvements in our overall performance.

Thank you all for joining this call, and all of you have a very good evening. Thank you.

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