“Vodafone Idea Limited Q3 FY24 Earnings Conference Call”

January 30, 2024

Moderator: Good afternoon, ladies and gentlemen. This is Neerav, 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-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. 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 and strategic and important questions to make sure that we make good use of the Senior Management's time.

I must remind you that the discussion on today's 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 Neerav. A warm welcome to all participants to this Earnings Call.

Yesterday, our Board of Directors adopted the unaudited results for the quarter ending December 31, 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 handover to Murthy to share details on the Company's financial performance.

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

Our network investments have been impacted on account of liquidity constraints but we continue to upgrade the existing non 4G sites to 4G by spectrum refarming. Over the last one year, we have added almost 700 unique 4G towers and over 5,200 4G broadband sites. As a result, our broadband coverage as well as capacity has expanded. So far we have shut down 3G services in 5 circles of Gujarat, Andhra Pradesh, Maharashtra, Mumbai and Kolkata by refarming the spectrum in these circles to 4G. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas. We continue to follow a focused approach to investments, biased towards our 17 priority circles which contribute over 98% of our revenue and around 92% of Industry revenue.

Further, to ensure a seamless network connection to all visitors and pilgrims arriving at the city of Ayodhya, we improved our network coverage, increased capacity, and enhanced backhaul connectivity by augmenting the network across all spectrum bands in the city of Ayodhya. Covering all the major points across the city, we significantly added new sites, upgraded or refarmed L2100 spectrum capacity across nooks and corners of city including Ayodhya Railway Station, Ram Mandir Campus, the airport, and the connecting highways to Lucknow and Varanasi. Our relentless pursuit to offer better experience to our customers is clearly visible through these network investment initiatives.

On 5G, we are in discussion with various technology partners for finalisation of our 5G rollout strategy as well as working with many partners to develop use cases relevant to the Indian market and partnered with leading handset manufacturers to test their extensive 5G smartphone portfolio on our 5G network. We are also in advanced stage of trials of Open RAN and embracing new technologies such as virtal RAN.

<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.

Our new brand campaign - 'Be Someone's We' delivered a powerful message of how a mobile network can serve as a bridge for forming human/social bonds, promoting inclusivity and fostering a sense of togetherness. The campaign focused on deepening emotional affinity to build positive momentum and consumer connect for Vi. This campaign was promoted across TV, digital & on ground. To promote the campaign, various on-ground engagements were carried with NGOs, old age homes etc. to celebrate the brand's promise of 'Being Someone's We' with people who are experiencing loneliness. Our employees, along with more than 500 kids from NGOs created a Guinness World Record for largest notebook sentence, with over 23,000 notebooks across 1 lakh sq.ft to generate awareness of 'Be Someone's We'. These notebooks were then distributed amongst the children, bringing a smile on their faces.

Further, in our endeavor to offer unprecedented benefits, we introduced 'Choose Your Benefit' on Vi Max postpaid—a pioneering feature allowing customers to customize plans based on their needs. This marked the end of an era for postpaid plans that were one-size-fits-all. The launch was supported by a comprehensive 360-degree campaign, encompassing outdoor, print, and commercials aired throughout the World Cup. During the festive season, Vi HERO Unlimited promotions seamlessly integrated the celebratory spirit, enabling customers to maximize their experience with Vi Hero Unlimited. Further, through our international roaming campaign, we emphasized our exclusive benefit of truly unlimited calls and data on international roaming available for both prepaid and postpaid customers. It was promoted to our customers travelling overseas through contextual placements on travel portals and via WhatsApp messages.

You may recollect that we had changed entry level pricing where the validity of Rs. 99 plan was reduced from 28 days to 15 days. This has been expanded to 16 circles now and we continue to observe the space and will make further interventions as we go forward. Major impact of these interventions is reflected in this quarter. We continue to focus on getting more customers on Unlimited plans for further ARPU improvements. We have seen ARPU growth for ten consecutive quarters now. Q3FY24 ARPU stands at Rs. 145 compared to Rs. 142 in previous quarter; a QoQ growth of 2%. On a YoY basis, ARPU has increased by 7.4%. 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.

Moving on to Business services

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.

In this fast-evolving digital era, we are the first and only provider of 'Rich Business Messaging' in India which is a communication channel provided by Vi for Android devices. We have successfully delivered 2Bn messages during the year. This is a new visually appealing medium for enterprises to reach their customers and has distinct feature benefits like:

- Two way conversation from the customer's default messaging inbox
- rich content like images, pdf, gifs, videos over SMS

- Enterprises can do 1:1 communication in a much more segmented and Branded way where the brand name and company logo is visible
- Enhanced security features like 'Verified Shield Badge' , Whitelisting and firewall protection against SPAM and Fraud
- The digital User Experience Interface allows for many experience features like Url embed , Location share, Carousal scrolling of content along with capabilities of chatbot and real time analytics

It helps enterprises improve their ROIs and offers multifold use cases through the purchase cycle i.e. bookings, reminders, status of purchase and delivery confirmations to name a few.

During the quarter, Vi Business has been honored with Frost and Sullivan Best Practices Award 2023 wherein our Smart Mobility solutions have received the 2023 Enabling Technology Leadership Award and our Session Initiation Protocol i.e. SIP Trunking services have received the 2023 Technology Innovation Leadership Award for the second time in a row.

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

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. We are building most of these offerings on our Vi App.

We recently integrated 'utility bill payment' functionality on Vi app enabling our users to pay their electricity bills, water bills, LPG bills, recharge FASTAG, renew their DTH or broadband subscriptions or pay insurance premium / Loan EMIs. Further, leveraging telco data and access capabilities to create a Digital marketplace, we have launched 'shop' section on Vi App in partnership with leading players across categories like entertainment, food, shopping and travel.

We also inked a strategic partnership with EaseMyTrip to enable flight bookings from Vi app with exclusive offers for Vi customers. We will soon be adding hotel, train and bus bookings. We have a clear roadmap to scale each of these streams and that's going to be our focus in the coming quarters.

We recently launched our first bundled proposition with Amazon on prepaid, bundling Prime Video Mobile Edition with prepaid unlimited packs. In the coming weeks, we would be expanding this portfolio. We have also developed TV apps for Vi Movies & TV that will support multiple TV operating systems like Android or Google TV, Firestick, Taizen and others. These will be launched to consumers very soon.

As you may remember, we offer gaming on our Vi app wherein we have hyper casual games in partnership with OnMobile, some casual games like Solitaire, Ludo etc and also e-Sports in partnership with Gamerji. We have recently expanded our offering with a strategic partnership with a global gaming leader Gameloft. Our customers can now access Gameloft originals and other popular game titles such as Danger Dash, Block Breaker Unlimited, Asphalt Retro, and more. We also entered into strategic partnership with the global eSports major 'Team Vitality' to build a strong offering into eSports. These partnerships underscore our commitment to provide the best in category gaming options and experience to mobile gamers.

On Jobs front, we recently got into a strategic partnership with Job Hai, an InfoEdge group company, to strengthen our Jobs proposition by providing early & exclusive access to new jobs and a guaranteed interview within 48hours of applying for a job.

Based on the transformation Vi App has seen over the last year, our customer ratings on Play Store have improved taking our app ratings to the best in Industry. We continue to maintain the same trend.

Further on the customer servicing front, we remain focused on providing best customer experience. We have seen reduction in the overall customer complaints. Also in line with evolving customer behavior, around 60% of our customer service requests are raised digitally compared to 40% a year ago.

We would like to reiterate 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.

Moving on to other highlights

The 4G subscriber base has continued to grow for the tenth successive quarter and stood at 125.6 million as on December 31, 2023 vs 124.7 million in Q2FY24. The overall subscriber base stood at 215.1 million.

Revenue for the quarter stood at Rs. 106.7 billion. Pre-IndAS EBITDA at Rs. 21.4 billion is highest in last 11 quarters. ARPU improved to Rs. 145, up 2.0% QoQ vs Rs. 142 in Q2FY24 primarily aided by migration of subscribers to higher ARPU plans, higher uptake of data sachets and higher international roaming revenue as well as changes in entry level plan.

As for funding discussions, these are in progress with investors, and given the nature of these discussions, we will not be able to respond to any queries on this subject.

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.

As Akshaya mentioned, revenues for the quarter stood at Rs. 106.7 billion, a year-on-year improvement of 0.5% aided by improving subscriber mix and change in entry level plan. This is also the 10th consecutive quarter of growth in ARPU and 4G subscribers. Quarterly EBITDA excluding IndAS 116 improved by 6.8% on a year-on-year basis to 21.4 billion compared to Rs. 20 billion in Q3FY23 and the EBITDA margin improved to 20%. The reported EBITDA stood at Rs. 43.5 billion as compared to 41.8 billion in Q3FY23.

Further depreciation and amortization expenses and net finance costs for the quarter are Rs. 56 billion and Rs. 64.9 billion, respectively. Excluding the impact of IndAS 116, the depreciation & amortization expenses and net finance costs for the quarter stands at Rs. 41.2 billion and Rs. 55.8 billion, respectively.

The exceptional line item of Rs. 7.6 billion represents the excess amount paid towards the difference in the administrative spectrum price and the auction price at the time of merger as acknowledged by DoT and directed by TDSAT this quarter.

CAPEX spends for the quarter stood at Rs. 3.3 billion and CAPEX for the nine months at Rs. 13 billion. The gross debt excluding lease liabilities and including interest accrued but not due as at December 31st, 2023, stood at Rs. 2,149.6 billion comprising of deferred spectrum payment obligations and AGR liability of Rs. 2,072.6 billion out of which 1,885.5 billion is under moratorium and the balance 187.1 billion is payable in annual installments. The debt from banks and financial institutions stands at Rs. 60.5 billion and the balance 16.6 billion is towards optionally convertible debentures. The net debt stood at Rs. 2,146.4 billion.

With this I hand over the call to Neerav 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 Vivekanand from Ambit Capital.

Vivekanand: The first question I have is on the network cost provisions, so I know that the reported number is pre IndAS or rather post IndAS, so just wanted to understand, were there any cost saving initiatives that kicked in that resulted in network cost being lower than the average in the last four quarters? That's my first question. I'll ask my other ones after you answer this.

Murthy GVAS: The costs in this quarter are usual. These were lower due to seasonal impacts and therefore if you look over the nine months period this year and last year, the costs are in line.

Akshaya Moondra: While the larger part of the reduction is coming from seasonality, there was some impact also because of reduction in energy cost in a few circles. Also, we continue to take initiatives in terms of taking actions to reduce our cost which are not a single large initiative which may result in a large cost reduction but there are constant initiatives being taken to bring down cost in each line item and that also contributes to the overall cost improvement.

Vivekanand: As far as the refarming initiatives are concerned, you have mentioned that 3G has been shut down in five circles. The reason why you shut 3G down now, was it because there were too few numbers of users who had only 3G handsets or was it something else? I'm just curious to understand what the driving force behind the timing of 3G shutdown is. You could have done it earlier also but I'm sure you have some logic to decide why you shut down only this quarter.

Akshaya Moondra: We have been shutting down 3G in the five circles where it is now shut down completely. Some districts have been shut down earlier. It's not that this has all happened in this quarter. What we mentioned is that in these quarters, these five circles all the 3G sites have been completely closed. The other circles also many 3G sites have been closed. Fundamentally given a choice we would want to shut down all the 3G sites and use the spectrum for 4G which provides better capacity, better experience and of course eliminates one technology from a site which is generally an optimum way to operate. However, the continuation is only based on the number of 3G devices and progressively we are continuing to close down 3G sites. While I cannot give a definite timeline, I would expect that in the next financial year we should also be able to close the entire 3G network as the number of handsets reduce on the network.

Vivekanand: So, a related question on the 3G shutdown is the population coverage of broadband. I see that when you shut down 3G sites and refarm the spectrum into 4G, population coverage doesn't seem to have improved. So, is it only impacting 4G availability and capacity? Maybe I'm technically challenged, so if you can explain this in detail that'll be great.

Akshaya Moondra: So, it’s simple. Every 3G site already has 4G. 1800 is completely deployed in 4G. Some sites 2100 would be on 3G. What we do when we refarm is that 2100 is also deployed for 4G. So, there would be no site today which is 3G but not 4G.

Vivekanand: So, when you refarm 2100-megahertz spectrum to 4G, you are not getting additional coverage but capacity.

Akshaya Moondra: We are just getting additional capacity. That's right.

Vivekanand: Today because in your presentation that you gave in June last year, you had highlighted some targets with respect to progress on the targets. What was outlined during the merger versus what you have delivered, there you highlighted that there was a 3X uplift. So, this is helping you exceed that even further. Is that the right way to think about it?

Akshaya Moondra: So, I would say that given the quantum there is a capacity addition. Capacity addition is happening by refarming. Capacity addition is also happening where we have deployed some 4G only sites although these have not been very large. I had alluded to the numbers in my opening remarks. This is resulting in capacity addition, but it is not of a significant nature because the delta that you get is that 5 megahertz of 3G what capacity it could deliver and 5 megahertz that converted to 4G could deliver a higher capacity. So, that capacity growth continues to happen, but it is not of a very significant nature. But very roughly over the last one year we have added overall capacity of about 2% on our network.

Vivekanand: My last question is on the bank loans that you are repaying. So, now that you have another around 5,400 crores of loans that are due for repayment, is it fair to say that once you retire these loans assuming no change in funding situation, your ability to invest in the network will improve? Is that how to think about your CAPEX a year from now?

Akshaya Moondra: The CAPEX required is significant and if we want to make significant changes to our cash generation, then the level of CAPEX has to be higher, and it would largely depend on funding. Of course, the easing out of debt situation does help us in keeping setting aside some capital or some cash for CAPEX. However, as you are aware that we also have an overdue vendor position and what will really start happening in the first phase is that as our cash is not going towards debt servicing, we will then be able to use it towards reduction of vendor overdue and that would be our first priority.

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

Sanjesh Jain: Last quarter also I did ask the question, that things doesn't look like improving on the subscriber addition front for the industry as a whole has significantly slowed down. Any particular reason why there is a sudden deceleration in subscriber growth across the operator?

Akshaya Moondra: Sorry, could you repeat the last part? You said significant....

Sanjesh Jain: Deceleration in the subscriber addition for Vodafone as well as for the industry.

Akshaya Moondra: As far as industry is concerned, we have only seen one set of figures which show a similar trend of subscriber additions. In our case, the reduction or the higher level of decline is coming out of two factors. One is that as we had mentioned that last quarter, we had significant additions in the Indira Gandhi Smartphone Yojana and so that kind of helped us in resulting a lower net decline. Then if I take out the impact of that and build some additional loss of subscribers because of the change in the entry level plan as any change that you make in the entry level plan or any plan would be generally overall positive on the revenue but it does result in a one-time increase in churn. If I take those two factors into account, our churn or our net decline in subscribers is more or less in line with what we saw in Q1. So, Q2 was helped a bit by the Indira Gandhi Smartphone Yojana. The industry additions continue, there is no deceleration there. But of course we need to make investments to get into positive territory of subscriber additions because while we continue to acquire more customers, our share of gross ads is higher than our customer market share, but we need to provide additional coverage so that we can arrest the churn completely and move to a positive territory of subscriber addition.

Sanjesh Jain: Coming to the investment, even in this quarter we saw that capex outlay was only 3 billion odd. Do you see in the coming quarter higher share of cashflow, now that there is lower repayment required for the bank loan and we have started doing some vendor payout also in this quarter, do you see more share of cashflow being deployed for the CAPEX growing next quarter onwards?

Akshaya Moondra: In this current quarter, which is Q4, we still have fairly large debt servicing that does not leave us any additional room. In the next financial year Q1, we will have to strike a balance between what we allocate to CAPEX so that at least we are making some investment which can enable us to improve our cash flows, while in parallel also paying something to the vendors so they see a reduction in over dues. So, it's a fine balancing act we have to do till the time we get funding. And of course, when funding is there, then the new funding will be used for new CAPEX and the generation that we are getting from our operations, minus the old debt servicing, will be used to pay the vendors. That's the way we are planning this out.

Sanjesh Jain: My last question is on 5G. We said that we are now speaking with the vendor and evaluating. Any initial thoughts on how do you look at 5G deployment?

Akshaya Moondra: This is evolving in a manner, and we will have the benefit of seeing how the 5G adoption is happening. Significant investments have been made on the 5G front with significant CAPEX being incurred. The challenge which we see today is that there is no monetization happening. In fact, the way 5G is priced today is actually resulting in discounting of 4G also, because whatever is being used on 5G is not counted at all. The strategy of rollout is that we need to provide a good experience to our customers where customers are asking for it. However, by the time we launch it, we will also have some clarity on what monetization is happening, which we believe is round the corner because having made such large investments and no monetization happening, the industry does need to see some movement towards monetization. And let's say if we are launching 5G in six to seven months' time, then probably we will have a better idea of what is happening on the monetization front. After funding is there, we will need some time to roll out, let's say, six to seven months and once that happens, by then the monetization will be clearer than it is today, and our strategy will be based on that. Because once 5G starts getting charged, we will have to see the adoption of 5G in that scenario. Currently, since it is free, the adoption is not clearly representative of what the customer is willing to pay for the higher consumption for the same application which may happen on many 5G use cases.

Sanjesh Jain: One last bookkeeping question. We have received advanced income tax which we have paid earlier. We also have a large GST outstanding. I guess it has been a long demand from our side for releasing that. Any progress on that side?

Akshaya Moondra: As far as GST is concerned, it has been a request from the industry that whatever GST is blocked, even if a cash refund is not possible, we should be allowed to offset it against payments which are made on a reverse charge basis. We had also requested that items like spectrum and all which are one-time payouts, if those government payouts can be accepted from GST payment, generally, the sense I have is that since this is a matter which is with GST Council and GST Council is comprising of multiple state and central government, any decision in this side is a little difficult to make. So, as of now there is no progress, but given the status of the telecom industry today, given the need for the investments required, it would be very useful if the government can look at it favorably and do something about it. Because all telecom operators have a large blockage and especially with the 5G investments now having come in, people having invested in 5G spectrum also and all those payouts are also subject to GST, the GST blockage is really a bit unfair for the industry. So, any help there would be very-very helpful or any support from the government will be very helpful there.

Sanjesh Jain: What will be our outstanding GST right now in the balance sheet?

Murthy GVAS: It is north to 7,000 crores.

Moderator: Next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Services Ltd.

Aliasgar Shakir: A couple of questions. One is on this repayment that is coming up in the next one year, about 5,400 crores. You've also mentioned that some of the debt has been classified as current maturity due to obviously certain covenant clauses, which is another approximately, 2,800 crores. So, do these 2,800 crores include the 5,400 crores or is it additional? And a follow up there is, if it is additional and if it's also payable before, let's say December 2024, then cumulatively it works out to be somewhere close to approximately 8,500-odd crores. So, with the current cashflow, we will be adding somewhere about 2900-odd crores. So, how do you think we can fund this if our funding does get a bit extended? So, that's my first question.

Murthy GVAS: Firstly, the reclassification arising out of the breach of covenant is as mandated by accounting standards and, therefore, doesn't mean that is payable unless and until demanded by the lenders. As of now, that's not the case and therefore, what is payable over the next twelve months is only that figure of 5,400 odd crores that you mentioned.

Akshaya Moondra: But just to give you a breakup - 5,400 crores includes about 533 crores of spectrum payouts, the principal part. Then there is about 3,200 crores of bank debt. And then there is OCDs of 1,600 crores where repayment is dependent on whether conversion happens or not. If they are converted into equity, then 1,600 crores will go out of this 5,400 crores figure.

Aliasgar Shakir: So, basically, unconditional payment is about 3,300 crores. Rest is conditional, right?

Akshaya Moondra: The spectrum payment is also unconditional. Only 1600 out of this is really different.

Aliasgar Shakir: Second question is on this data traffic which I see has declined in this quarter by 2%. Now in a way, one is we have seen 4G subscribers growing while obviously about 1.2 odd million grown and obviously that would be coming at a higher usage per customer. Also, you were mentioning that probably data traffic may have gone high on 4G understanding that's what I think peers in the industry have also been saying. So, just want to kind of understand what would have led this decline. And a quick follow up there actually is that while of course tariff hike is something which everybody in the industry believes will come probably later when the other way to monetize is higher consumption where the customers will probably either upgrade their unlimited plans or maybe they would require some addons. So, in this scenario where the traffic is declining, that seems to be kind of a trend which is contrary to what the other two players are seeing. So, if you could just clarify how this is playing out?

Akshaya Moondra: Let me just try to address this question in a few parts. Firstly, while we have gone from a positive growth in the last quarter to negative, last quarter we were (+) 2% positive and this quarter we are (-) 2%. So, the delta of growth in the delta of quarter-on-quarter is about 4%. You would see the same trend in the other set of results which have been declared where the growth has declined, the percentage of growth has declined by about the same level of 4%. So, it is not specific to us, it is more an industry thing. Now, if you come to think of it, this looks a little awkward that especially in a quarter where we've had World cup, why should this happen? And when this initially happened, we were also a little surprised as to why this is so. And a complete answer to this is not available. But with whatever trends we could see, one of the things which happened is that a lot of consumption happens on OTT content which is watched on the mobile. During the World cup there were few things that we observed. One is all India matches were normally on weekends whereby people were watching this largely either on cable TV where the time lag was minimum, and we had observed somewhere that there was a time lag of 5 to 6 seconds in the OTT platform. And in fact, I was joking with my team that 5 to 6 seconds is hardly anything. And people were telling me, no, when you're watching a live match, 5 to 6 seconds delay could be a lot. So, India matches people watched a lot on the cable TV also while at home, even if they were watching it on the OTT platform, it was probably more on Wi-Fi. So, when we have evaluated the data, especially during the weekends where India matches were there, the data consumption actually declined. So, I think there is a bit of a difference. And I would say that if you compare it with IPL, IPL sees a fairly long period of increased data consumption, which is generally the expectation during World cup, but the consumer behavior during World Cup and during IPL has been quite different.

The other point which you mentioned is that another way of getting higher revenues is monetizing the data. And I can tell you in this quarter we have seen a higher sale of data sachets which I had also mentioned in my opening remarks is one of the factors which is a marginal contributor to the improvement in ARPU. So, while the overall data consumption has reduced, the sale of data sachets has increased. And so, it's a bit of a mixed bag. Maybe people have not utilized their quota fully. And in fact, this trend has kind of increased, the consumption has somewhat reduced on some of these days during the World cup and it has been back.

So, in summary, this is not only us. The other results which have been declared also show the same result. The sale of data sachets over and above the limit has actually gone up. So, that is not a factor which is resulting in data reduction. So, we'll have to see what is happening over a longer period of time. But definitely the quarter is a bit of an aberration in terms of trend of data traffic.

I hope I've answered your question.

Aliasgar Shakir: Yes, thanks so much for that elaborate answer. That's very clear. Sorry I joined a little late, but if you did explain, can you just explain this TDSAT related gain of 760 crore is related to what?

Murthy GVAS: As I mentioned in my opening remarks, the gain of 7.6 billion is on the account of a difference. If you recollect, at the time of merger, based on the merger guidelines, we had to pay a certain amount to the DoT, which the DoT had raised a demand. We had subsequently found that the demand was on a higher side and we had taken it up with DoT. We also filed a petition in the TDSAT. DoT accepted that based on their calculations, it is an amount of 7.6 billion, whereas as for us, it was supposed to be about 1,200 crores. So, therefore, the balance amount is still sub judice. But currently TDSAT directed that the 7.6. billion be given to us and therefore that's a credit that's come in the financials.

Aliasgar Shakir: So, cash is not received yet you are saying, but we have reversed it on the basis of the TDSAT ruling.

Murthy GVAS: That's right. It will be adjusted against the payables that we have i.e. towards license fee and other dues to DoT.

Akshaya Moondra: Basically, it is a non-cash item in the sense that there is no transfer of cash, but it is a cash accretion because we have been able to use it or set it off against other liabilities which we would have to pay out cash otherwise. So, it's a clear refund. Effectively, it's a refund of what we had paid excess at the time of the merger.

Aliasgar Shakir: What was this towards payment of during merger?

Akshaya Moondra: During the merger for the merging entity, the differential in price of the administered spectrum versus the market price of the spectrum has to be paid. This was calculated by DoT in a certain manner, which we have challenged. Out of the challenge, part challenge is still being contested. But DoT had themselves accepted that there was an excess calculation of 775 crore. As an interim relief TDSAT has ordered that this should be refunded by DoT. In fact, this should also be refunded along with interest according to us. And that would be a part of the final decision which the TDSAT gives on the matter. So, we are looking at two further benefits in the same case. One is that there is an incremental amount of calculation where DoT and VIL still have a different view. And secondly, on what has been agreed, the interest on that is still to be closed in the final hearing as and when it happens at TDSAT.

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

Kunal Vora: I just wanted to understand the CAPEX. What we are seeing now, I think, is the lowest we've seen in many years and maybe the lowest ever. Does this hamper the businesses in any way? And can you continue operating at 3% CAPEX to sales? What's the minimum amount of maintenance CAPEX which you think should be done?

Akshaya Moondra: This question of maintenance CAPEX has been asked many times, and in the past also, I have replied that there is very little gross block which goes out of use because it is no longer usable, it goes out of use because the technology forces you to change it. So, we would currently have equipment deployed in our networks which is surviving for much more than the nine years of life over which we depreciated. And there are also cases where we've had to retire equipment earlier than that life because technology has changed. In essence, what I am saying is there is very little in terms of the concept of maintenance CAPEX. And if you will see, as far as VIL is concerned, went through a massive integration exercise where a lot of 2G equipment was surplus. So, to that extent, from a maintenance perspective, as far as 2G or 3G is concerned, we have sufficient equipment available. So, really speaking from a spares perspective, the only place where that is required is 4G. And those are all generally covered by AMCs and AMC appears more as OPEX. So really speaking, there is very little that is to be incurred by way of maintenance CAPEX. Currently the CAPEX which we are incurring is more to kind of do the necessary CAPEX where some capacity bottlenecks are there, it is necessary to incur. IT is a major, I mean some of the IT development is a part of CAPEX. There are new regulations which come up which have to be addressed. That has to be done. There are some places where equipment is end of life that is to be replaced. But to maintenance CAPEX, I don't think there is much of maintenance CAPEX. A large part of it is covered by AMC.

Kunal Vora: I just wanted to understand if you don't see any data volume growth, can you manage with this 3%-4% CAPEX of sales?

Akshaya Moondra: As I have been saying, our challenge has not been capacity of late and we have been providing good speeds which have remained good over a long period of time. So, capacity, while it is not equally distributed, but our overall performance on speeds and performance is good. But in terms of sustenance, see, at one level I can say that CAPEX then is required primarily for expansion of coverage, and from a competitive perspective that is essential. And that will happen only once funding is there. But yes, with our debt largely having been serviced and with the current level of cash generation, it is not an ideal situation to operate. We would want to make investments, but it is also right that we are generating cash where we are able to meet our obligations and provide service to customers. The only negative thing is that we have to make sufficient investments to be able to arrest the decline of loss of subscribers which is the most essential thing. That would require an expansion of 4G coverage and some element of 5G rollout.

Kunal Vora: Second is, can you update us on the promoter funding that was expected? What were the terms and why is there a delay? Sorry if it's already covered. I joined the call a bit late, but if you have not covered, if you can talk about it?

Akshaya Moondra: We had made this disclosure in August, around the time of the last results that the promoters will provide direct or indirect financial support to the Company for meeting the impending payment obligations and that commitment still stays. They are committed ultimately to provide this as equity funding. But that will be as things stand now, let's see, and will be a part of the overall equity raise. However, that support is available in case the Company needs it necessarily for meeting its impending obligations.

Moderator: Next question is from the line of Bharat Rajan from Antique Stock Broking Ltd.

Bharat Rajan: I just wanted to understand, is there scope for you to reduce the tenancy cost now that 5G is being rolled out by your competition. So, wherever you are sharing the power, do we have scope to reduce our cost?

Akshaya Moondra: No, that is not the case. Because the tower contracts are made in a certain manner. So, if there's a single tenant on a site, you get a second tenant then the rental of first tenant goes down. If there are two tenants and a third tenant comes in, then the rental of both the first and second tenant comes down. It also results in some benefit or some optimization in terms of energy costs. However, if the number of tenants on a site does not change, and a new tenant is only deploying, or existing tenant is only deploying new equipment, then the rental for that tenant increases without any reduction to the existing tenant. So, 5G deployment is not the case where the cost of existing tenants can go down.

Bharat Rajan: The upgradation of 2G customers over the last quarter, do we see an improving trend or is it largely flattish?

Akshaya Moondra: When you say improving trend, you mean that are we continuing to see an upgrade? Yes, we continue to see upgrade. The pace of upgrade is not very different. It has continued at a certain pace. And as I mentioned again, if that pace has to accelerate significantly, we would need to expand our 4G coverage. But as you will see, over the last ten quarters, we have continuously improved our ARPU and our 4G subscribers. So, generally, that is a growing trend. as Our 4G subscribers, are a surrogate for higher ARPU subscribers and that is shown in the fact that our ARPU actually, if you look at in percentage terms, is increasing while our customer mix is different and our absolute ARPU is lower. But if you will see the percentage improvement in ARPU over the last one year or even last two years, we have had similar percentage of ARPU increase as competition has had. But a large change in the customer mix can happen only by expanding 4G coverage and having a significant change in that trajectory that we have seen until now.

Moderator: Next question is from the line of Hemang Khanna from Nomura.

Hemang Khanna: Firstly, on the subscriber mix, now that the tariff intervention for the Rs. 99 plan is largely done, would it be fair for us to understand that broadly speaking, going forward, the overall subscriber declines would moderate from here on. And my second question is related to the overall payments which are present in FY25-FY26. Could you please share what would be the overall payables in terms of government and other debts over each of these two years for FY25 and FY26, please?

Akshaya Moondra: Let me answer the first question and I'll leave it for Murthy to answer the second question. But we'll be able to give you a figure for FY25 which was answered in the earlier question. But he can answer that question once again. So, on your question of 99 plan, one is that this has been implemented in 16 of our circles. And whatever impact it had to have on churn that is mostly completed. In our six circles, we have still not implemented it. We may implement it in future. As I mentioned earlier, there is a bit of accentuation of the churn that we have seen in this quarter because of the change in tariff plan which happened in the last quarter. So, in some ways, yes, it should represent a bit of an accentuation of the overall net decline. So, one would expect that going forward in the next quarter we should see some improvement in this KPI. However, the extent and quantum of that is difficult to predict.

Now, as far as the liability is concerned, in the last question we said there is about 5400 crores of servicing in FY25 out of which roughly 500 crores was towards spectrum. And this is only the principal part of spectrum, the installment is higher, about 3200 is towards bank debt which is actually falling due. And then there is 1600 crores of OCDs which are currently counted in that figure. But there is a possibility that they may get converted and if that happens then that 1600 will reduce from the 5400 crores figure which has been given for FY25. I will ask Murthy if he has an FY26 figure, but it will be a very nominal figure because the bank debt will be very nominal. Of course, the government debt is large.

Murthy GVAS: So, 2025-2026, once a moratorium gets over, then that case there's a lumpy payment to be done. And as Akshaya mentioned, the bank debt is a nominal one. But the overall amount is close to about 30,000 crores.

Akshaya Moondra: What is the bank amount?

Murthy GVAS: It's about 1800 crores.

Akshaya Moondra: So, the bank debt will be 1800 crores. The government payable will be higher. In FY26, it would be six months only.

Hemang Khanna: You mentioned about 30,000 crores as the overall payment, which is related to the government side in FY26, right?

Akshaya Moondra: Just give me 1 minute. In FY26, the government payout will be roughly 27,000-28,000 crores.

Moderator: Next question is from the line of Ramesh Haran from HSBC.

Ramesh Haran: We do get to hear a lot of negative news on ET Now, Money Control, etc., on various topics. What is VIL doing to clarify on these and take this up subsequently so that these sorts of negative news do not come in which are unsubstantiated?

Akshaya Moondra: Ramesh, as you mentioned, a lot of this news is unsubstantiated. That is the way the media operates here. There's very little we can do about it unless the government itself does something or the regulatory agencies themselves do something to regulate the media on not publishing such unsubstantiated reports. There's very little that we as corporates can do.

Moderator: Thank you, ladies and gentlemen we'll take that as the last question. I will now hand the conference over to Mr. Akshaya Moondra for closing comments.

Akshaya Moondra: Thank you, Neerav, and thank you everyone for participating. In line with the evolving industry landscape and changing customer needs, we have revamped our offering as well as focusing on execution to effectively compete in the market. Resultantly, we are able to grow our 4G subscribers and ARPUs consecutively for the last ten quarters. We have also reported in this quarter the highest pre-IndAS EBITDA of Rs. 21.4 billion in the last eleven quarters. Further, we remain focused on providing competent data and voice experience at locations we are present where we are present, and are building a differentiated digital experiencing, adding several digital offerings in the recent quarters. Our share in gross customer addition continues to remain higher than our customer market share for the last several quarters, clearly reflecting our ability to compete in the market once the investments are in place. We remain engaged with various parties for fundraising to make required investments for network expansion, including 5G rollout. Thank you all for joining this call. Have a good evening. Thanks.

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