



“Idea Cellular Q1-FY19 Earnings Conference Call”

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MANAGEMENT

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Moderator: Good Afternoon Ladies and Gentlemen, this is Margaret, the moderator for your conference call. Welcome to the Idea Cellular Conference. For the duration of this conference call, all participant lines will be in the listen-only mode. After the presentation, a question and answer session will be conducted. We have with us today, Mr. Himanshu Kapania – Managing Director of Idea Cellular, and Mr. Akshaya Moondra – Whole Time Director & Chief Financial Officer of Idea Cellular along with other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions 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 over to Mr. Himanshu Kapania. Thank you and over to you, Sir.

Himanshu Kapania: Thank you, Margaret. On behalf of Idea, I welcome all participants to this Earnings Call. On 30th July 2018, our Board of Directors adopted the audited results for the first quarter of Financial Year 2018-19. The detailed Press Release, Quarterly report and Company results have been uploaded on our website and I assume you had a chance to go through the same.

In view of the impending merger of Idea Cellular with Vodafone India, we will not be responding to any forward looking questions regarding the merged entity's strategy and plan on today's call.

My opening remarks will cover the major developments as regards regulatory approval for merger of Idea and Vodafone India, update on various fund raising programs, along with key operational highlights, while Mr. Akshaya Moondra, the company CFO, will provide details on the Company's financial performance for the first quarter of financial year 2018-19.

First: Birth of a 'New Idea' imminent

On 26th July 2018, the Company received the Department of Telecommunications, DoT's final approval for the merger of Vodafone Mobile Service Limited and Vodafone India Limited with Idea Cellular. The Ministry, vide its letter dated 9th July 2018, had demanded from Idea, the transferee company,

- a) An amount of Rs. 39,263 million towards the differential between the entry fee paid and the market determined price of up to 4.4 MHz spectrum that was assigned to Vodafone India, and
- b) Submission of bank guarantees amounting to Rs. 33,224 million towards Idea's 'One Time Spectrum Charges (OTSC)' for its spectrum holding beyond 4.4 MHz.

The Company has, under protest, complied with the above demands raised by the DoT by making the necessary payments and submitting the requisite bank guarantees.

With receipt of DoT's approval, we are in the final phase of merger completion. The combining companies, Vodafone India and Idea, have already received approval for the proposed combination from the Hon'ble Competition Commission of India (CCI), SEBI & Stock Exchanges, and National Company Law Tribunal (NCLT) benches of Ahmedabad and Mumbai. The merging entities are now in the process of completing certain procedural formalities and expect the merger to be effective and operational very shortly from August 2018 itself.



Second: Update on Asset Monetization and Fund Raising

- a) On 13th November 2017, Idea and Vodafone had announced the sale of their respective standalone tower business to ATC the American Tower Company for a combined enterprise value of Rs. 78.5 billion to strengthen the balance sheet of the merged entity. Vodafone India had already received Rs. 38.5 billion for its standalone towers during the last quarter of the previous financial year 2017-18. On 31st May 2018, Idea also completed the sale transaction of its nearly 10,000 standalone towers to ATC for an enterprise value of Rs. 40 billion.
- b) On 25th April 2018, Bharti Infratel (BIL) and Indus shareholders had announced the merger of Indus with BIL to create the largest tower infrastructure company in the world excluding China with 1,63,000 towers pan India. This transaction gives an option to Idea Cellular to either
- c) (i) Sell its 11.15% stake to BIL before the merger for cash based on valuation formula linked to the VWAP for Bharti Infratel share during the 60 trading days at the end of Idea's election period which triggers post completion of all regulatory approvals required for the merger. At the time of announcement, this equaled to a cash consideration of Rs. 65 billion or alternatively;

(ii) Receive new shares of the enlarged merged entity at an agreed share ratio of 1,565 shares of Bharti Infratel for every share of Indus towers, amounting to nearly 7.1% stake in enlarged new merged listed entity.

Even in the case Idea decides to exercise the full cash option, Idea will have certain rights either in perpetuity or for a period of 5 years which will help us significantly protect the interests of our mobility business including 'most favoured partner' or MFN status until perpetuity. Vodafone, the joint venture promoter of the listed mobile services business entity post completion of Idea-Vodafone India merger, will continue to remain in joint control of the new enlarged tower entity post Bharti Infratel-Indus merger, along with Bharti Airtel.

This announced merger of Bharti Infratel and Indus is progressing well with the Hon'ble Competition Commission of India (CCI), SEBI & Stock Exchanges already according their approval to the proposed transaction. Bharti Infratel expects to complete this merger by end of Financial Year 2018-19.

- d) In line with the Idea-Vodafone India merger arrangement, Vodafone India's contribution of net debt in the merged entity at the time of completion of merger will be Rs. 25 billion more than that of Idea Cellular on closing. Accordingly, Vodafone Plc is progressing on equity infusion through a 'Rights Issuance' to reduce Vodafone India's debt.
- e) Separately, in Q4FY18, Idea has successfully completed equity raising of Rs. 67.5 billion which included preferential allotment to promoter 'Aditya Birla Group' for a consideration of Rs. 32.5 billion and 'Qualified Institutional Placement' (QIP) of Rs. 35 billion.

To summarize, with equity infusion of Rs. 67.5 billion by Idea in Q4FY18, sale of standalone towers of Idea and Vodafone for Rs. 78.5 billion, planned equity infusion by Vodafone Plc and availability of option of monetizing Idea's 11.15% Indus stake by March 2019, the merged entity would have completed this phase of augmenting its long term capital resources.



Third: Key operational highlights

Since FY18, the Indian mobile industry has continued to pass through a phase of unprecedented disruption post the entry of a new mobile operator. The abysmally low priced, below cost unlimited voice bundled data plans introduced by the new operator forced the existing mobile operators to respond commensurately, in order to retain existing subscribers. Mass uptake of such below cost unlimited bundled tariff plans by Indian mobility subscribers resulted in an explosive growth of both voice and data volumes, but the accompanying crash in mobile service rate realizations and the ensuing decline in customer ARPU led to a record drop in industry revenue during the year.

As per the TRAI release, the 'Adjusted Gross Revenue', AGR of the industry declined to Rs. 1, 108 billion in FY18, an astronomical drop of Rs. 296 billion @ -21.1% from the FY17 AGR levels. Idea continued to maintain its competitive performance amongst the leading industry operators excluding the new entrant. The Company was able to curtail the loss in its AGR Revenue Market Share to 2.0% from a level of 20.3% in FY17 to 18.3% in FY18, in spite of new operator gaining an AGR market share of 14.5%.

During the first quarter of FY19, the extreme pricing pressure being witnessed by the industry further compounded with the new entrant's heightened aggression to acquire more subscribers with its subsidised 4G feature phone offering. Incumbent operators' attempts to retain their subscribers coupled with growing consumer preference for deep discounted unlimited voice and bundled data plans continued to maintain downward pressure on the ARPU levels of all operators.

Idea's revenue during Q1 FY19 declined to Rs. 58,892 million against a revenue of Rs. 61,373 million in Q4 FY18 – a QoQ normalized drop of 2.9% post adjustment for impact of one month tower revenue on account of completion of sale of Idea's standalone towers to ATC with effect from 31st May 2018 and the full quarter impact of TRAI directed International IUC rate reduction versus 2 months impact in the previous quarter. On a YoY basis, the Company recorded a revenue de-growth of 13.1%, post normalization for full quarter YoY impact of steep downward revision in both Domestic and International IUC settlement rates by TRAI and sale of Idea's standalone towers.

The decline in the Company's revenue this quarter was primarily an outcome of two factors –

A. Continued downgrade in consumer ARPU levels

Idea's monthly 'Average Revenue Per User' in Q1 FY19 fell to Rs. 100 as against Rs. 141, one year back in Q1 FY18.

Over the last year, the market has witnessed successive rounds of intensifying pricing aggression, especially in the category of unlimited voice bundled data plans.

- i. Effective January 2018, the prices of monthly unlimited voice plans bundled with data at higher levels of 1.4 to 2.0 gigabytes a day were revised downwards to Rs. 165 or lower from an earlier higher level of Rs. 300 per 28 days, net of taxes in April 2017.
- ii. Starting February 2018, mass promotion of unlimited voice bundled plans at Rs. 49 with subsidized 4G feature phone and introduction of mass market Rs. 99 unlimited voice bundles and Rs. 149



unlimited voice offering with 1.5 gigabyte per day data plans delivering a net monthly post tax and channel margin ARPU of Rs. 130 by one operator specifically targeting the voice 2G customers, forced response by all other operators resulted in further fall in ARPU realization of unlimited bundled plans.

Resultantly, even though Idea continued to charge a premium over the new operator's pricing in the category of unlimited voice bundled data plans, the overall ARPU of consumers opting for such unlimited plans fell steeply by over Rs. 75 over the last 12 month period.

Similarly, Company's effort to retain subscribers who prefer the non-unlimited plans, by offering them discounted voice and data tariffs resulted in ARPU decline as volume elasticity from this segment of non-unlimited consumers was not commensurate.

B. Weak new subscriber addition during Q1 FY19

With the consolidation process nearly complete, Idea decided to calibrate its market aggression, shift from an expensive 'high new subscriber addition – high churn' model of growth and rationalized its channel pay-outs and promotions for new customers, resulting in lower new subscriber addition during the quarter. This combined with a higher churn from less than 180 days old customers arising from robust gross additions in the prevailing two quarters, Q3 and Q4 FY18 resulted in an overall de-growth of 4.4 million VLR subscribers during Q1 FY19. Idea's EoP subscriber base now stands at 187.9 million, a decline of 1.2 million users from Q1 FY18, and its VLR base at end of Q1 FY19 is at 203.4 million.

However, over the last 12 months between May 2017 and May 2018, the Company remained competitive and improved its VLR market share by 1.4% to 20.9%, despite the new entrant cornering 17.5% of industry VLR share as per latest TRAI release.

Moving forward, the new management will be deciding on the approach to the market. In my estimate, the Company's uptick in subscriber trend should be visible during the 'October to December' quarter as the benefit of larger coverage and capacity becomes available to the combined entity.

Moving on.

With the introduction and the subsequent proliferation of unlimited voice and bundled data plans, the Indian mobile industry continues to witness fundamental changes.

- With an estimated 450 million consumers as of exit June 2018 across the entire Indian mobile industry choosing unlimited bundled plans, such offerings have now become the new norm. Growing popularity of these plans is expected to result in even higher adoption rate amongst Indian mobile subscribers in forthcoming quarters from the current penetration mark of nearly 40%.
- The introduction of unlimited usage bundled plans has resulted in a tectonic shift in the consumption habits of the Indian mobility users with a quantum jump in per subscriber usage.

Idea's mobile voice usage per subscriber witnessed a whopping 38% increase on a YoY basis during Q1 FY19. The monthly voice consumption per subscriber for the Company rose sharply to 609 minutes in Q1 FY19 from 441 minutes in Q1 FY18. Similarly, monthly usage of mobile broadband data per subscriber also



experienced an exponential multiplier of nearly 2.7 times on a YoY basis to broadband data usage at 8 gigabytes per month in Q1 FY19, compared to 3 gigabytes of data usage per month, a year back.

- Further, the increasing, mass market adoption of unlimited voice bundled data plans has led to an explosion in the overall mobile voice minutes and broadband data volumes on Idea's network.

During the first quarter of FY19, Idea delivered a total of 349.5 billion mobile voice minutes, a staggering YoY growth of 39.4% versus the 250.7 billion minutes it registered in Q1 FY18.

The mobile broadband data volumes too reached a record level as Idea's pan India wireless data network carried 992 billion megabytes during Q1 FY19 – more than 3 times increase – compared to the mobile broadband data volume of 229 billion megabytes carried during Q1 FY18. The robust growth in mobile broadband data volume was also aided by Idea's expanding broadband coverage and growing smartphone adoption on its network, which resulted in a healthy addition of 14 million wireless broadband users over last one year. The Company's wireless broadband subscriber EoP base now stands at approx. 41 million.

Moving on to network expansion.

Keeping in mind the Company's imminent merger with Vodafone India, Idea adopted a calibrated approach in its network roll out during the quarter and deployed an incremental 5,688 mobile broadband sites. For broadband capacity expansion, Idea has placed the next round of network orders for TDD sites on 2300 & 2500 MHz spectrum in its 8 key markets. This quarter supplies were slow but network equipment providers are gearing their manufacturing capacities to meet Vodafone and Idea combination's burgeoning demands for 4G services on TDD bands & new FDD 900 MHz band. Idea's cumulative mobile broadband presence at the end of Q1 FY19 stands at 160,598 sites, an increase of 43,212 sites over last one year. The Company's overall network footprint as of June 30, 2018 stands at a total of 291,555 sites including GSM, 3G and 4G technology sites.

Idea's wireless broadband population under coverage now extends beyond 662 million Indian spread over 170,000 towns and villages across all the 22 service areas, which will expand rapidly post merger as overlapping 3G and 4G sites are redeployed.

During the quarter, Idea launched its Voice over LTE (or VoLTE) services for its customers across all its 20 4G telecom circles. Idea VoLTE delivers high definition voice services over 4G / LTE network and allows subscribers to continue experiencing un-interrupted 4G internet while simultaneously being on a voice call. Leading smartphone brands Samsung, Xiaomi, Vivo, OnePlus, Nokia, Panasonic, Huawei, etc. cater to 75% of the mobile market in India have already released the first Idea VoLTE patch on their popular devices. The future models of these brands will come with Idea VoLTE patch embedded in them.

Going forward, I estimate the merged entity will strive hard to rapidly expand its broadband coverage by redeploying the large number of overlapping equipment without incurring any significant capex, and build sufficiently higher data capacities by consolidating and re-farming its large spectrum block of 1,850 MHz across 900, 1800, 2100, 2300 & 2500 MHz. In the interim, both the companies have entered into 'Active Infrastructure Sharing' for broadband services and '4G and 2G Intra Circle Roaming (ICR)' arrangements wherever spare capacity is available. Under these arrangements, both operators are currently sharing nearly 66,000 sites.



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As you are aware, post completion of merger, the combined entity 'Vodafone Idea Limited', will kick start its operations as India's largest and the world's 2nd largest mobile operator. Based on latest financial reporting for Q1 FY19, the new merged entity will have

- a. A subscriber base of nearly 408 million users, approx. 20% higher than that of the current market leader.
- b. A data subscriber base of over 123 million users, 1.3 times that of the current market leader (though definitions may be different), and
- c. A combined quarterly revenue of over Rs. 130 billion, nearly 30% more than that of the current market leader.

The leadership team of Vodafone Idea has already been announced on 22nd March 2018 and the new management team is ready with an extensive plan to consolidate the operations and network of the merging companies in a phased manner. With such large scale operations, the key focus area for the merged team will be to fast forward the substantial cost synergies, estimated at approx. 10 billion US dollars in NPV terms, and consolidate its market position. To remind you, at the time of merger announcement, we had provided a market guidance that we expect over Rs. 84 billion savings as part of opex synergy from 4th full year of operations as merged entity and the new management's efforts will be to fast forward and meet the initial guidance.

To summarize, the ongoing phase of consolidation in the Indian mobile telecom sector is now heading towards its culmination with sub-scale operators having exited the industry by either shutting down their networks or combining with other operators. Going forward, only 3 large private operators and 1 government operator are expected to offer mobility services to Indian consumers. Meanwhile, the consumption habits of Indian mobility subscribers have undergone a likely permanent change, with both mobile voice and broadband data services becoming an integral part of their lifestyles. After the dust from the current disruptive storm settles down, even a minor market correction in form of slight ARPU increase will be revenue accretive for the industry, and translate into commensurate improvement in the financial health of the operators who are investing with a long term vision in the Indian telecom sector. While near term challenges persist, the merged entity 'Vodafone Idea Limited' will be well placed to benefit from the opportunities that the sector offers, and emerge as a strong mobile service provider of both voice and broadband services across 2G, 3G and 4G platforms.

As I conclude my final earnings call, I would like to take this opportunity to thank all the institutional investors and telecom analysts for our fruitful interactions and incisive feedback on Idea's strategy and programs over the last 7 years and wish all of you happy investing in future.

I now handover to Mr. Akshaya Moondra - Idea CFO for details on the financial performance for the quarter.

Akshaya Moondra: Thanks, Himanshu. A very Good Afternoon to participants from India and Good Morning or Evening as applicable to overseas participants. The revenue for the quarter declined to Rs. 58.9 billion in Q1 FY19 as against Rs. 51.4 billion in Q4 FY18 mainly on account of down trending of ARPU. After adjusting for impact of exclusion of one month tower revenue post sale of Idea's standalone towers and full quarter impact of TRAI directed international IUC rate reduction versus two month impact in last quarter, the normalized quarter on quarter operational revenue decline is 2.9%. The company has adopted Ind-AS 115 that is revenue from contracts with customers which has become mandatory from April 1, 2018. The effect of adoption is insignificant on these results.



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The EBITDA for the quarter stands at Rs. 6.6 billion. The previous quarter had some one-offs and higher year-end write backs. After accounting for those factors, the EBITDA decline is broadly in line with revenue decline. The depreciation and amortization charge for the quarter stands at Rs. 20.9 billion. The interest and financing cost net has increased to Rs. 13.9 billion in comparison to Rs. 9.7 billion in Q4FY18 mainly due to interest income on certain income tax refunds in Q4FY18 and higher forex loss during the current quarter.

The forex loss in this quarter is Rs. 1.9 billion. During the quarter, Idea completed the sale of standalone towers to ATC for an enterprise value of Rs. 40 billion resulting in a gain of Rs. 33.6 billion. No tax outflow is expected on this gain given the current position of tax losses. Further, Idea received a dividend of Rs. 3 billion from Indus towers during the quarter. The standalone PAT for the quarter after including the above stands at Rs. 5.1 billion. capex for Q1 FY19 was Rs. 9.8 billion, net debt as of June 30, 2018, stands lower at Rs. 505.8 billion as against Rs. 523.3 billion in March '18. The cash and cash equivalents balance as at June 2018 is Rs. 132.4 billion. With this, I hand over the call back to Margaret and open the floor for questions.

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

Sachin Salgaonkar: Congrats to the Idea team for getting all the key approvals and Best Luck for your new journey. I have three questions, firstly, in this quarter when we look at the capex numbers coming from your peers those are pretty high and I understand Idea's capex guidance of 70 billion and perhaps 70 billion more coming from Vodafone and even the synergies and overlapping equipment and so on and so forth, but still the amount looks a lot lower than what your peers are spending, so would be great to understand your thoughts on how you look at this trend and if there are any upside risks to this? Second, understand again you do not want to talk on the merged entity, but would be helpful to understand some of the next steps of integration and by when we could see the integration getting complete? Thirdly, I read your notes in which it was mentioned that you do expect the ARPU to revive, but what if tariffs do not go up at all for next let us say couple of years and how do we see Idea and perhaps Idea and Vodafone as a merged entity from a gearing perspective?

Himanshu Kapania: Thank you, Sachin. Let me answer your last question first, at the end of the day all of us are crystal gazing into the future and it will be not right for any of us to start making any assumptions into the future. There is a general belief that the business economic activity in any country in any sector is carried out for financial gains and the current price levels that is being offered in the market along with the quantum that is available to consumer is far below cost level, so given this it is a natural expectation that economic logic will prevail. Beyond that, it is crystal gazing and it will be difficult to answer any question which is beyond economic logic. If you are fine with this part, I will move to the first two-part of them.

Sachin Salgaonkar: Sir, pretty clear and I completely understand, but again when we look at Reliance Jio numbers, we do see on their reported numbers and EBITDA positive and net income positive and their statements continue to be from a point of view that we continue to make money at these levels, so hence this point maybe this tariffs may continue for some elongated point, so I was coming from that perspective?



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Himanshu Kapania: I will give you the answer in two parts, first part is the accounting practices of two companies are different, so it will be unfair to make comparisons of these two sets of companies even though both of them are listed, so I will leave it at this part. The second part is as far as Idea is concerned, it has taken the most important strategic step of merging itself with Vodafone India and we intend to bring down our operating cost. Our costs are very much known to the market for so many years and we have been trying to bring them down on a standalone basis, this is that much we can do. With the combined entity, we expect our overall cost to fall significantly. Beyond that, we will wait to see.

To come back to your first question, capex number of peers is high, you are absolutely right and there is no disagreement on it. Before I respond specifically on capex numbers, I have to keep reminding you that even as we speak the total number of radios that is installed by combined entity is highest in India. Over 600,000 combined radios across 2G, 3G, 4G is currently available and a lot of these radios are upgradable to 4G services. The specifics will be shared with you over a period of time. We are committed once the overlapping 4G sites are made available to us we will roll out and expand 4G coverage to all our 2G locations over a period of time, so whatever outlay of capex that we intend to have during this year, most likely we will be able to cover more than 80% to 85% of population. The second part is the capacity needs. The capacity for the combined entity will come from, capital expenditure and spectrum consolidation. I think we are missing out the spectrum consolidation in estimates, the combined entity has the largest quantum of spectrum and on standalone basis a large portion of spectrum is being used outside 4G. Once we combine together, more than 70% of our spectrum will be re-farmed in a phased manner and will be utilized for 4G services, which will help us expand our capacities, so we should not ignore the importance of spectrum consolidation. I have covered the coverage part, I have covered the capacities linked to spectrum consolidation that is to the fact that capacity expansion through additional capex. Now, currently while we are building capacity as the demand comes in, we expect this capacity improvement will become significant at combined entity because of redeployment of overlapping sites. No doubt, others are also building larger capacities but I would rather focus on current market leader capacity. There is a small gap and we are very hopeful once we operate as a combined entity that gap will be quickly filled, so this is what I can talk about, it is difficult to talk about specific numbers.

Your second question was on integration of two companies. As I mentioned in opening remarks that new management has been working on this for more than one quarter, in fact I would say over five to six months now and management has got all its plans ready. So, the minute the merger is announced, it will start unfolding the plan. It has got plans which cover not only Network and IT, but also distribution, brand, service and people. Our focus will not be restricted to get cost synergies but also to be able to expand and get the benefit of revenue enhancement. So there is a comprehensive integration plan and we are quite confident that when we start executing it, you will see the outcome of that in the coming quarters.

Sachin Salgaonkar: Sir, just a small follow up on this, I believe in the past you guys had mentioned that at 10 billion NPV could have an upside risk in terms of being around 11 to 12 billion, is that perhaps the right representative, you guys still believe that is the case?



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Akshaya Moondra: Sachin, I think the difference between 10 and 12 billion was more a question of timing. When we had given the figure of 10 billion it was on the date of merger announcement assuming an implementation period of two years. The inherent figures of the synergies have not changed and so if you look at as on the data of merger the NPV may be 12 billion and that was really the distinction between 10 billion and 12 billion.

Sachin Salgaonkar: Akshaya, at the end of the day, Telcos is more like fixed cost kind of a model, since you gave the guidance, clearly the revenue growth has slowed down or the overall revenue growth has been much lower, does that in anyway change these synergies both at OPEX and capex level or is it largely the same?

Akshaya Moondra: Let me put it this way, as far as the OPEX is concerned it is all cost basis and those synergies do not change, they remain the same. As far as the capex is concerned, it is a bit of a hypothetical calculation to some extent that if the two entities had operated separately what would have been their capex and by combining together what is the revised capex level. This cannot be a very accurate calculation and to that extent, I would say the best way to look at it is that what is going to be the capex of the merged entity going forward, but as far as the OPEX synergies are concerned, they remain the same despite the revenue decline that we have seen in the market.

Moderator: Thank you. The next question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: Two questions please, my first question is simply on your data subscribers which is flat in this quarter while industry seems to have added more than 30 million subscribers in the quarter, can you throw some light on exactly what is happening there and could this phenomenon last for sometime during the time period where you integrate your operations with Vodafone? Second question which is somewhat related to the first one is that what is the kind of trends you are seeing for customers who are high-end feature phone users on your network, Reliance has amassed about 25 million Jio phone users in about six months from now, so what are the kind of trend you are seeing for your high-end feature phone users, are you seeing them churning out of your network and what are you doing to retain those users? Thank you.

Himanshu Kapania: Thank you, Manish. Yes, I agree with you. We are little disappointed with this quarter's broadband subscriber addition and we are making some changes in our operating strategy to be able to convert a larger portion of our customer who have got 4G and 3G handset to broadband customers. As we have shared the KPI in our quarterly results, Idea has close to 110 million customers who have a broadband device but only 41 million of them are currently using the services and one of the more important task which marketing team has been assigned to is to get a large portion of them converted and start using our 3G and 4G services. There is no doubt about 30% of them are in areas, which are currently not covered by us and once the merged entity starts operating we will have larger coverage and we will be able to cover those subscribers and give them an option. In addition to that we have placed a significant amount of orders for the TDD equipments as I mentioned in the opening remarks and we are expected to enhance capacities in our leadership markets significantly. A large portion of TDD deployment will get completed in Quarter-2. We are very hopeful that what could not be achieved last quarter will be recovered going forward.



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Manish Adukia: Just a quick follow up, can we assume that the June quarter was in that way somewhat of a one-off and probably starting September quarter, you could see at least some pickup on-data subscriber addition or is that still sometime away?

Himanshu Kapania: There are two parts to subscriber addition, one part is on account of new subscriber addition and one part on-data subscribers with some upgrade. I covered the upgrade part which is the focus of the marketing department especially. Coming to new subscriber addition there was a change in strategy for us in the previous quarter. We went with a new approach of reducing channel payouts and our new subscriber addition was significantly lower than what we were getting in Quarter-3 and Quarter-4, so there was some of the losses on account of that. The marketing department is reviewing its overall strategy to see what should be the way forward for this. As we are building large capacity as well as expanding coverage on our data, we will remain focused to get most of our current subscribers to start using data, so that for us is a growth opportunity. I have to keep reminding you which I have said in my opening remarks that the total number of data subscribers of combined entity is significantly higher than the current market leader.

Moderator: Thank you. The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.

Kunal Vohra: Sir, slightly similar question to what you just answered, there was a revenue divergence as compared to Airtel and Vodafone this quarter, what do you think in your assessment went wrong compared to your peers? Why are you less aggressive in terms of pricing? That is question one. Second is what is the total amount of bank guarantees given by the merged co. to DoT for various litigations which we have, and when do you expect the key litigations like One-Time spectrum to be resolved? Lastly, your thoughts on the feature phone market and how it is going to evolve from here. Jio has significantly lowered the entry barrier to Rs. 500 now and according to some news reports, they have almost 47% incremental market share in feature phones, so your thoughts on the feature phone market going forward? Thank you.

Akshaya Moondra: Kunal, as a part of merger compliance, we have given a bank guarantee for about 3300 crores, this is against a single matter which is the One-Time Spectrum Charges. Although a court stay has been given but to comply with M&A guidelines of DoT, this bank guarantee was to be provided. We have given it under protest because in the other mergers which had been recently concluded, this kind of a bank guarantee requirement was stayed by the TDSAT. There is no bank guarantee required against any other sub judiced demands as per M&A guidelines and those things will follow their own course as the litigation gets decided.

Kunal Vohra: This is the only bank guarantee which is outstanding right now, and when do you expect these issues to be settled, these have been long-standing issues like for almost seven to eight years now, any visibility on when we expect these contingencies to go away?

Akshaya Moondra: These are basically dependent on the judicial system and how things progress there. We would also want this thing to get settled as soon as possible but sometimes these things take their own time. So we are dependent on the judicial process for the conclusion of this litigation.



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Himanshu Kapania: Let me come back to the market related questions, your first question was on revenue divergence. You are absolutely right, I will acknowledge that there was divergence in revenue of Idea versus Airtel and Vodafone, the reason is we tried a new strategy. While most of the market had been focused on unlimited plans, we wanted to balance unlimited plan given that we wanted to see whether non-unlimited plan as a category can be retained in this market by offering aggressive offers to them. While a significant portion of customers did take these plans from us, it ended up in an overall ARPU decline rather than ARPU increase. We had hoped that ARPU will increase by the benefit of volume increase but volume did not compensate for this. It is a learning for us in one quarter and it is worst experiment that we carried out and it is very clear that given the strong pull for unlimited plan other short-term strategies of giving aggressive STVs or minutes bundle does not stand a chance. So we are reversing our strategy going forward and new management will further review this. That is why I said the new management will decide what should be the way to go forward. This is one factor which had some reason for divergence. The second factor is we had been very strong in subscriber growth through new acquisitions and we choose to reduce the channel payouts given the fact that there are no more subscale operators in the marketplace, but this resulted in churn higher than what we had anticipated, However we are taking some corrective steps.

Yes, feature phone market is now in metamorphosis stage, it was predominantly led by 2G handset. Now the 2G handset manufacturers are in a stage of shock, they are currently selling their handset at around Rs. 1000. They are also now forced to sell their 2G handsets in the price range of Rs. 400 to Rs. 600, which will be the competing factor against the 4G handsets. We are also closely watching the situation to see what would be the overall impact of 4G feature phone on our total business. The Bill of material of a 4G feature phone is significantly higher than that of a normal feature phone. One operator decided to subsidize significantly and it is obviously not reflecting in their books of accounts. We are closely watching the situation to see the overall impact. As per our assessment about 25 million 4G feature phones have entered the market, the numbers are small. We will keep a close watch and then the new management will decide what are the options to counter this. Whether we have to bridge the gap only through tariff or through a handset. I think it is early time. We will watch for another two or three quarters and then take a long-term view on that.

Kunal Vohra: Sir, even if it is 400 or 600 like how do you think these 2G phones will compete against 4G phones at Rs. 500 and do you think there will be need to subsidize devices by the incumbent as well?

Himanshu Kapania: I step back and it is not about device, it is about the use of customer. Is the customer a dedicated voice user or is a voice plus data user? If he is a voice plus data user, definitely he is going to buy a 4G phone and entry price of the 4G phone is an important component and we have to find a solution for the right entry price for customer who are at the lower end of the income category and want to use both voice and data. 2G feature phone is the best solution for customers whose dominant requirement is voice and I have to keep reminding you that there is still more than 300 million Indians who do not own mobile services in India. It is one of the few market in the world where these large number of customers do not own any mobile services and I still believe that 2G remains the best choice for them. So I am not in this discussion or a debate about 2G versus 4G, the debate is about pure voice user versus voice and data user.



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Moderator: Thank you. The next question is from the line of Vinay Jay Singh from Enam Asset Management Co. Please go ahead.

Vinay Jay Singh: Firstly, I just wanted to thank Himanshu for over the years helping us all both in investments and research team so much and all the best for the future as well, Sir, thank you so much. My two questions out here, first you commented about the industry stabilizing but you not needing to look at the crystal ball, what should we look at if Jio or any other operator does not change their tariffs at all, would we start seeing uptrending of ARPUs incrementally, if nothing else happens just that, the usage pattern keeps on moving up and people move from Rs. 50 to Rs. 100 and Rs. 100 to Rs. 150 ARPU packages, would we start seeing that if no more ARPU cuts come in, that is my first question? My second, you all have spent a lot of time on explaining your changed strategy, but a little bit more comments if you could do on the subscriber loss because this has been the first which I have seen maybe a second for Idea since I started coverage, so that is a little worry, any thoughts on these two questions would be very helpful? Thank you again.

Himanshu Kapania: Thank you, Vinay. You are absolutely right, I think first and foremost whatever I am going to comment it is very guarded and cannot hold me because it is still crystal gazing, but let us assume what you are saying it is a realm of possibility that tariffs do not go up. So let us take example of Idea which has an ARPU of Rs. 100 and unlimited plan broadly is sold around Rs. 150 net of taxes. We have large number of subscriber which are in a much lower ARPU band. If I am able to attract them to be able to join in an unlimited category at higher ARPU, definitely there would be an ARPU improvement. As I mentioned earlier we went about trying to sell non-unlimited plans in a much bigger way to this set of customers and which we are reversing back to put all the focus back on selling unlimited plans. In the previous quarters, we were short of voice capacities, but with the rollout of VoLTE services on a pan India basis across 20 circles. We have sufficient voice capacities and we will go out selling maximum number of unlimited plans. You are absolutely right at the current price levels of unlimited plans if we are able to increase adoption of unlimited plans from a current level to much higher percentage, it will be natural event that the overall ARPU will improve.

As far as subscriber loss is concerned, we are also worried about subscriber loss and I will just summarize the understanding of the subscriber loss. We have been a very strong proponent of acquiring new subscribers and we were doing a significantly high number of new acquisitions, which used to come at a high cost. We decided to cut both channel margin and initial promotion cost in order to bring our overall acquisition cost down and to be able to prepare ourselves for the merger. As you understand, the customers who are on network for less than 180 days has a tendency to churn more than subscribers who stay for more than six months and that is exactly what happened to us, we had a high new subscriber acquisition in Q3 and Q4 last year. Further, we had lower subscriber addition in this quarter. So we had a larger percentage of customers in the 0 to 180 days age bracket that is why the churn was higher than the new subscriber that we got, that is the reason of the negative subscriber addition. The unfortunate part is we are getting into Quarter-2, which is traditionally a weak quarter for Idea that is the reason I mentioned that the confidence is high in the team that the subscriber growth will come back, it is only a matter of time. Having lost subscriber in Quarter-1 and a little more stability coming in Quarter-2, the subscriber growth should come by



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October to December time period, it is my own estimate, but the new management will review the overall situation and take best corrective steps. We are as focused on subscriber growth and it will be the focus of our group that I can tell you on behalf of the new management.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche bank. Please go ahead.

Srinivas Rao: Two questions, first is based on the last available data, the merged entity has almost 42% share of the industry active add, so as you have mentioned in the past your strategy would be to keep your subscriber rather than gaining given that you a market leader by a wide margin, in that context would it be fair to say that your focus would be to get those 100 million people converted into 4G and are you looking at any KPIs for the new management on that count, that is my first question? The second one is as you have mentioned that the new operator is discounting, would you think of any plausible reason why the new operator is willing to adopt below cost strategy and assuming that the new operator is rational, is there some other revenue base new operator is looking at beyond the connectivity revenues?

Himanshu Kapania: Thank you, Srinivas. You are absolutely right, the combined entity will have 408 million subscribers. There will be some subscribers which are multi-sim and could be using both Idea and Vodafone's network, so some adjustment will happen for a short period of time. These are small hiccups and then the new management will definitely make sure there is no way that new company is going to give away the growth of subscribers in India. India continues to be a large market, India continues to have a large number of customers who still have not acquired mobile services. It also has a lot of customers which is still only pure voice customer and the focus of the new entity will be not only to increase subscribers who are not currently users of mobile services, but also to be able to convert all of the voice customers into data customers, so I have no doubt that what you have mentioned that we will do one of the two, I will say we will try to do both, we will try to acquire new customers who are not currently in to category as well as upgrade existing customers for data services, so it is not either or, it will be both in my mind. We are at 408 million and the plan should be to be able to get as many more as possible. That is the reason that effective utilization of the largest number of radios and Spectrum that we currently have as a combined entity will be the first focus of the new management.

Srinivas Rao: If I may highlight the common investor feedback which I am sure you have heard is that the company potentially will be starved for capital and hence not be able to defend its franchise. So I have asked this question in that context?

Akshaya Moondra: Srinivas, from that point I think we have been telling repeatedly that between starting from the beginning of this calendar year till the time of Indus monetization, the shareholders either through way of investment or through divestment would have brought an equity funding of roughly about 30,000 crores. The promoters remain committed to this business, it is a strong business for both the promoters and I think they are committed behind this business. Beyond this, I think we can only address this question when the situation arises, it is difficult to say, so much in advance because I have read out in my opening remarks also that we are well funded today and there is



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more cash likely to come ahead, so there is no concern as of now and if the situation arises, the promoters are committed to the company.

Himanshu Kapania: Srinivas, it is difficult to respond on your question regarding why the new operator is behaving in the way it is. The only point is that he is focused to establish himself strongly in the market and compete and it is the way of his approach, so we will have to wait and see what he is doing and how he will continue into future. It will be difficult to comment beyond that at this point of time.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Two or three housekeeping questions mostly. First one what was the impact of tower sale to ATC on revenue and EBITDA in Rupees million terms in the first quarter? Second question, is there any dispute for liberalization charge of nearly 40 billion? Has it been paid under protest, what is the exact nature of the dispute here? Third, we have seen a significant slowdown in the mobile broadband addition 1.1, 1.2 million only this quarter, can you please break down this 1.1 million net add into gross add and churn customers in the first quarter?

Himanshu Kapania: Sanjay, I did not get the third part of the question, can you repeat that please?

Sanjay Chawla: Just to breakdown, you got 1.1 million mobile broadband customers addition this quarter, so what was the gross add on that front and what was the churn in this segment?

Himanshu Kapania: I will not have an answer of your third question offhand, maybe we can share with you later on. I want to give you a very macro picture, what is changing for the Indian landscape as telecom is concerned, there used to be multi-sim environment in the past. The multi-sim in the voice category has been on a decline quite significantly and our last study shows that it is down by 15% to 20% in case of our subscriber who are voice users and using multi-sim. The multi-sim in the data category has significantly increased post the huge spread of 4G services. So we can see a slightly higher churn currently on the broadband side then we see a churn on the voice side. This is my macro answer, the specifics we can separately do at the site.

Coming on to your question of liberalization costs, which is governed by M&A guidelines. So first and foremost I will not use the word liberalization, it is a wrong terminology that you are using. M&A guidelines requires that the transferee company need to pay for administrative spectrum up to 4.4 MHz. There has been apparent errors in the calculation of the demand that has been raised on us. We have given our calculations to Department of Telecommunication and waiting for revert on that. However, we did not want to wait while they are relooking at the calculations we provided. That is the reason why we have gone ahead and made the payment under protest.

Sanjay Chawla: How significant would the number be if your calculations were to hold eventually?

Himanshu Kapania: I would not like to disclose in a larger forum because until the final decision is taken by DoT it will not be fair. I would not like to give guidance which is based on our internal calculations.



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Akshaya Moondra: On the towers I think we will not be able to get too much detail, but I can just say that and we have also indicated in the past that the annualized EBITDA for the tower business was in the ballpark of 350 to 400 crores and that is the extent of EBITDA which goes out of our P&L.

Moderator: Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Just few questions from my side, firstly Bharti made a comment that they are happy to lose some of their low-end feature phone subs to Jio phone if this is the case and they also do not want to subsidize handsets in that category, your thoughts on the same? Also about any upward movement in pricing in next six months, your thoughts on the same? Secondly on network integration, if you could help us with some timelines in your top market as a merged entity, how much time this could take for overall process? Lastly on FTTH, Jio is coming with this home broadband, Bharti also started expanding on home broadband, and Vodafone acquired You Broadband sometime back. So if you could provide us some color as to how the merge-co could look at the fixed line business? Will we have adequate ability to invest both in closing the 4G gap and the fixed line in that case? Thank you.

Himanshu Kapania: Thank you, Rajiv. Let me follow the same order in which you asked questions. First, on Bharti's comments, we have been saying that we are not currently reacting to the feature phone onslaught. We will be at the site as I mentioned as a response to previous question and try to assess what the overall impact is. We are of the opinion that a pure voice customer would be happy to stay on 2G, a customer who wishes to be on voice plus data plans will be upgrade to 4G services. Our current focus is to cover the gap both in coverage and capacity as early as possible and this merger will help us do that. Till the time we are waiting and watching in, we will absorb the situation before we react. To your second question regarding upward movement of tariff, as I mentioned it is difficult to crystal gaze I do not think we can give any guidance on this.

As regard to network integration, I had answered this question in the previous quarter also. This is obviously the most critical of the events for new management. I am aware that they have a comprehensive plan where the focus is threefold. Number one is to use overlapping equipment, number two is to refarm excess 2G and 3G spectrum for 4G and number three is to increase our presence from the TDD, so these are the three part as far as radio is concerned. Similarly, there is an integration process on for fibre because combine together we have a large fibre of over 300,000 kilometers, integrating that and making it one network is the same plan that exists, so there is an overall plan for entire network. The focus is obviously to get first and foremost key markets, second is leadership market and third is weaker markets,

Rajiv Sharma: Your thoughts on fixed line strategy?

Himanshu Kapania: I think it is very premature at this point of time to start talking about fixed line, I will leave this to the new management to get their thoughts together and come back with a comprehensive response.

Rajiv Sharma: Just one last follow up, have you started reversing the channel payouts and what you took as a conscious strategy in first quarter has that started changing in this month of July or August?



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Himanshu Kapania: No, we have continued to be very calibrated as far as channel payouts are concerned.

Moderator: Thank you. The next question is from the line of Vivekanand Subramanya from Ambit Capital. Please go ahead.

Vivekanand Subramanyam: I have two questions, one is on the fibre consolidation that you are planning, is this also an asset that you will potentially look to monetize given that tower co's are also keen to expand presence in the fibre space, and if so, can you help us understand what would be your considerations while evaluating such deals? Secondly, on the content platforms that other Telcos have built, do you have any update on how your platforms are doing and then thoughts on the way forward on the content side? Thanks.

Akshaya Moondra: On the fibre consolidation, I think it is very clear that as happened in the case of towers were the utilization of towers was not optimal when these towers were housed with different telecom operators and so there was a lot of merit in combining towers into a single portfolio and maximizing the use of assets. I think the same largely applies to fibre and so initial discussions are on as to see how that can work. The only difference is that in case of towers there was not so much technology involved. In case of fibre, there could be two ways it could be done, it could be dark fibre, it could be bandwidth, and these are some of the considerations which come into play as to what should be the structure, what could be a long-term pricing, what should be the arrangement between the fibre co and the telecom operators, so I think this is still in early stages, but there is lot of value which can be created by better utilization of the assets and so we are looking at that possibility.

Himanshu Kapania: Vivek, incrementally I will add that worldwide, there is a trend of aggregator for fibre and the US is currently leading on it with two or three aggregator present and we are looking at models of how it is working in other parts of the world and then try to see if it can be replicated as far as India is concerned, but as Akshaya mentioned, it is early time, we do not know finally what direction it will take.

Vivekanand Subramanyam: Just one small follow, specifically if one looks at fibre there are multiple nuances that you mentioned dark versus lit fibre, is there anything else connected to say intra-city versus intercity fibre linking to I mean the cell sites and so on that one needs to consider and are there any KPIs that one can look at to understand how saleable a parcel of fibre is vis-a-vis another one?

Himanshu Kapania: First and foremost, this is one of the largest fibre network across the length and breadth of the country both intra-city and intercity, and all the topics that you mentioned are relevant there, but unless we have studied all the models and decided to pursue a particular model, it will not be fair for us to be able to give you more details.

As regard to content, content remains very much part of our strategy and as a part of our quarterly release, we have given the total number of users. If I remember correctly, there are over 20 million users who are currently digital users who are using Idea's content across movie, music, and games and this continues to grow.



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Vivekanand Subramanyam: Actually, I went through the release, I was just wondering if you feel that this is a monetizable avenue or any other thoughts, can there be a B2B business say you getting ad revenue, do you also consider looking at ad models or thoughts on that will be appreciated?

Himanshu Kapania: The teams at Idea and Vodafone have all such thoughts. We will leave it to the new management to decide what is the best way forward to us. Digital remains a part of an overall strategy and as we go to acquire more and more data customers, all elements of content as well IoT are some of the strategies that will unfold going forward.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Himanshu Kapania for closing comments.

Himanshu Kapania: Thank you, Margaret. I would like to thank all the institutional investors and all our telecom analyst friends and colleagues who over the years have been very helpful being able for us and being very kind for our ups and downs and helping us with their incisive questions and commenting on our strategy. It has been hell a lot of journey over the last seven years and I will like to thank all of you in this journey, so all the very best and continue to invest well in the telecom sector. Thank you so much.

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