



"Idea Cellular Limited Q2 FY17 Earnings Conference Call"

October 25, 2016



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 presentation, 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 and 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 call 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. Yesterday, our Board of Directors adopted the audited results for the second quarter of the Financial Year 2016-17. 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.

The current July to September quarter, H1FY17 and H1FY16 (restated) are based on Indian Accounting Standards – IND AS. This quarter and first half of financial year 2016-17 cannot be strictly compared with restated results of Q2FY16 and H1FY16 as Q2FY17 & H1FY17 financials include –

- a. Full impact of investment in Spectrum acquired by Idea in March 2015 – an investment of Rs 301.4 billion and February 2014 Spectrum Auction – an investment of Rs 104.2 billion for renewal of licenses and linked spectrum in 9 Idea Leadership Service Areas expired between December 2015 to April 2016 and additional blocks of 3G & 4G spectrum in multiple circles where services were launched after Q2FY16.
- b. Additional revenue deferment in H1FY17 consequent to change in terms regarding carrying forward conditions of unused Data entitlement in Data Packs, negatively impacting H1FY17 revenues.

Idea, is in the process of business transformation building World Class Mobile Broadband Services. The company is participating aggressively in Digital India mission – one of the country's leading and largest infrastructure build out program. Idea is gearing to provide 'Wireless Broadband Access for a Billion Indians' in the shortest possible time span of 3 to 4 years likely by Calendar Year 2019. The company has mostly completed its spectrum acquisition, with overall spectrum holding of 890.6 MHz including Auction Spectrum of 823.4 MHz across bands of 900, 1800, 2100, 2300 and 2500 MHz frequencies acquired in Auctions during Calendar Years of 2010 to 2016 for a financial commitment of Rs 617 billion including Rs 128 billion in recently concluded October 2016 Auction.



*Idea Cellular Limited
October 25, 2016*

Idea will expand its Broadband Services to Pan India Wireless on 3G and /or 4G platform from existing 17 Service Areas latest by March 2017. 4G services will be expanded to 20 Service Areas from present 10. Himachal Pradesh 4G Services has been launched in October 2016 and 4G Services in 9 new Service Areas of Gujarat, Uttar Pradesh (West), Uttar Pradesh (East), Bihar & Jharkhand, Rajasthan, Mumbai, West Bengal, Assam and Jammu & Kashmir will be launched by March 2017 using the freshly acquired spectrum in just concluded October 2016 Auction.

In last 24 months, Idea has expanded its network sites by 63%, adding 83,276 Network sites on 2G or 3G or 4G technology platform. In the same period, Wireless Broadband sites on 3G or 4G platform has increased nearly by 3.5 times i.e. over 60,000 sites from 25,164 sites in Q2FY15 to 85,412 Network sites in Q2FY17. The Idea Wireless Broadband India population under coverage has been expanded to over 430 million Indian in the 17 Service Areas. The company in the same period has increased its OFC Fibre Network by nearly 45% from 87,600 km in Q2FY15 to 126,000 km as on 30th September 2016. Including recent October 2016 Spectrum Auction of Rs 128 billion, Idea Gross Block investments in Fixed Assets including Network and IT Equipment & Spectrum acquired has risen to nearly Rs 1,150 billion, an addition of over Rs 580 billion in last 25 months. Monetisation of this front loaded large investment is inevitable in future. The company's spectrum portfolio post the October 2016 Auction provides Idea the ability to roll out Broadband networks which can carry Mobile Data traffic 15-20 times of its current Consumer Data traffic.

Our promoters Aditya Birla Group – ABG is a strong believer in India's growth story and Idea is committed to participate in PM Shri Narendra Modi's Digital India mission and fully tap the emerging Mobile Broadband adoption opportunity.

Further, in the just concluded October 2016 Spectrum, Idea is delighted to share that the company has exceeded all its spectrum acquisition objectives. Idea has successfully completed its Pan India Mobile Broadband footprint and significantly boosted its capacity spectrum portfolio, as Idea prepares itself for the upcoming Digital age and arrival of a tsunami of new Mobile Data Users, as India's broadband penetration inevitably improves from current abysmal low level of 12 – 15% to over 50% in next 3 – 4 year time span.

Idea has acquired 349.2 MHz of spectrum in this Auction, including – 2 x 74.6 MHz of FDD spectrum i.e. 149.2 MHz in the frequency bands of 1800 MHz and 2100 MHz and additional 200 MHz – TDD Spectrum in frequency bands of 2300 MHz and 2500 MHz to address the future requirement of capacity. Idea in this auction has managed to expand its spectrum portfolio by over 64%. The company overall spectrum quantum has risen to 890.6 MHz, over 13% spectrum holding share against the total Industry spectrum procurement of 6,815.1 MHz including Auctioned & Administered spectrum holding by 11 Telecom Operators within the sector. Idea is the only pioneering Telecom Operator which has completed 16 out of the 22 Telecom Service Areas, License renewal till Year 2032-2036 and now can focus all its energies to expand coverage and capacity and tap India Digital growth potential.



Idea is now well equipped to offer 4G Services on its own spectrum across 20 Service Areas, covering 94% of the company revenue. More importantly, Idea now owns two carriers of prime 1800 MHz frequency band @ 10MHz in 7 out of its 8 Leadership Circles excluding Andhra Pradesh. Additionally, the company now owns additional 1 to 3 Capacity carriers on 2300 to 2500 MHz bands in 16 out of 22 Service Areas. Idea will initiate rollout in 2300 & 2500 MHz band from FY18 onwards, signifying strong hedge of Idea's Key Revenue and Profit generating markets, as Company's Mobile Data Capacity will match with all leading operators.

On 3G spectrum, Idea was prudent and acquired 2100 MHz spectrum for 3G only in high population Service Areas of two Circles of Bihar & Jharkhand and Rajasthan. Idea's capability to offer 3G services has now expanded to 15 Circles on its own spectrum, while Idea will continue to offer Pan India 3G Services excluding Orissa using 3G ICR arrangement in remaining Service Areas.

On overall basis, Idea now owns 64 broadband carriers with each carrier measured as 5 x 2 MHz on FDD and 10 MHz on TDD Spectrum. The company has earmarked 47 of its 64 broadband carriers for 4G and remaining 17 carriers for 3G services. It is now strongly positioned to tap maximum share in the high potential high growth Mobile Data Segment, the platform for Digital India program. Idea's total commitment for October 2016 Spectrum Auction is Rs 128 billion at less than 1% premium over DoT reserve price. The company has opted for Deferred Payment Option and on 20th October 2016, submitted the upfront payment of Rs 64 billion.

Moving on to Capex guidance. With the Capex spends of Rs.77 billion in last Financial Year of 2015-16 and planned investment of Rs.65 – 70 billion in current Financial Year of 2016-17 on pre October 2016 Idea Spectrum portfolio, the company expects to complete a significant part of its coverage related Network Rollout in existing 11 4G and 13 3G Service Areas. Idea is now allocating incremental Rs.10 billion Capex for spends in FY17 to expand its Wireless Broadband coverage pan India and launch new 4G Services in 9 New Circles and 3G Services in 2 New Service Areas.

The Capex spends are being optimized with introduction of single radio – Ultra Wide Band Radio in short UBR now available across band of 1800 to 2100 MHz. These UBR radios enable us to deploy multiple technologies of 3G & 4G on single hardware across 1800 – 2100 MHz spectrum, at lower cost providing significant capital optimization opportunities. Idea is also exploring Active Infra sharing opportunities across Common RF equipment and RAN sharing besides accelerating Fibre sharing to further optimize Capex requirements.

After completion of Idea's planned Wireless Broadband Network Rollout, based on 75 – 80% of upgrading Company's existing 2G sites to either or both 3G and 4G technologies and supplementing capacity spectrum, on hotspot basis, Idea will be equipped to handle 15 to 20 times its current Mobile Broadband traffic volume on existing & new spectrum.



As Idea emerges as a strong Wireless Broadband Service Provider, the company will be able to fully service its over 178 million Pan India Subscriber base with a full array of Digital Content & Services. The preparatory work on Idea branded Content Services are in full swing. Idea expects to launch its branded Games Services in Q3FY17, with Idea Movies & Music Services and Voice on IP and Messenger App in subsequent quarters.

During our last 9-year journey with Aditya Birla Group as a sole promoter, we have imbibed number of powerful attributes. We learnt to think big, act fast but with honesty, integrity and transparency. We imbibed culture of meritocracy, nurtured an army of leaders and scaled the company with legendary operational discipline.

Moving on to Business Performance

Based on latest TRAI gross revenue release for the period 'April to June 2016', Idea has improved its 'Revenue Market Share' (RMS) to 19.3% in Q1FY17, an improvement of 60 basis points over the last year same quarter. Between Q1FY16 and Q1FY17, the Mobile Industry growth rate fell to a single digit growth rate of 5.5%. Idea maintained its status of growing faster than industry with YoY growth rate of 8.8% between Q1FY16 v/s Q1FY17. 29.9% of the incremental revenue of the Mobile industry at Rs.26.5 billion was contributed by Idea.

The performance of Idea on four standard parameters for the period July to September 2016 is as follows:

1. Gross Revenue: With increasing proportion of rural subscribers, the seasonal slowdown in the second quarter has followed past trends, resulting in voice minute contraction. Consequently, Idea standalone revenue of Rs. 93 billion is lower by 2% on sequential quarterly basis partially led by voice minutes decline and rest due to rate fall both in Mobile Voice & Data segment.

The hyper competition is resulting in slow industry revenue growth trends with Idea's overall revenue growth on YoY basis at its lowest @ 7.2% between Q2FY16 & Q2FY17. Starting with Voice business impact on overall Gross Revenue, the Voice revenue declined by 5.3% due to –

- a. Voice Realisation Rate decline @ 3.4% from 34.3 paisa in Q2FY16 to 33.1 paisa per minute in Q2FY17.
- b. Fall in sequential Voice Minute by 1.9% to 195.5 billion this quarter compared to 199.3 billion in Q1FY17.
- c. On positive side, there was an addition of 3.2 million new subscriber quarterly net addition on VLR in Q2FY17.

In contrast for the Mobile Data business, Idea pursued volume led growth strategy and the overall Mobile Data Realised Rate – ARMB fell by 11.2% from 21.1 paisa in Q1FY17 to 18.7 paisa per MB this quarter, while Mobile Data Revenue grew by 2.5% Q-o-Q driven by–

- a. 5 million Mobile Data User Addition, helping the Mobile Data Subscriber EOP reach 54 million. 30% of Idea overall consumer base of 178.8 million now use Idea's Mobile Data Services on either 2G, 3G or 4G platform.



- b. Strong sequential Quarterly Mobile Data Volume growth @ 15.4% to 107.4 billion Mb in Q2FY17 against 93.1 billion MB in the period April to June 2016.

The 'Non Voice Revenue' contribution to Service Revenue stands at 29.6% this quarter against 27.9% contribution to Service Revenue in Q2FY16.

2. Cash Profit & EBITDA: The standalone quarterly EBITDA at Rs.28.4 billion grew slower on YoY basis @ 1.8% at margin of 30.5% against Q2FY16 EBITDA margin @ 32.2%.

The higher Network running expenses due to accelerated expansion, increased subscriber acquisition and servicing cost and other multiple inflationary pressures resulted in overall operating cost increase faster than gross revenue growth.

In the 15 'Established Service Areas', Idea blended 'Revenue Market Share' is higher at 22.3% in Q1FY17 against National Revenue Market Share at 19.3% for the same period. The standalone EBITDA for these 15 Established Circles is at 34.6%.

In the 7 New Service Areas, EBITDA losses are still high at Rs 1,424 million. Thereby pulling down overall margin to 30.5%. The RMS of New Circles is at 7% slowly inching towards double digit revenue market share as mobile industry trends towards consolidation in the Voice segment. The company Cash Profit generation for the quarter is at Rs 19.4 billion. Idea H1FY17 Cash Profit is Rs 44.6 billion.

3. Active Subscribers: Q1FY17 Net VLR Subscriber addition is 3.2 million helping Idea customer base on VLR to reach 186.4 million. Idea has clocked 15.6 million Net VLR annual addition between October 2015 to September 2016. In comparison, as per latest July 2016 TRAI subscriber VLR Market Share, Idea has further strengthened its 'Subscriber Market Share' to 20.1% an improvement of 1.3% in last one year.

Over the last 12 months reporting period of TRAI i.e. from August 2015 to July 2016, the industry Net Adds has fallen steeply to 34.1 million against annual TRAI declared subscriber adds numbers of 89.3 million between August 2014 to July 2015. The Voice business is witnessing consolidation as 'Rest of Industry' operators other than the Top 3 operators grip on the industry is loosening. The combined 'Rest of Industry' 'Subscriber Market Share' has fallen from 36.1% in July 2015 to 32.0% in July 2016, a decline of 4.1% with an overall annual Net Subscriber on VLR loss of 25.3 million. But, even now 'Rest of Industry' mobile operators combined control 294 million mobile subscriber other than Top 3 operators. The Voice market is inevitably consolidating as 'low Market Share operators' consider Exit at time of License Renewal - due for most of the 'Rest of Industry' operators in next 3 to 5 years. Our estimates for these 'Rest of Industry' current subscribers in the future would move to Full Service Telecom Operators offering both Mobile Voice & Wireless Broadband Services on Pan India basis.

Due to rate battle in Voice & Mobile Data, the 'Average Revenue per User' – ARPU has been under pressure and was at Rs 173 in Q2FY17 against Rs 175 in Q2FY16. But, the company is fairly optimistic of the improvement in blended customer ARPU – i.e. consumer wallet spend on Mobile Services will grow as Wireless Broadband penetration for Idea improves from current abysmal low level of 17% only. Also due to



intense trade and market place battle, the blended subscriber churn has risen this quarter by 0.2% to 5.4% on sequential quarterly basis.

4. Minutes of Use: In Q2FY17, Idea carried 195.5 billion Minutes against 189.5 billion Minutes in Q2FY16, a slow growth of 3.2%. In Q1FY17, Idea Voice Realised Rate of 34.3 paisa /minute was the highest rate among all Mobile operators, even higher than No.1 & No.2 carriers, a unique situation that has never occurred in the past. The company is in the midst of making necessary Voice tariff corrections to remain competitive in the Mobile Voice segment. Over the last one year the Voice realised rate has risen from low of 32.7 paisa / minute in Q2FY16 to highest level of 34.3 paisa /minute in Q1FY17. This quarter Voice rate has again fallen on sequential quarter basis by 3.4% to 33.1 paisa / minute but still higher than Q2FY16 by 1.2%.

The Voice ARPU declined this quarter to its lowest ever level of Rs122 against Rs 126 in Q2FY16 as average usage per subscriber was at its lowest of 368 'Minutes of Use' per month against 386 'Minutes of Use' per user. Due to arrival of new well capitalized operator, in the midst of an aggressive launch, the telecom market is witnessing far higher level of multi sim usage and voice minutes are getting distributed. We expect the Voice & Data KPI to stabilize to new levels in the forthcoming 2 to 3 quarters as New operator transitions from Free Service to Paid 4G Service.

In the last one year, the company has added 11,357 2G GSM sites primarily strengthening Idea Voice presence in 'Emerging & New' Idea Service Areas. Idea GSM coverage from cumulative 1,30,633 GSM sites as on 30th September 2016 has reached one billion Indian covering 82.5% of Indian population – pan India spread to over 398,000+ towns & villages.

As the 2G & 3G voice market consolidates, Idea's GSM presence would help the company act as a Consolidator of Subscribers and Minutes from fringe exiting operator. Idea's strength remain in large population Telecom Circles, mid and small town, semi urban and deep rural and hinterland. With even now low mobile adoption at only 55% of rural population, the Rural Voice segment still offers good future growth potential.

Idea Fibre coverage has expanded by 25,600 km during last one year, reaching an overall company OFC Fibre presence to 126,000. The company is rapidly expanding its Fibre PoPs and at 8,160 Nos. on 30th September Idea is able to use these Fibre PoPs to build and support fast expanding Idea Mobile Broadband Services.

Moving on to Wireless Data Business

The Mobile Data business is presently in high investment and low capacity utilization phase. Idea has decided to pursue Volume led growth strategy and Q2FY17 performance & KPIs on sequential quarterly basis is –

- a. Idea repeated Q1FY17 subscriber addition performance, again this quarter adding incremental 5 million Mobile Data Users helping overall Mobile Data Subscriber EOP reach 54 million using Services on 2G, 3G or 4G platform.
- b. Exponential Q-o-Q Mobile Data Volume growth @ 15.4% to 107.4 billion MB in Q2FY17.



- c. 30% of existing Idea strong 178.8 million consumer base are now Mobile Data Users.

The blended mobile data blended ARPU of 2G, 3G & 4G Data Users has fallen to Rs 130 v/s Rs 144 in Q2FY16 as a number of existing Telecom Operators Mobile Data Users also procure 2nd sim from New 4G Operator, who has recently launched its Services. The Mobile Data revenue contribution is now @ 21.9% of 'Service Revenue' while overall 'Non Voice Revenue' including Data contribution has risen to 29.6%.

Moving on to 3G & 4G business:

Idea Mobile Broadband Services adoption on high speed 3G & 4G platform has been steadily improving & performance KPI on a sequential quarterly basis are –

1. Highest ever 9.4 million existing Idea 2G feature phone customers Upgraded their phone to new 3G and /or 4G smartphones in the quarter July to September 2016.
2. The overall total 3G & 4G smartphone count has risen to 70.4 million. Nearly 40% of Idea strong 178.8 million consumer base now own a smartphone. Out of these 70.4 million, 19.3 million smartphone owners have 4G capable devices.
3. In Q2FY17, 3.7 million existing smartphone owners started to use Idea Mobile Broadband on 3G or 4G technology during the quarter. The total Mobile Broadband Users on Idea 3G or 4G Network has risen to 30.7 million as on 30th September 2016, a Mobile Broadband penetration on Company Subscriber base is still low at 17.2%.
4. Idea added 1.3 million New 4G Users in Q2FY17 out of the above 3.7 million Wireless Broadband Subscriber Addition in the quarter. The 4G Data User EOP has risen to 3.1 million as on 30th September 2016. As 4G coverage will expand, the existing Idea 19.3 million smartphone owners will have opportunity to access latest high speed broadband services.
5. Mobile Broadband Data Volume on 3G & 4G platforms has grown exponentially annually @ 85.5% from 43.1 billion MB in Q2FY16 to 79.9 billion in Q2FY17. The usage per Wireless Broadband User blended for 3G & 4G is steadily improving, reaching 922 MB/ user an increase of 120 MB per User over last one year.
6. As the Mobile Data realized rates per MB fall is higher than Broadband Data Usage elasticity per User, the Wireless Broadband 'Average Revenue per Broadband User' i.e. Broadband Data ARPU has been steadily declining. In Q2FY17 Broadband Data ARPU is Rs 160 against one year earlier at Rs 202 in Q2FY16. The positive side of lower Data Broadband ARPU is Idea can now attract far larger number of mass customers on high speed Data 3G & 4G Services owning smartphones – Key for next round of growth for the company.

Idea continued its aggressive mobile broadband Network coverage expansion program. Idea added 5,006 new 4G sites during the quarter, therefore the overall site count has now reached 24,945 sites. Idea launched its 4G services on 23rd December 2015 and in a short period of 9 months has expanded its coverage to 171 million Indians spread across 2,400 towns and 7,500 villages in 10 Service Areas. With September 2016 harmonisation by DoT of non-contiguous 2014 & 2015 Spectrum acquired in Auction, Idea launched its 11th Service Area -



*Idea Cellular Limited
October 25, 2016*

Himachal Pradesh in mid-October. Also, earlier key towns affected by Partial Spectrum Allocation of Pune, Nasik, Ludhiana, Amritsar, Sirsa & Shillong, etc have also been recently launched in October 2016.

Similarly, Idea expanded its 3G network by 9,236 sites to reach 3G capable NodeBs to 60,467 sites. The company 3G services are now available to 377 million Indians spread over 4,100 towns and 73,000 villages in 13 Service Areas.

The Mobile broadband Network aggressive expansion is clear testimony of Idea's ability to build, operate and satisfy demand of high growth Mobile Broadband Market. Today, Idea Mobile Broadband Services coverage either on 3G and /or 4G services has reached to over 430 million Indians across 17 Service Areas with presence reaching 80,000 towns and villages. The company with recent spectrum purchase, is on track to reach one billion Indian who can use Idea's Broadband Data Services by Calendar Year 2019.

Finally, to enhance Customer experience on Idea 'High Speed Wireless Broadband Network', the company is working diligently for early launch of its wide range of Digital Services. Idea is gearing itself to introduce as early as Q4FY17 an assortment of Digital entertainment services including Idea Music, Idea Movies & Videos besides Idea Games in Q3FY17.

Separate efforts are in advanced progress to introduce Idea Video & Audio chat Services, Rich Messaging & Voice over IP services, Live & Catch Up TV, Mobile Data backup Services on Cloud and many more Digital Services. Idea model for Digital Services include build on our own or partner with technology provider while sourcing content directly from or in partnership with Labels, Aggregators or Content Provider. Our business model is not build on differentiation but on Idea's power of Distribution building on company's consumers trust, convenience, analytics and loyalty tool tied to new Digital and Payment Services. Similarly, Aditya Birla Payment Bank – the 49% JV with Idea is on track for launch of its Payment Bank Services by first half of Calendar Year 2017.

To conclude, Idea with last 8 years of strong track record of execution will always remain nimble and adaptive to emerging market conditions. The brand stands for reach, relevance and resilience. Idea in line with its stated mission of competitive and profitable growth, on strength of expanded spectrum portfolio and accelerated pan India infrastructure rollout remains confident to tap all emerging opportunities in rural mobile voice and broadband business.

I now handover to Mr. Akshaya Moondra for details on financials.

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



The Company has adopted Ind AS from 1st April 2016 with transition date of April 1, 2015. Accordingly, the financial statements from Q1 FY17 onwards are based on Ind AS. As committed during last quarter, the results for all four quarters of FY16 are restated based on Ind AS have been included in the Quarterly Report. We have also shared the reconciliation between IGAAP and Ind AS for impact on profit and loss account in the quarterly report. Further, with adoption of Ind AS, Indus financials are now consolidated based on equity method as against line by line consolidation under IGAAP. Hence, the consolidated EBITDA under Ind AS represents Idea and its subsidiaries only and excludes proportionate share of Indus EBITDA.

In order to provide perspective to Idea's position on consolidated basis and comparison with earlier reported consolidated financials, we continue to provide the pro-forma profitability breakup including Indus and Payments Bank contribution to the respective line item in our quarterly report.

During this quarter we have completed transfer of all Idea Group towers to ICISL and hence all towers are now under a single legal entity. As the transfer is to a wholly owned subsidiary, there is no impact on the results of Idea standalone which includes the results of its subsidiaries.

The revenue for the quarter stands at Rs. 93 billion, lower by 2% QoQ in the seasonally weak quarter mainly due to decline in voice minutes from 199.3 billion to 195.5 billion and reduction in both, Voice and Data realization. The normalized decline after taking into account data revenue deferment initiative in Q1FY17 is 3.3%. The EBITDA for the quarter declined to Rs. 28.4 billion in comparison to Q1FY17 EBITDA of Rs. 30.7 billion, mainly due to decline in revenue and impact of continued aggressive expansion of network, highest subscriber additions and annual compensation revisions.

The net interest and finance cost declined by Rs. 470 million compared to Q1FY17, mainly due to lower average net debt level in Q2FY17. We have also received interest on Income Tax refunds during the quarter, the impact of which was offset by mark-to-market losses on currency hedges for our long-term loans.

Idea's standalone profit before tax includes loss of its subsidiary IMCSL, for which deferred tax asset has not been recognized due to its impending merger into Aditya Birla Idea Payments Bank Limited. This, along with the effects of CSR being non-admissible expenses for tax is skewing the tax rate for the quarter.

Capex spend of Rs. 30.8 billion in the first half of financial year was funded by cash profit of 44.6 billion. The net debt at the end of Q2FY17 stands at Rs. 364 billion with net debt to annualized EBITDA for the quarter at 3.2 times.

In the recently concluded auction, Idea has acquired 349.2 MHz spectrum at the total commitment of Rs. 128 billion. Idea has made the 50% upfront payment of Rs. 64 billion on 20th October, 2016, and has opted for deferred payment obligation for the balance. During the quarter, post harmonization of spectrum, Idea also got allocation of full spectrum in all six circles where initial allocation excluded some districts. As a part of this



process, we have now received allocation of 1800 band spectrum which is being deployed for LTE in districts of Pune and Nasik in Maharashtra; Amritsar and Ludhiana districts in Punjab, Sirsa district in Haryana; East Kashi Hills and Tawang districts in Northeast; Shimla, Chamba, Kangra, Kinnaur, Sirmour and Solan districts in Himachal Pradesh and several districts in Uttar Pradesh West. Against the total value of Rs. 5.32 billion for this spectrum, we have made an upfront payment of Rs. 1.76 billion and the balance amount of Rs. 3.56 billion is being covered under deferred payment obligation to DoT.

The contribution of Indus and Payments Bank to consolidate the PAT after adjusting for tax on undistributed profits of Indus is Rs. 871 million in the quarter.

With this, I will hand over the call back to Margaret to open the floor for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question is on voice realization, after two quarters of steep increase you have seen a decline in this quarter. How do we see this going forward? Especially with competition offering free voice how should we look at this interplay of realization and minutes? Second question is on Capex, you have already given guidance for FY17, any initial thoughts which you can provide for FY2018-19? That is it. Thank you, sir.

Himanshu Kapania: Thank you, Kunal. I think we have been very consistent on voice guidance. Last quarter we had mentioned that our voice realized rate has peaked and our realized rate is higher than the number one and number two mobile services operators in India. That was unsustainable and unique situation which happened once in our lifetime. We are in the process of correcting that. So, while your question pertains to free voice services being offered by new operator, our correction has nothing to do with what is being offered by 4G operator, our correction is more to the battle which is happening in 2G and 3G market. In the 2G and 3G market Idea needs to be competitive and we have taken necessary steps to be able to operate slightly below the realized rate of number one operator. The reason why we have to operate slightly below is because we have a portfolio of circles where we are leader or number two in the ranking and we also have emerging and new circles where our rank is between number three to number six. You will appreciate that in these markets we will have to be at a slightly lower price than the market leader.

I will also take this opportunity to talk about what is happening as far as new operator is concerned. I would like to remind all listeners that India has overall a billion mobile phones. It is our internal estimates that number of 4G phones India currently has is anywhere between 80 million to 90 million. So, if I have to split the total number, there are 900 million 2G and 3G phones and 90 million 4G phones. We are battling in both the markets. In the 900 million 2G & 3G market the battle is among the top three operators and as separately called the rest of the



industry, a lot of them are in the mood of exiting and the market will consolidate. With market consolidation, all of us will be able to add subscribers. This quarter also we added 3.2 million subscribers.

As far as 4G market is concerned there is no point in responding at this point of time as they are offering for a period free voice and free data. Once the free service is over and they start charging, we will then consider reacting to that. If this is fine, I can move to the second part.

Kunal Vora: Sure. But on voice realization, with let's say free voice being offered by Jio, where do you see this settling down? Can we continue to see decline in voice realization for a prolonged period?

Himanshu Kapania: There are two parts. Currently they are in the promotion mode where they are giving both voice and data free and subsequently they have announced tariffs which have a bundle offering. While it is a marketing gimmick to call lifetime free voice but what it actually is a bundle, a bundle of voice and data. I would like to remind that in their current offering of Rs. 149, they give 28 days' free voice services with a small quantum of data volume. What we are noticing is that the 4G market will operate more with bundle plan where a focus of operators will be ARPU lead rather than rate lead. As I mentioned in my opening remark, Idea is preparing itself to build large capacities. Its current voice network utilization is between 50% to 55%, its current mobile data capacity utilization is at a level between 20% to 25% and it is also building very large capacity. So, we are very much in a position to be able to compete any capacity lead model where ARPU will be the center of focus. Hence, if 4G markets are going to move to a bundle rate plan, the company will, at necessary point of time, react and compete in the 4G space with those kind of price points.

Kunal Vora: Sure, that is very helpful. On the second question?

Himanshu Kapania: Moving on, as far as Capex is concerned, we had mentioned when we hosted a call post our October 2016 auction that Idea is now in its peak Capex mode this year. We have increased our Capex guidance to 75-80 billion. Last year we had spent 77 billion and with these spends the 11 circles of 4G and 13 circles of 3G are covered which includes most of our leadership circles. We have made major progress as far as coverage is concerned. We will also start to cover this year the remaining nine circles of 4G and two circles of 3G. We have allocated Rs. 10 billion for the same.

We believe this is our peak Capex year, next year will be slightly lower and subsequent year there will be fall from there. So, we have to remind all our listeners that besides capital expenditure, we also got second carrier on 1800 MHz where we do not need to make any significant investment. Also, I would like to remind that our focus is to do active infrastructure sharing and we are in advance discussions on the same. We have now also actively been engaged to expand our sharing on fiber and we are very hopeful to sign a lot of deals to be able to optimize our overall capital expenditure. There is also some technology movements on capital with introduction of products called UBR where instead of installing separate two radios on 3G and 4G in the bands of 1800 and



2100, there is possibility now for us to be able to install a single hardware and only pay for twice for software. So, this will again optimize our overall capital expenditure.

Moderator: Thank you. Our next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: At the outset, I wish the team at Idea a very Happy and Prosperous Diwali in advance. Two questions from my side. Firstly, how should we think about minutes growth in the medium-term? As and when Jio starts to charge are you confident of returning back to double-digit minutes growth which we used to generate in the past? And how do you propose to generate that, if so?

My second question is, if I look at the incremental revenue market share data in the last four quarters, especially in the seven of your new service areas and the seven emerging areas it never dropped below 30% and 20% respectively, but this quarter we have seen both of that happen. So, should we assume that incrementally the revenue market share in these service areas is going to be lower than what we saw in the past? And if so, what would be the reason?

Himanshu Kapania: Thank you, Karthik. I think both the questions are linked. We started experiment from January of 2016 to improve overall rates while the number one and number two carriers did not do that and that is the reason Idea lost some subscribers and certain minutes. We are in the process of correcting that and you can see early signs of the same in decline of realized rate which will finally result in increased minutes growth and higher subscriber additions. You would have specially noticed, our subscriber additions in September was fairly robust. Idea's focus going forward will be volume lead strategy on the voice side of business. We are very committed to expand and increase the number of subscribers that Idea has and bring it back to levels of 20 million to 25 million addition on an annual basis. If you have to do addition between October of 2015 to September of 2016, Idea has gained 15 to 16 million subscribers and we would like to take it up by March on a rolling 12 months basis to a level of 20 million subscribers.

Further, we are fairly confident to be able to improve our overall minutes growth. Last quarter if you notice, on Y-on-Y basis it was 1.8%, it has gone up to 3.2% but this is seasonally a weak quarter and we expect it to go up further. We are hopeful to bring it very close to the double-digit, if not cross the double-digit level for the full financial year.

That is why I said your second part of the question is linked to the first part of the question. We had raised rates specifically in the new circles and emerging circles and impact of that has been seen in RMS. There is slow RMS growth because subscribers and minutes growth was much lower than what we had expected. Our experiment to raise rate up to the market leadership price points has not worked for us. That is the reason why we are reversing the strategy. We would see the outcome of that. You may not be able to see the outcome of that in



one quarter but hopefully in two to three quarters we should be able to see the outcome of that. I have to remind once again to all the listeners on the call that we have made significant GSM site investments. In the last one year we have installed over 11,000 sites on GSM and major portion of these sites have been installed in emerging and new circles. The coverage has been extended, the capacity utilization is low in these markets and we are confident to be able to get subscribers as the quality of services has improved quite substantially with this investments in these markets.

Karthik Chellappa: Just one follow-up on the data elasticity, while we appreciate the long-term potential of data and the penetration lead growth, in the short-term the volume growth elasticity to the realized rates do not seem to be playing out. In other words, the volume growth for us still seems to be concentrated in the 50% to 60% range but the realization per MB seems to be falling faster. What do you think would explain this, why is the elasticity effect not kicking in yet?

Himanshu Kapania: Karthik, you will have to take into account the changes in the mobile industry. We have to remember that there is one fully capitalized new telecom operator who has joined the mobile industry and giving free data. In that environment Idea cellular on its sequential quarter basis has still been able to add, 1) 5 million additional mobile data users and 2) on a sequential quarterly basis a volume growth of 15%. We expect the data volume to be even higher in Q3FY17. The good part is that the number of users as well as volume of usage in the industry is really going up. Although, we are not able to see the same in our KPI as the multi-SIM environment has also increased and a lot of the volume has gone to an operator which is offering free data services. But, it is only a matter of time that will adjust and subscribers will come back to us because our coverage is extending to newer markets and to new population centers, our speeds are also improving and are becoming extremely competitive. The good story is India's adoption of digital services is on upswing, we will have to take a pain for a quarter or two before the new operator moves from free service to paid service.

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

Sanjay Chawla: My first question is that you have about 1 billion population coverage under 2G now and that has been achieved using 130,000 2G sites. So, for a similar coverage as you said you are looking at a similar mobile broadband coverage by FY20, how many sites would be required in terms of MBB coverage given that you do not have sub-gigahertz MBB spectrum in all your circles? That is first question.

And secondly, how many of the 19 million 4G enabled devices on your network would be capable of Voice over LTE? A related question is, you mentioned there are 150 to 170 million 4G phones in India right now I think the number that we have been seeing in some of the press reports is close to 70 to 90 million. So, just wanted to double check this number?



Himanshu Kapania: So, I will correct the last part. The 70 to 90 million are the additions that we have seen over the last calendar year and our estimates is, if you are to add last three to four years the number should be closer to 150 million. But I will double check this out as you have asked and come back to you specifically.

[The number of 4G handsets is around 80 to 90 million and same is corrected at other places in the transcript]

Now, your question number one, the number of sites required to reach a billion Indians for providing wireless broadband coverage. You are absolutely right, we have 130,000 2G sites from a combination of 900 MHz and 1800 MHz. We have currently 85,000 broadband sites which provide coverage to 430 million Indians. In our estimates we need anywhere between 85,000 to 90,000 more sites to reach a billion Indians. But our estimate is to add 100,000 sites by which we are very confident of able to reach the billion Indians. As we keep reminding you, some of the sites will have both 2G as well as 3G and 4G.

Sanjay Chawla: So, obviously these 85,000 sites are not unique sites. So the question is, how many would be unique sites and how many incremental unique sites?

Himanshu Kapania: Over 65,000 to 70,000 are unique sites.

Sanjay Chawla: And the incremental requirement to hit 1 billion coverage?

Himanshu Kapania: Another 80,000 to 85,000.

Sanjay Chawla: 80,000 to 85,000 unique sites?

Himanshu Kapania: That is right. Shall we move to the second part?

Sanjay Chawla: Yes.

Himanshu Kapania: On last part of your question, a very small percentage of our subscribers have VoLTE enabled handset. I do not have the exact number, we can give it offline.

Sanjay Chawla: And just one quick question, you paid Rs. 64 billion upfront amount so there has been some incremental borrowing as well. So for the full year what would be the amount of interest capitalization on account of latest spectrum purchase?

Akshaya Moondra: For the latest spectrum purchase most of the additional interest would be capitalized. There would be very small charge to P&L account for spectrum which will be put to use immediately. This is mostly in the cases where we have acquired incremental spectrum in the same circle where 4G is already deployed. That quantum will not be very much, I do not remember the figure off hand but that figure is quite insignificant. So, for most of this year the interest on the new spectrum will be capitalized.



Sanjay Chawla: So that would amount to the interest on deferred liability as well as the incremental borrowing that you have made to pay the upfront amount, is that correct?

Akshaya Moondra: That is right.

Moderator: Thank you. We have the next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Sir, I have few questions. First is, you mentioned in your quarterly reports the court's proposal to reduce your stake in Indus by distribution of same to Providence. Can you clarify what is the process there? That is first question.

Second is, you mentioned that rural subscribers have been the reason for seasonal softness in revenues. Although, across some other companies we are generally seeing rural being reasonably buoyant in India. So, how has that not translated to a relatively better outcome?

Third question is on your challenger circles, circles where you said you are not leader. There also you commit to improve your data coverage and data services. Now, for the last five years we are seeing those markets where you have had a bit of a challenge in terms of readjusting your losses. Why do you want to commit more to those circles? Will that lead to a better revenue or an EBITDA outcome? Is that something which you think will happen what has not happened in the voice era, if I may say?

And fourth question is on the share of 3G subs to your total data subs, I will be thankful if you provide fairly granular data. And what we notice is that percentage has kind of plateaued at about 65% - 66% over the last almost three quarters which just shows that the penetration rate is not improving. What are the reasons for that particular consumer dynamics? Thanks.

Himanshu Kapania: So, I will first ask Akshaya to talk about Indus and then I will answer the remaining part of the questions.

Akshaya Moondra: Srinivas, Providence has an indirect stake of 4.85% of Indus value through Aditya Birla Telecom and we are currently working on something whereby Providence Equity Partners can be directly provided shareholding in Indus. So, basically it will result in distribution of ABTL assets to Providence Equity Partners.

Srinivas Rao: So, your stake in Indus will then fall proportionately?

Akshaya Moondra: Yes, that is right.



Himanshu Kapania: Let's move on to your other three questions. Number one, when rural is buoyant across all sectors why is it not in telecom? The reason is, telecom services are quite weak into rural and typically the tower services go down because of monsoons, floods, storms and uptime is much lower in Quarter 2 than it is in other quarters. Also, accessibility to the rural markets becomes very difficult during the period of monsoons and floods and that is why there is disruption of lives which does not affect a number of sectors which are not so deep into rural. As I keep reminding you, we are discussing 400,000 towns and villages very few sectors can imagine to reach even half of these in rural customers. We reach a billion Indians, very few sectors reach that level and that is a consistent issue. Rural will be buoyant, we are also a believer of that and we are looking forward to the next two quarters with rural having large income growth and its percentage share for mobile should go up going forward. We are expecting more adoption of rural customers to mobile, only 55% of rural population today owns a mobile and we continue to invest in rural markets with the hope that a larger percentage population currently not using mobile services will enter the category. If you are fine with this answer, should I move to second part?

Srinivas Rao: Yes, that is fine. Thank you.

Himanshu Kapania: Now, as far as challenger circles. We are now of the belief that there is no chance for any operator who remains a pure voice operator. And any asset which is not able to provide full service that means both voice and mobile broadband services has no chance of surviving. That is why I have been repeatedly talking about consolidation, any operator who has chosen not to participate in growth of wireless broadband will find it extremely difficult to be able to compete in the market place. We have long-term focus in the telecom business, our licenses are till 2032 to 2036. While there will be short-term pain but in the longer run we want to improve our share in all markets and we want to retain all the customers that we are acquiring by being able to offer both voice and mobile broadband services. Further, if you notice we have not expanded 3G in a number of markets that we felt were not necessary and we have gone and chosen one technology. We have now spectrum to become a pan-India wireless broadband operator, in expensive markets we have chosen one technology either 3G or in most of the markets 4G.

As far as share of 3G services, we have 30.7 wireless broadband customers, out of this 3.1 million are on 4G and still over 27 million customers are on 3G technology. 3G is still nine times the size of that of 4G and growth remains steady as far as 3G is concerned. I keep reminding that a customer today which we call a 4G customer because his primary use of network is 4G does not mean that he is only using platform of 4G, he toggles between 3G and 4G network. Our network expansion of 3G is much higher than that of 4G and the customer has opportunity to use both the networks.

Akshaya Moondra: And it is also quite likely that he is using 4G and 3G and not so much 2G, then for his voice services he will depend on the 3G network.



Srinivas Rao: Sir, the question I was asking was if I look at 3G, 4G as a percentage of your data subs, that ratio has not moved much. Are you seeing increasing adoption of data services per se, I mean 3G or 4G data services and not 2G?

Himanshu Kapania: The point you are making is that out of the 54 million why do we have only 30 million on 3G or 4G? Why not a larger percentage? Why the number of 2G data subscriber is not slowing? and why not faster growth of 3G and 4G? It is a relevant point, all I am saying is we have to keep reminding ourselves that a very large number of subscribers who are non-user of data, at this point of time, as only 30% of our overall subscribers are users of data. The methodology that they will select to enter data category is first their existing technology which is original choice of technology is GSM, they will upgrade themselves to start using data on 2G, then they have a demand for speed, they will likely then upgrade to 3G and subsequently to 4G. So, if we have to move from current levels of 54 million, there is another 130-odd million customers who do not use data on our network. And once they would start using data first on 2G network on EDGE and then they will move to 3G or 4G.

Srinivas Rao: And sir one final question on your challenger markets. Is it possible for you to participate in some consolidation in those markets with operators who are around your level or even below you? Is that something which is feasible?

Himanshu Kapania: Consolidation in India is primarily for spectrum, there is no case in India where this consolidation happens for subscribers. An existing low market share operator will decide to be able to stay on or to exit the business when a) his license comes for renewal or b) if he does not have many subscribers. Idea Cellular has completed spectrum requirements, so we have no need for M&A transaction. It is only for low market share operators, whenever his license comes for renewal and for most of the low market share operator's license renewal is coming in the next three to five years, they have to decide whether they want to spend eight to 10 times of the price at which they bought original spectrum or they would like to exit the market. When they exit the market the subscriber can be reacquired by existing operators through MNP route.

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

Manish Adukia: Most of my questions have been partially answered, but I will just try to get some more color from the management. Firstly, I think on the voice side of the business, in 2Q of course you did lower your voice tariff and you did see some pickup in volumes, but I think on a YoY basis it was still about 3% of your overall volumes, significantly lower than what we have been seeing in the last few quarters. Now, this quarter probably had a very little impact from Reliance Jio on the voice side. Can you just talk about some competitive pressures on the voice side from the existing operator? Because the voice volumes are still much lower than what they were let's say two or three quarters ago?



Second, if you can just give us some early trends on Reliance Jio, in the sense that what is the user behavior that you are seeing from your existing subscribers? For example, your existing data subscribers, are they suddenly lowering their recharge denominations on their 3G or 4G and are they suddenly lowering their ARPU usage as far as voice is concerned?

And just lastly on the Capex which I think you explained quite elaborately in the last few questions, but just wanted to understand, you mentioned that this is your peak year as far as Capex is concerned, but Bharti Airtel for example is spending almost twice as much as you are spending for their rollout on 3G and 4G. Now you have a similar spectrum profile; you have 2500 MHz, 2300 MHz, and also 1800 MHz for 4G. So just trying to understand that with Rs. 75 billion to Rs. 80 billion of Capex, how do you think about getting a similar kind of coverage in three to four years from now? Those were my questions. Thank you.

Himanshu Kapania: Thank you, Manish. Let's go step by step. On the voice side of business, you are absolutely right that on a year-on-year basis our volume growth has been 3.2%. Your fear is that the reason why we are not getting double-digit volume growth is because of Jio and will the impact be more pronounced going in the next few quarters. I would like to assure everybody on the call that the impact of Jio on voice minutes is very small, a very small percentage. There is no doubt that it is offering free voice minutes and their minutes flowing over point of interconnect are increasing by a large number every week. But impact on our voice minute is very small for anything worth to report. Reason why the minutes growth for Idea is slow has been that in January to March of this year we increased our voice rates and we are in the process of correcting those rates. When we increased our rates, subscriber acquisition was much lower. In previous year Idea had acquired on an annual basis about 22 million to 24 million subscribers. If you look at from a period October to September, Idea has only acquired 14 million to 15 million subscribers. The shortfall in subscriber is a bigger reason why the minutes growth has not happened. Even in the month of October, while the season returns, we are getting good growth of voice minutes. If you notice, what we reported in the month of September we have had a reasonably good growth in subscriber acquisition. So both subscriber acquisition and voice minutes continue to grow.

There is definitely some impact of RJio, however the existing customers are not porting out, at least from Idea as well as based on our own internal information from most of the top three providers. A very small percentage of subscribers have ported out. Customers buying the SIM cards are basically buying for it dual SIM handsets. They are using this additional SIM for primarily availing data services that is why the volume of data is very large. Some of them are also availing voice services but the impact is very small, impact is by and large on the rest of the industry. If you notice the rest of industry has lost 25 million subscribers in last one year and our internal study shows they continue to lose both subscribers and minutes going forward. The fringe operators are the ones who are maximum impacted as far as voice is concerned. If you are fine, I will move to the second part?

Manish Adukia: Sure, that is helpful.



Himanshu Kapania: Now, as far as data is concerned, yes there is a larger impact. So, while the degree of confidence when I am talking on voice is not the same as far as mobile data is concerned. If you notice, Idea has been rolling out very aggressively wireless broadband sites both on 3G and 4G. Our coverage has expanded in the last two years to a substantial number and now our data networks reached to 430 million Indians, a very competitive coverage. However, asset utilization on mobile data is currently low, that is the reason you can see impact on data realized rate. Our realized rate on a year-on-year basis has fallen by 20%, on a quarter-on-quarter basis it has fallen by 11%. We expect the KPI for mobile data to settle, the overall realized rate is at 18.7 paisa per MB, realized rate for 2G is much-much higher, 3G is around the same average but 4G is much lower than the reported overall realized rate. We are making every attempt to be able to get larger volume of data, but we believe it to happen when Jio start charging. Whatever rate it charges the battle or competition will really start. Till that time we will wait to see how many customers will enjoy free services. We will wait at the side rather than react and focus on protecting our high ARPU customer and ring-fencing them. Our current focus is primarily on ring-fencing rather than aggressively go and acquire customers for data, till the free service gets over.

Akshaya Moondra: Manish, on your question of Capex let me explain. I think people seem to have concern that next year capex will be higher than current year capex of Rs. 80 billion. It is not the case. Now we have got our own 3G spectrum in 15 service areas and our own 4G spectrum in 20 service areas. The Capex guidance which we had earlier given to you was Rs. 65-70 billion, that actually included extending our 3G plus 4G sites to a level of over 103,000 by the end of this year from current level of 85,000 sites. We have looked at that if we were to go about 85% of all the 2G sites as 3G sites and 80% of all the 2G sites as 4G sites as far as 1800 MHz band is concerned and in the three circles where we have got 2300 MHz, if I take 50% of 2G sites for 2300 MHz, then the total number of sites that we get to is about 200,000 which is 3G FDD plus 4G FDD and 4G TDD on 2300 MHz. Now, that means that as against an investment of 103,000 sites which was contained in our Capex guidance of Rs. 70 billion for this year, we need to do about 97,000 sites more to reach the benchmark that I have given to you. That will give us a capacity which would be about 12 to 15 times of our current traffic. The 97,000 sites at ballpark Capex of Rs. 1.5 million per site which includes core and fiber would give a Capex in the ballpark of Rs. 14,000 crores to Rs. 15,000 crores. Now, at 12 times growth in capacity in the next remaining six months of this year till the end of FY19 is a fairly good capacity to build. I do not think anybody would need more than that capacity. What we are saying is that it is the max that we will need to spend over and above the Capex guidance for this year i.e. an additional Capex of about Rs. 15,000 crores. If we are going to do Rs. 1,000 crores extra this year it would leave roughly Rs. 14,000 crores to be spent in the next two years, if we actually find the need to go to 12 times the capacity. So, at that level of Capex we are fairly well covered and that is why we have been insisting that FY17 does represent a peak Capex year and Capex will decline going forward.

Manish Adukia: And just last if I can just slip in. In terms of the recent TRAI recommendation to the DoT in terms of levying a fine on all Top 3 telcos, if you can just comment on that? I mean, is Idea or the other operators has



done any violation in terms of quality of service based on which this fine is levied, what is your view on that, if you can just comment on that?

Himanshu Kapania: It has taken some time for this question to come, I was expecting it much earlier. Manish, first and foremost I would like to share with all listener that Idea is not violating any quality of service. Yes there was a show cause which was issued to us and we have responded to the show cause. There is a point of view which TRAI has taken and it is written to Department of Telecommunication. However, internally we are fully convinced and we have complete legal opinion that there is no violation at all that we have done. But having said that, there is no confusion in our minds that point of interconnect has to be given to all telecom operators. The present practice in telecom business is based on traffic and subscriber growth, there is incremental points of interconnect that is provided. We have gone out of the way to be able to break this present practice for Jio. When they started at the time of commercial launch, we had given an x number of point of interconnect. During the last 40 days we have issued 20 times, I repeat 20 times, the number of points of interconnect that we had. And over 2,000 points of interconnect are still in execution stage at this point of time, we are releasing points of interconnect on a weekly basis and a lot of work is still pending at Jio end for adding the points of interconnect.

Having said that, we also have to raise the second point which is the free service that they are offering for voice, specifically because that is where the higher demand for points of interconnect is there and that is why we have raised whether the tariffs are below the agreed cardinal principal of TRAI and which had defined the predatory tariffs are those which are below IUC cost. We have just heard from TRAI and we will take necessary steps to react to what they have written. But we believe one of the reasons of the voice volume, a sudden volume surge that has happened is on account of the free promotional voice tariff. It has never happened in the 21 years of history of telecom business from the time I have been working in the industry that asymmetry level in which one operator gets 94% traffic (incoming) and other operator gets only 6% of traffic. There have been situations in the past, even when DoCoMo came in with per second billing where it was up to 60% - 65% of the traffic was being carried by them, but there was never a situation where asymmetry ratio was at the order of 94% and 6%. But we are going out of the way to be able to assist and to release points of interconnect. We do not believe this is where competitive advantage is, there is a lot of technical effort required to be able to get the point of interconnect released and we are going out of the way and moving much expeditiously, never in our history we have worked at such pace to release 20 times the point of interconnect in such a short period of time.

Moderator: Thank you. We have the next question from the line of Pranav Kshatriya from Edelweiss Capital. Please go ahead.

Pranav Kshatriya: I have two questions. Firstly, you have been talking about active infrastructure sharing for some time. Active infrastructure sharing, if my understanding is correct, works the best when the project is Greenfield. Now, since you are in early stage of 4G LTE rollout, don't you think that getting into active



infrastructure sharing earlier would be better than later? Because there has been some time since you have been talking about this? That is my first question.

Second question is with regards to the 3G, 4G smartphone penetration. This quarter saw very sharp increase around 460 basis point quarter-on-quarter in 3G, 4G penetration. So, what exactly has led to this sharp increase given this is not exactly a festive period? Thank you.

Himanshu Kapania: Thank you, Pranav. I will just try to remind that we started to discuss active infrastructure sharing from the 1st week of October in the special call that we organized post the auction. It was the first time that Idea brought up the topic of active infrastructure sharing. Yes, we have been in the past discussing fiber sharing, but active infrastructure sharing is a new topic that was not something that Idea had mentioned. You must have heard it from somebody else.

As far as your point of view that active infrastructure sharing can take place only in Greenfield rollout, we do not have that point of view. There are multiple ways active infrastructure sharing can happen and it is not limited to broadband services, we can do active infrastructure sharing for 2G services where one of the 2G sites or equipment in 2G sites is going out of service, and rather than installing new 2G equipment use active infrastructure sharing. This is one of the use case. The second use case is, we may have a large capacity requirement in main towns for 3G services, but may not be fully convinced to be able to rollout 3G services in rural markets, but if two operators were to go and share power that becomes a use case. And third, is a use case where we can decide to jointly rollout 4G services in any state that is the Greenfield state. There are more use cases which we can discuss offline. So, active infrastructure sharing works in all scenarios, but we do not have to have a point of time for carrying out an active infrastructure sharing.

The second part is the increased penetration of 3G and 4G services. If you notice, we have been very consistent and repeatedly saying that Idea is in the business transformation stage. We make large upfront investments, if you put a financial number Idea has committed over 57,000 crores in the last 2 years and by and large this investment besides spectrum is for building wireless broadband infrastructure. We have added 85,000 sites in the last two years, out of these 85,000 sites 60,000 sites have been added for 3G and 4G. These are large assets which have expanded our broadband coverage and we have now reached 430 million over 80,000 towns and villages, a large number of them are just being opting Mobile Broadband for a short period of time. As our services and sales & distribution settles in these markets and marketing effort reaches there, we are very very confident that the adoption levels that we are seeing now, which moved from single-digit to 17%, will go up to 50% in the next two to two and a half years. So, the point I am making is, it is going to be a completely different order and the volume of customers who will be joining for mobile broadband will be much larger to the volume of new customers who would be coming in for overall mobile services.



Pranav Kshatriya: Sir, my question actually relates to the 3G, 4G device penetration because that was not increasing so rapidly in the last three quarters at least, and in this quarter we suddenly see a jump of around 460 basis points. So, what exactly happened on the device penetration? 3G & 4G enabled device penetration is basically what I am asking?

Himanshu Kapania: See, in fact this quarter yes we have added over 9 million devices, previous quarter we had added about 6.5 million to 7 million devices. We have moved from earlier level of 2 million to 3 million device addition to a level of previous quarter of 5 million to 6 million and now a level of 8 million to 10 million devices. Why is this happening? A simple reason, coverage is reaching to a much larger number of towns and once the customer realizes that Idea's coverage is reaching to him. They are procuring the latest 3G, 4G devices. So it is a prelude to what is going to happen in future. Just to remind you that only 43% of the consumers who bought a recent smartphone, 3G or 4G smartphone are currently using our broadband services. This is very low and it is not there in any part of the world at such low levels. So, it is inevitable that people who are now upgrading their devices will finally come and start using our services going forward.

Moderator: Thank you. Our next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Himanshu, I just had a question regarding your own stance on making investments in spectrum. I think you have clearly said in the past that Idea would focus on making investments at near-term returns, yet your own action in the auctions suggest you are thinking way far out. By your own admission you have got 10 times to 15 times the data capacity of the current volumes you have, plus you are looking at roll-out of 2500 maybe two years out. Why the shift in stance?

Himanshu Kapania: So, let me split the part into two. What spectrum have we bought? In October 2016 we bought spectrum which can be split into three parts, for coverage related spectrum which helped us expand our 4G coverage from 11 circles to 20 circles, so nine new markets. We have also bought second carrier for our leadership in 1800 MHz where we believe the quality of services the customer experiences will improve and we have to do that in our leadership market. So seven out of eight leadership market we have now bought 10 MHz of 1800. Thirdly, we bought 3G spectrum in two markets which is the high population markets of Bihar and Rajasthan, we did not participate in buying 3G spectrum in expensive markets of Delhi, in Karnataka and Tamil Nadu. Fourth, we bought 2300 MHz spectrum in three leadership markets where we are clear number one and there the spectrum naturally belongs to us, Maharashtra, Madhya Pradesh and Kerala. Your question is primarily focused on 2500 MHz. if out of 2500 MHz in 16 markets you remove five markets which are Maharashtra, AP, Kerala and Madhya Pradesh and Gujarat, total spend in remaining 11 of these markets if I recall correctly is in order of Rs. 550 crores out of Rs. 12,800 crores of total spend,. We have got in 11 markets which are high population density for a price which we believe we will never ever be able to get. The total capacity spectrum that is available in the country - 2300 MHz has been sold out and now 2500 MHz has also been sold out. We have covered most of our leadership markets, the non-leadership markets and now we got capacity spectrum



in 16 out of 22 circles. In all leadership market we cover with one to three carriers and we also have additional coverage in non-leadership markets at a very small price.

Now, your question about 2500, and that is a question which we had addressed earlier but I will repeat for all the listeners who were not there in the previous call. Both Vodafone and Idea have got 2500 MHz spectrum, this is a spectrum which is currently being used for outdoor 4G services by multiple operators in China. Adoption of this 2500 MHz spectrum is much higher than 2300 MHz spectrum in China. Because the sites that are getting rolled out in China on 2500 MHz are reserved for both outdoor and indoor while 2300 MHz is being focused only on indoor. Secondly, as far as devices are concerned, a lot of devices that are entering in this country have a possibility of using 2500 MHz, we have to get that option activated. There is a small cost and already our device team has swung into action, they are peaking to watch most device owners. We expect in the next two years there would be a sufficient number of device owners or device manufacturers who will bring 2500 MHz devices. So with two operators and with the support of China, we are fairly confident that 2500 will be an important spectrum going forward and we have bought at the right time as we got it at a price which is unlikely to be priced in the future.

Viju George: The other question I had was on returns on this massive investments. For the past three, four quarters we have seen data revenue growth slow down sharply, not just for you but for the others as well in the industry. What makes you think that growth will pick up again and therefore you would be able to earn cost of capital on these investments going forward? I just want to take a slightly longer-term view?

Himanshu Kapania: I have been in the industry for last 21 years and this is not a unique situation that we are facing now. This is a situation that we have faced in 2008-09. Voice rate was at a particular level and with entrance of three, four new telecom operators voice rates had gone down 50% to 80% from the earlier levels. There was a period for a year to two year where revenue growth was much lower than in comparison to investments that we had made. But post that there was a very robust revenue growth. So that is exactly what is happening in mobile data. We are in the data rate correction mode at this point of time and rate fall is much faster than the elasticity that we are able to get. But with this rate fall and data ARPU now reaching at affordable levels of Rs. 130 where the masses can afford. At a level of Rs. 130 the customer can get 700 MB to 800 MB and going forward we are expecting a Rs. 150 a customer can get 1 GB of data which will take care of most of the needs of the masses who are owning a smartphone. So, adoption of these services is inevitable because this has now become affordable. People are buying devices, coverage is expanding and a large degree of marketing & sales investment is underway. As the rate fall is much higher currently we are not seeing the revenue growth. It is only a matter of time once the rate stabilizes at the level which will finally find its level and from there it will grow. It will be clearly volume lead and subscriber lead growth going forward.

Viju George: And one last question. Do you envisage a situation where maybe in certain specific circles maybe and not all of pan India, we could see a leapfrogging from 2G to 4G for the simple reason 4G pricing is far more



attractive and operators, Bharti and Reliance Jio, will push that much more aggressively. So, do you think that we could bypass the generation of 3G investments made in those specific circles?

Himanshu Kapania: We are agnostic to it. Our investment in 4G is far larger than our investment in 3G. I would like to remind, in my opening speech we had said we got 64 carriers for broadband out of which 47 carriers have been allocated for 4G. We have now 4G in 20 circles out of 22 and 3G only in 15 circles. It is only a matter of time our 4G coverage will be far higher than 3G coverage. Our 4G capacity will be multiple times of 3G capacity. So, we are completely agnostic, it is finally the consumers who can choose, we are ready for both situations.

Moderator: Thank you. Our next question is from the line of Vinod Jain from WF Advisors. Please go ahead.

Vinod Jain: My question relates to the depreciation and amortization cost in the first half of FY16 and first half of FY17. We see an increase of about Rs. 1,000 crores in this cost between these two years. I would like to know the actual split between depreciation and amortization for this Rs. 1,000 crores?

Akshaya Moondra: We can take this offline, but I can tell you most of this increase is on account of amortization. The dominant part of it is actually coming from amortization. When we were in Q2 last year, none of the spectrum which we acquired in the March 2015 auction was being amortized. All that amortization started from December 2015. So, the largest chunk of this Rs. 1,000 crores would be amortization.

Himanshu Kapania: Just to remind you that in March of 2015 our spectrum purchase was Rs. 30,000 plus crores and all of this are now reflecting in Quarter 2 results of this financial year and none of that were reflecting in Quarter 2 results of last financial year. Also, large portion of 2014 spectrum of over Rs. 10,000 crores was not reflecting in Quarter 2 results of last year and is reflecting fully in Quarter 2 results of this year because our 4G services where spectrum which was acquired in 2014 was launched on 23rd December 2015.

Vinod Jain: Understood. That means these expenses are getting front loaded primarily because large auction sales and payment for those spectrums. I have one more question, please. I just wish to understand the cost difference, on an approximate basis, between a regular conventional mobile to mobile call and a 4G LTE call, because VoLTE call is supposed to be significantly cheaper. Is that the correct understanding?

Himanshu Kapania: Absolutely incorrect. The telecom sector has two kinds of costs, one cost which is below EBITDA where you make capital investments in equipment as well as spectrum and second cost is opex. If you look at large component of opex, there are four big heads under which opex cost is incurred. Opex cost incurred under network, for customer acquisition, for customer servicing and as well as for manpower. Now, it is very obvious, customer acquisition, customer servicing as well as manpower will be very similar for all telecom operators who are pan-India and aspiration to do 100 million to 200 million subscribers. Now, come to the network running cost. Network running cost on opex has only one single component is the money that we pay to tower vendors for rental as well as power and the second for AMC to equipment suppliers. Neither AMC nor



tower vendor rent & energy cost is different whether I use on a single tenant fee a 2G equipment or a 4G equipment. So, there is no difference as far as cost in either of the situation.

Akshaya Moondra: Actually if you look at cost, if you have a 2G equipment or a 2G handset, any 2G or 3G equipment or handset is automatically enabled for voice. But if you are buying a 4G equipment, if you want 4G VoLTE to be enabled you have to make an extra investment. Every 4G device is not VoLTE enabled. So really speaking both from a consumer perspective and from an operator perspective, making voice enabled on 4G network costs you extra whereas it comes as a default feature in both the 2G, 3G equipment and the 2G, 3G devices.

Himanshu Kapania: The reason why this kind of impression that gets carried is that the capacity available of 4G is higher than that of 3G and that of 3G higher than that of 2G. When the capacity utilization of 4G were to reach 100% & fully monetized versus a 2G that is when the incremental cost becomes irrelevant. We are now discussing full cost basis and the OPEX absolute numbers will be of a similar order. We will generate large quantum of returns when capacity utilization is high which the current struggle is, as we have with low capacity utilizations. We should not mix two independent topics. The full cost is involved in both cases as in comparison to capacity utilization by paying customer vs. free offering. We are mixing two topics.

Vinod Jain: I see sir. I think this is by default informative, quite informative for a longer term analysis of this sector. Thank you, sir.

Akshaya Moondra: Just on that figure of amortization, it is about Rs. 880 crores out of a total increase of Rs. 1,026 crores on amortization.

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

Himanshu Kapania: Thank you, Margaret. Through this call, I would like to wish all the listeners Happy Diwali and a very prosperous New Year. Thank you so much for spending time on Idea. The Indian telecom sector is in heavy investment phase and it requires the support of all the investors as we build world class infrastructure for mobile broadband and get this country ready for Digital India. Mobile operators, especially Idea Cellular is focused on this growth and we are very confident that it is only a matter of time that the investments that we are making will start yielding results. Thank you so much for your questions and observations and we look forward to seeing you next quarter. Thank you so much and Happy Diwali once again.

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