



# Idea Cellular Earnings Conference Call

**October 26, 2010**



**Moderator**

Ladies and gentlemen good afternoon and welcome to the Idea Cellular Conference Call. This is Rochelle, the moderator for this 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 on the call today, Mr. Sanjeev Aga – Managing Director of Idea Cellular, Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular, along with other key members of the senior management. I want to thank the management team on behalf of all the participants for taking valuable time for being with us. Given that senior management is on the call today, participants are requested to focus on the key strategic and important questions, to make sure that you make good use of the senior management's time.

I must remind you that the discussions today may include certain forward-looking statement and must be viewed therefore in conjunction with the risk that the company faces.

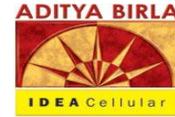
With this I hand the call over to Mr. Sanjeev Aga, thank you and over to you sir.

**Sanjeev Aga**

Thank you. On behalf of Idea, I welcome all participants to this call. Yesterday, our board of directors adopted our un-audited results for the quarter ended September 30<sup>th</sup>. The media release, the quarterly report and the results, have all been uploaded on our website and I presume you have read these.

The July to September quarter is expectedly a period of subdued demand. This seasonality factor is becoming more marked over the years, given the increasing contribution of rural subscribers. Notwithstanding the seasonality effect, total minutes of use on our network still grew by 3% on a quarter-on-quarter basis, but meanwhile the average realized rate per minute declined by 3% to 42 paisa per minute, even though, we have seen an abatement in the rate of price decline over the last two quarters. Consequently, revenues for Q2 were same as that for Q1. Given the fact that revenues did not grow for this quarter, but there was some increase in cost, chiefly on personnel cost, there was a slight compression in margins.

There are two other significant points I would like to mention. First, the EBITDA losses from new circles have not enhanced for the last two quarters, indicating a peaking in absolute terms and an improvement in percentage to revenue terms. Secondly, if you compare EBITDA margins of Established Service Areas with the previous year, and if you remove the impact of increase in spectrum charges and the impact of the Spice amalgamation, you will find hardly any change.



I believe these are pointers to Idea's ability to ride through these times of overcapacity and very wretched price points, and still generate cash profit in the region of Rs. 7 billion every quarter. I believe this competitiveness is an under-rated feature of Idea which positions the company very well for the future; whatever may happen.

On 3G, we are in the process of rolling out extensive 3G networks in all our 11 service areas, where we were awarded spectrum. We are also pursuing long term arrangements with very select high quality operators for those service areas where Idea was not awarded the 3G spectrum. Therefore taken together, these will enable Idea subscribers, throughout the country to enjoy what will be, in our opinion, the gold standard in 3G services, apart of course from deriving the benefit of nationwide roaming.

I now request Akshaya to give you a little more detail.

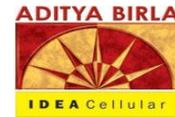
**Akshaya Moondra**

Thank you Sanjeev; a very good afternoon to participants from India and a Good morning or evening as applicable to overseas participants.

On to our financials, with the completion of our restructuring in March 2010, the financial statements are now much simplified. The basis of our reporting remains consistent with the previous quarter. We would like to mention that the standalone figures for this and the last quarter include 100% results of erstwhile Spice service areas for the full quarter as against one month results included in the quarter ending March 2010. Also in the consolidated figures, post merger, the erstwhile Spice service areas have become a part of Idea consolidated results for the first half of financial year 2010-11 on a 100% basis as against only 41.09% consolidation, in the corresponding period in financial year 2009-10.

As mentioned by Sanjeev, the July to September quarter is a really subdued quarter. Consequently, revenue for this quarter remained flat on a quarter-on-quarter basis. Our standalone reported EBITDA margin is down by 80 basis points compared to last quarter, mainly due to increase in manpower cost, resulting from annual pay revisions and the consequent re-valuation of retirement benefits. EBITDA losses for new service areas were at similar levels on a quarter-on-quarter basis, even after absorbing the increased manpower cost.

As for the interest and financial cost, it has reduced in this quarter, because of forex gain of Rs. 51 million in the current quarter compared to forex loss of Rs. 28 million in the last quarter. However, with the easing of import restrictions and the impending capex for 3G in the coming quarters, the interest cost will increase from current levels.



Interest of Rs. 1207 million against payment for 3G auction fee has been capitalized in this quarter. 3G spectrum fee amount along with capitalised interest thereon is reflected in capital work-in-progress.

The net debt has reduced by Rs. 4.1 billion during the quarter and stands at Rs. 92.5 billion as of September 30<sup>th</sup>. With this the net debt to equity ratio stands at 0.79.

As for Indus Towers, the consolidated PAT includes Rs. 168 million as our pro rata share, compared with Rs. 50 million in the last quarter. This represents improved operational performance at Indus.

With this, I will hand over the call back to Rochelle and open the floor for questions. Thank you.

**Moderator**

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. To ask a question at this time, please enter "\*" followed by "1" on your touchtone telephone.

Our first question is from the line of Sachin Gupta of Nomura. Please go ahead.

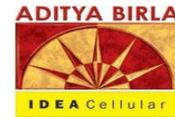
**Sachin Gupta**

Thank you very much. I have three questions. Firstly, Sanjeev you talked about the personnel cost increase, that's one of the biggest cost increases we have seen in a while, I was wondering, are there any one-offs there or that's just part of the normal salary increase? Secondly, you alluded about the new circle losses being stable in the last three quarters now. Given that you are getting more customers and revenues are improving, I was wondering when you expect the losses to decline. And lastly, Everyone is anticipating 3G services to be launched sometime soon, so your preliminary thoughts on it, and do you anticipate any changes in the market structure or the dynamics as a result of that?

**Sanjeev Aga**

Okay. Let me answer your second question first, about new circle losses. For the last 6-9 months, our EBITDA losses are roughly the same, but our revenues are going up, including this quarter, compared to the previous quarter and therefore EBITDA (losses) as a percentage (to revenue) is declining, which is good news.

Now we have two options, because we expect our revenues to keep growing, so if we were to stop investment, the losses would decline in absolute terms, so that is one way to go. And other way to go is that, wherever we are finding traction and in any case, in terms of coverage we have some distance to cover, we go in a calibrated manner, keep increasing our



investments, so that we keep our losses more or less at this level or slightly lower. So this is a call we will be taking iteratively and strategically. I mean both things are possible, if we were just chasing to reduce absolute losses, we could do that, but we would be doing what we think is a good combination of tactical and strategic objectives. I don't know the exact answer; this will emerge in times to come.

On your last question about 3G; I think it will have an impact in terms of market structure. 3G is just a technology and 3G is going to co-exist with 2G and (it is not) as if there are two business models. And just like 2G, which is the same for everyone, but you are finding in this environment, there are some companies which have got successful business models and others which don't, similarly in the 2G-3G hybrid model, I think you will again find the same difference. I think many of the issues are going to be the same and I alluded it in my opening remarks that we expect, it looks like hyperbole, but I said that we expect to be the gold standard, of course gold is a bit of an overstatement, but I certainly think we would have, on a national basis, very high quality and the best 3G service

It is probably my expectation that at least, as far as a company like Idea is concerned, we have had improving market position and revenue share for four years on a trot, and this will continue for the next four years, maybe longer. Now how the sector does, one doesn't know, but within the sector, we expect Idea to become even more competitive. On personnel cost, I will ask Akshaya to proceed.

**Akshaya Moondra**

Sachin, the overall increase in personnel cost is of the order of Rs. 400 million. Most of it is normal increase, but when the pay increase happens, there is a onetime impact on retirements. Roughly that amount in this quarter is of the order of Rs. 130 million, which is more like one-off charge because of the increase and its accumulated impact on retirements, which will not repeat going forward.

**Sachin Gupta**

Okay that's great, thank you.

**Moderator**

Thank you Mr. Gupta. Our next question is from the line of Tien Doe of GIC. Please go ahead.

**Tien Doe**

Hi, Good afternoon. Thanks very much for the call. I just got a question on tariffs, the rate of decline is decelerating now and it's down to 42paise, I would guess that hides quite a few differences across the circles. Would you be able to tell me in which circle you would expect tariffs to stabilise first and which circle you would expect continued pressure in the next few quarters?



**Sanjeev Aga**

Hi, Mr. Doe. You are right the tariffs are quite dissimilar across circles. In the case of Idea, although I don't have the figures ready with me, but as you can appreciate, we would have higher realized rates per minute in our stronger circles and lower realized rates per minute in circles where we have just entered. In fact, in our stronger circles, I expect, we would have the highest rates, higher than anyone else. But we are a company which has the combination of very strong circles and very new circles and therefore the average is also a function of the weighted average contribution of revenues.

I don't think there is any real difference about which circle will have more price pressure. To some extent, if you look at it in a time series manner, you would find that new launches happened in the last 12 or 18 months. Since, they have not happened in all circles in the same time, so you would find a pattern around price as being stirred up because of the launches. So that would be the only pattern, I don't think there is any other pattern, like in metros it would be more or in C circles would be more, at least I am not aware of it.

And finally on the price front, we are finding there is not that much pressure on headline prices now. I think these prices are hurting some of the challengers much more than they hurt the incumbents, although they obviously hurt everyone. But we still make money, whereas others lose money or many others lose money. There is obviously some fear of taking headline prices further (down), but the pressure often shifts to acquisition products which don't help because the more you give to the trade, the more you induce rotational churn. This is a short term pressure that many companies succumb to and to some extent we are in the same market. We are finding the reduction in our realized rate is less on account of headline prices and more on account of some of the acquisition products and some of the retention products that we are compelled to bring from time to time.

**Tien Doe**

Alright, okay thank you.

**Moderator**

Thank you Mr. Doe. Our next question is from the line of Rahul Singh of Standard Chartered. Please go ahead.

**Rahul Singh**

Hi, Good afternoon everyone. I had a related question to Tien's question. On the revenue per minute decline of 2 paisa, I just wanted to get a sense, because you are a new entrant in quite a few circles and this quarter your proportion of revenues from the new circle actually increased, so going forward do you see, what you call as the acquisition offers, actually hurt the revenue per minute or does it actually hurt the cost in terms of the commission rates more? Essentially what I am trying to get is, going forward over the next three to six months,



do we see headline tariff stabilizing in terms of actual revenue per minute and the cost going up or whether it will be the other way around?

**Sanjeev Aga**

Rahul, as I said in many previous calls also, pricing is not an economically rational decision. Pricing in India, when you have so much overcapacity is driven by want over choice or sometimes desperation, then there is a domino effect. So it's impossible for anyone to forecast what will happen. Logically, there should not a price decline; because a company as strong as us, would be happier with greater profits and there are many companies which are must be making awful losses. But who can say what will happen in the short run, in the long run economics will take over.

Now to come to your most specific question, yes mathematically, if you were to compare us with a company which has already rolled out several years ago, we would mathematically have a slightly higher pressure in terms price point overall. Because if our newer circles are going to grow at a faster rate and if their price is lower than our national prices on an average, then in weighted average terms that will impact us negatively slightly. But having said that if the revenue is growing that will bring down the EBITDA losses in percentage terms or absolute terms. So it's not necessarily bad news, but the only point you are right is that, when you are comparing two companies with dissimilar entry points in different markets, you can't take facile conclusions from price per minute.

**Rahul Singh**

Okay, fair enough. The acquisition offers, they don't affect the cost, they will just affect the revenue per minute?

**Sanjeev Aga**

No, they affect (the revenue) more. At least companies like us, we don't do the kind of accounting, the fact is that, in India, you are not acquiring customers for 10 years; they are there with you for a much shorter period. And therefore, in our accounting recognition system, there are (front loaded) revenues or costs, which should be accounted upfront and we recognize them upfront. And therefore that is the reason that if your acquisition offers go overboard, you will have (some) impact of that in the realized rate.

**Rahul Singh**

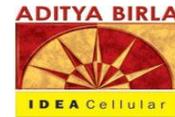
Okay. Thanks a lot Sanjeev.

**Moderator**

Thank you Mr. Singh. Our next question is from the line of Reena Varma of Merrill Lynch. Please go ahead.

**Reena Verma**

Hi, thank you very much for the call. Just a few questions, one is on 3G. Can you share what you think, on a big picture basis, will be the impact on revenues, EBITDA and margins over may



be whatever time horizon you are comfortable to discuss? In terms of the regulatory outlook, can we please get your comment on both, the status of the TRAI recommendations and the new subscriber verification norms that are being reported in the media and how you see them impacting your business model? And finally, in terms of net additions, can you please comment on whether the recent numbers of Idea, say around 1.5 million a month, that's going to be the sustainable trajectory going forward? Thank you.

**Sanjeev Aga**

Reena, these are questions which require an essay as an answer, so I don't know how to answer them briefly. But on 3G, fundamentally 3G is just an evolution, it's not a different new business model stream, it's not a business which will have numbers which are disparate from our existing business. What 3G will do on the revenue side, as you can imagine, look at the consumer behavior. Fundamentally in the short run, people who are using data will use much more data and people who are using internet access whether they are individuals using smart phones, now that this is much more customer friendly, there will be much more usage of that. There has already been some usage on GPRS, but that will double. So there is going to be a short term revenue kicker. In the longer term, medium term, two years, three years, four years, we will have many other streams like mobile commerce, mobile administration, mobile medicine, but in the short run this is what is going to happen.

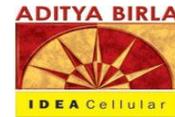
What is also going to happen is that right apart from the entry fee which was one time, our investment in 3G is going to be lumped, so in the next two or three quarters, there will be a lot of network investment and there will be a lot of increase in the opex, although opex in absolute terms is not very high, but there will be (increase). So certainly, there would be little discontinuity where your cost kicks up and the revenue will take a little time to build up, but that is again more accounting treatment. As a business, it is just going to lead to increased revenues over a period of time. I think in the long run eventually, capital chases returns and the competitive companies get a return on capital, uncompetitive don't. I don't think that is going to change fundamentally in the long run whether it's 2G, 3G, or 4G. So in the short-term we might have these ups and downs.

**Reena Verma**

Sorry Mr. Aga may I just stop you on the 3G a bit. A lot of your competitors at least two of them have talked of a launch this quarter itself, is this going to be a game where again early leadership is the one that will lead to max adoption or don't you really see a hurry to execute?

**Sanjeev Aga**

No, we are always in a hurry to execute, but I see no advantage in being the first or second. 3G has been around in the world for 10 years, so any sensible subscriber will wait one or two months. And as in any network when you overlay 3G network on the 2G network, testing it



out, fine-tuning it and testing all the surround systems is very important. Everyone will be there roughly in the same time, so I do not think this is one of those Commonwealth Games type things that you have got to be the first to brace the tape. But that's our view.

On your other question, I am turning to regulatory recommendations. Frankly, we don't know what is happening; it's a maze out there and there has been a lot of inaction. And there has been, as you all know, the problem of credibility all around, so we don't know what's happening and let us see. But whatever happens, I think the ability of regulation to change the fundamental rules of the game is diminishing with times, because businesses either have very strong fundamentals or they don't have strong fundamentals.

Your final two questions were on subscriber verification and net adds. On subscriber verification there is rather a stringent process, which company like Idea, with high compliance standards, is following. All I can say is that this involves speaking to a very large number of our customers, checking their documents and then taking follow-up action as appropriate and that process is on. As far as net adds are concerned, I think there is a little bit of a slowdown partially because expansion into new rural areas has not been as rapid, partly because of the constraint on equipment and partly also I think this massive overcapacity has instead of actually improving access to market has led to people competing in the old urban markets which are already over-covered. And then there are so many operators, so there are same customers going around from operator to operator and we have rather strict norms of reporting our net adds. We don't report net adds based on number of cards, reporting is much closer to the people who you are actually using our network. I do not think there is very dramatic change in average terms for the next six months.

**Reena Verma**

Thank you very much.

**Moderator**

Thank you Ms. Verma. Our next question is from the line of Sanjay Chawla of Anand Rathi. Please go ahead.

**Sanjay Chawla**

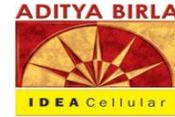
Hi Good afternoon sir, thank you for the call. I wanted to confirm, did you mention that EBITDA losses in the new circles have peaked in your opening remarks, did I hear it correctly?

**Sanjeev Aga**

Yes, you heard it correctly.

**Sanjay Chawla**

So losses will start coming down from next quarter?



**Sanjeev Aga**

Well I said they have peaked. Now bringing them down is quite easy, if you stop investing, losses will come down, because revenues are growing. But we may choose to invest here and there, so that's the call we will take based on how the market is.

**Sanjay Chawla**

Okay. Actually I wanted your thoughts on a much broader issue here with regard to the new circles, do you envisage a scenario where you necessarily have to stop growing to turn them EBITDA positive, My question is that, are the new circle economics structurally unviable at the current tariff levels and I am also citing the example of Uninor, not as a comparison, but the fact that if you look at the revenue growth it has been quite robust, but their EBITDA losses keep increasing or they are not coming down at all. I am not comparing with Uninor, but my question is, at the current tariff levels, is there a structural issue with regard to the economics, and is this the case of throwing good money after bad, what's your prognosis?

**Sanjeev Aga**

Yes, Sanjay, prognosis is a nice word, but that is indeed my prognosis that at these current price points, as our price point is 42 paisa on the national basis, our price point in a new circle will be lower than 42, and for a newer operator, it will be even lower than our price point because they don't have the advantage of our cost synergies and our brand awareness and so on, and having a conventional launch for a new operator without our cost advantages and without our brand advantages, in my assessment does not give you a business case which will ever give you a return on capital. That is indeed our assumption and that's why we have been repeating our theme that there is overcapacity, hyper-competition, and a marked difference between companies. I am not saying that companies will therefore shut down because you can always keep radiating, but in terms of making money, there is a question mark, in our assessment and we have had this view for a long time.

**Sanjay Chawla**

But sir, my question was related to your new circles where you said the ARPM is obviously lower than your national average. Of course it would be higher than the ARPM of new entrants, but even at the ARPM at which you are operating in newer circles, could it take years to turn them EBITDA positive, if not months?

**Sanjeev Aga**

Well Sanjay, without going into greater detail, if you look at our presentation we have always been using the word 'calibrated' and the trick is to read that word carefully. If we have a blind takeoff then there would be a challenge, but not all circles are the same, not all situations are the same. If you iterate and calibrate and if you have your feet on your ground, then we believe you can (achieve EBITDA break-even) and so far we have been on track. But that ability to calibrate is available only to a company like ours which is a leader in approximately 22% of the national market, so you can have some kind of an assortment or a bouquet. But if I were a



brand new operator, that's not the approach I can take on a national basis. So I think there is a difference between Idea and other operators. Had we been a completely new operator that route would not have been available to us.

**Sanjay Chawla**

Okay thanks for you thoughts on this. And my last question is on the performance of Indus, where the EBITDA growth has been quite strong, my question is what the main drivers of the EBITDA growth are this time around, is it the increase in towers, rentals or tenancy?

**Akshaya Moondra**

Sanjay, there is an overall improvement for Indus. The number of towers has gone up, average tenancy on the increased number of towers has gone up and the overall performance is improving. There is no one single factor. It is combination of overall operational improvement.

**Sanjay Chawla**

Sir, has there been any rental growth or any annual escalation in the rental this time around?

**Akshaya Moondra**

The escalations are provided for in the contracts. These are 10-year contracts and there are annual escalations provided for, which keep happening on each anniversary, so they have not come all at one time. That will keep happening from time to time. So it is more generally an operational improvement and expansion of business both combined together.

**Sanjay Chawla**

Okay. Akshaya, there was some news about you refinancing some of your debt through ECBs, what kind of interest cost you are getting there and what would be the overall impact on your average cost of debt after your refinancing and ECB fund raising is complete?

**Akshaya Moondra**

Okay. I cannot give you exact pricing details, but I can tell you that we do not really necessarily have a need to refinance and our requirements are not very large. If we find a deal which is very attractive, we go ahead and do it. In terms of the impact, it will have some impact, but not too significant in the overall cost, because this is basically refinancing short term debt which in any case was at a competitive cost with the long term debt. So the cost levels would almost remain the same.

**Sanjay Chawla**

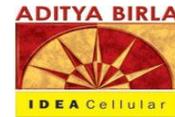
Alright, thank you very much sir.

**Moderator**

Thank you Mr. Chawala. Our next question is from the line of Sachin Salgaonkar of Goldman Sachs. Please go ahead.

**Sachin Salgaonkar**

Hi, thanks for the call. I have three questions. Can you provide any updates on whether you have signed inter-circle roaming agreements with the operators and regarding the timing of launch of 3G in these circles, will it be in December- January for us or much later than that?



Secondly a related question on 3G, your thoughts on the pricing on 3G and applications which may pick up; do you see the voice being priced at premium to 2G or almost at par with 2G? And lastly your thoughts on MNP, as in the timeline when it could come and do you see that as opportunity to strengthen your foothold in the circles where you are late in launching services?

**Sanjeev Aga**

Sachin, your first question, no we have not signed anything on 3G intra-operator yet, although we are pursuing discussions and that's the reason for confidentiality, we are not able to share anything beyond what we have already put out in our press release and our opening remarks.

On pricing, really no one knows because one has to have pricing which is related to costs on the one hand, but also related to wire-line fixed broadband pricing, there has to be some relation. You are also competing in the market, so obviously if you have got a higher quality service, you would be able to have some kind of pricing, but it's too early to say either the pricing be in per bit or in terms of what pattern it will be, there is still sometime. As far as voice is concerned, I guess it will be priced exactly the same because whether you do it on 3G or 2G, voice is voice. I don't think any operator will try to price it differently.

As far as MNP is concerned, in our assessment and we are happy now that is eventually happening, we are told beginning in Haryana, sometime next month. For us, I think it's a bit of nuisance because at the time when 20 other things are happening, we have to put a lot of managerial attention to MNP, but I think it will be favorable to strong companies. We believe that, as a company, at the end of it we will benefit, not just in new areas where we were a little late, but we will also perhaps consolidate ourselves in older areas where we are strong, because now we are even stronger from what we were when the consumers came on to us. So we expect it to be net-net a favorable impact to our company.

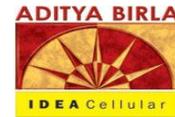
But if you are asking, am I very happy about it. We wish we don't have to run around here and when we are running around elsewhere.

**Sachin Salgaonkar**

Okay thanks. Just a follow-up question Mr. Aga, you previously mentioned about the increase in opex related to 3G, now can I understand what's the reason for that, is it because of the increase in backhaul cost because of leasing or is it more so a 3G specific phenomenon which all the operators might face?

**Sanjeev Aga**

No, Sachin, it's simple. We expect it to be launching with a reasonably extensive rollout in the period January-March, but the coverage will grow every week, every day. But the moment you launch, suddenly you have a lot of Node Bs coming on, a lot of new transmission coming up, so



there will be an increase in cost on a wide front. It may not be very large, but they will be nevertheless a bunched increase, because you suddenly have thousands of Node Bs coming on. The revenue may not pick up in that dramatic fashion in one day, it will take a little time, but that's not very significant, so that's what I was referring to. And similarly when you put this up and start radiating (3G sites), so there will be a little depreciation on that account, but that will be so for everyone, that's a feature. It's almost like a new circle launch. It's an overlay on an existing business and since the opex is not as high as in 2G in a new site, so I don't think it's going to be huge.

**Sachin Salgaonkar**

Okay got it. Thanks, all the best.

**Moderator**

Thank you Mr. Salgaonkar. Our next question is from the line of Shobhit Khare of Motilal Oswal Securities Ltd. Please go ahead.

**Shobhit Khare**

Hi Good afternoon and thanks for the opportunity. My first question is, if I look at finance cost, versus last quarter, there is a decline of around 18% whereas our debt levels are almost similar to last quarter, so I just wanted a color on that. Second is, on the MNP, basically I just wanted to check, would there be a significant differential in the RPMs between post paid and prepaid? And third is, are there any comments on the capex for FY12?

**Sanjeev Aga**

Shobhit, I will take your (last) two questions and then Akshaya will answer your first question. Capex, we expect, for this fiscal year ending March, between 2G and 3G put together, maybe in the ballpark of Rs. 4000 crores for the entire year, so that is a best case at the moment.

As far as the MNP is concerned, I don't think it is going to make a big realignment of tariffs because these realignments keep taking place all the time with a little lag. I don't think it is going to make a dramatic difference to the relative price structure across tariff plans. On finance cost, I will ask Akshaya to answer.

**Akshaya Moondra**

Well Shobhit, As mentioned in my opening remarks, last quarter, we had a forex loss of 28 million and this quarter we have had a forex gain of 51 million, so the delta quarter-to-quarter is about 79 million and that (forex) accounts for a large chunk of the delta from quarter-to-quarter.

**Shobhit Khare**

Sir, even looking at your gross interest cost, Idea standalone, June quarter is Rs. 1167 million and the September is Rs 894 million, so I wanted to know why is the interest cost on your debt versus last quarter has come down meaningfully? Has there been a refinance or is there a one-off in this, I just wanted to check that.



**Akshaya Moondra**

Okay in terms of breakup of the gross and net, I cannot give you an immediate reply, because exchange loss and exchange gains are probably classified either in income or cost. What I can confirm to you is that, our overall debt structure has remained the same. In fact if you look at our gross debt, it is at the same level, the debt has not changed, there has been a small refinancing of short term debt by long term debt. The entire refinancing amount is relating to 3G and that interest is getting capitalized. You are saying, why is the decline higher, that is primarily because of the Forex gain or loss variances.

**Shobhit Khare**

And sir, finally, any comments on the traffic growth trajectory going forward, even last year second quarter, we had a low traffic growth of around similar number, but we saw a very good rebound in the next three-four quarters, so any comments on the growth trajectory going forward?

**Sanjeev Aga**

Shobhit, depending on which circle of India and which part of India, but generally speaking, the period from June- September tends to be very difficult and things start looking up from October and then you are in a home run till May. But again there are differences between north and south, east and west. At a national level, for all companies put together, that is indeed going to be a trend, an increase of minutes of usage. Now how individual companies do is a function of their relative competitiveness, for which I would not forecast. But in absolute terms for the sector as a whole, certainly the next six months should be much better.

**Shobhit Khare**

Okay sir thanks a lot.

**Akshaya Moondra**

Shobhit, just one minute. I think what you are looking is at interest cost from the quarterly report. The gross interest cost has come down significantly. You see basically what happened is that before the 3G payout happened, there were some loans taken which were deployed into investments, so we were recording an interest cost and we were recording an income. Once that money was used for payment for 3G, the cost went away and the income also went away. The cost was capitalized, so it goes out of the P&L and the income went away. So that is the reason. You have to primarily look at the net cost only, which is more representative.

**Shobhit Khare**

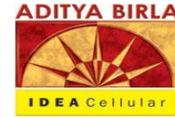
Got it sir. Okay thanks.

**Moderator**

Our next question is from the line of Srinivas Rao of Deutsche Bank. Please go ahead.

**Srinivas Rao**

Thank you sir, Srinivas here. I have two questions. First on the 3G, in the opening remarks which you have put out saying a Pan-India experience for the subscribers, I just wanted to clarify what happens to subscribers in circles where you do not have 3G spectrums? So will



those subscribers also be offered 3G option based on roaming arrangements? That's the first question, if you could clarify that.

**Sanjeev Aga**

Srinivas, it would be as if we had spectrum. Obviously, it means that you won't get a free lunch. Some other operator will have the same experience in circles where we have spectrum and they don't. But yes, it will as if it were our spectrum. And that is the effect, the arrangements, I will not be able to discuss.

**Srinivas Rao**

No, this is good enough. Second question, sir, is on the spectrum charges, could you let us know what exactly is the status? The Supreme Court has now, put a stay on the potential increase and has asked all the companies to pay about 50%. So if you could throw light as to (A) How is the government able to actually increase spectrum charges, I mean does the current license, which you have, allow them to do it unilaterally. (B) What could be the potential outcome and where do we stand at this stage?

**Sanjeev Aga**

The Government is the government, but sometimes we have a contractual contract, so then they are prevented from operating as the almighty. But fundamentally in our quarterly results, we have accounted spectrum charges based on the TDSAT judgment which went against us. The stay from the Supreme Court has come subsequently. Once the final order comes, if there is a reversal then we will stand to gain, but if it goes against us, we won't lose.

There is also a difference in the treatment between circles where we have 3G and where we don't have 3G, that's another point of contention before the Supreme Court.

**Akshaya Moondra**

I think on 3G, the government is also differentiating because the operator who received 3G spectrum, when they had applied for 3G, they had accepted to the conditions mentioned in the NIA. So let's say for 3G, you are obligated to pay unless the Supreme Court after its complete hearing decides otherwise. For the balance 2G circles where you do not have 3G spectrum, we are required to pay 50% while the hearing goes on. So in our case, roughly 80% of our revenue is coming from 3G circles, on which higher spectrum charges are already paid. For the balance 20% of revenue, we will have to pay 50% while the case is on and the final settlement for both 3G and 2G circles would depend on what the final decision of the Supreme Court is.

**Srinivas Rao**

Sir, just one more clarification, the Supreme Court case as it is filed right now, will give a judgment on both the issues, the issues linked to the increasing charges and also resolve the 3G and 2G issues or the fact that you have signed the NIA already means that you accept the increased charges in your circle area of 3G spectrum?



**Akshaya Moondra**

I think I will not be able to comment beyond this point, but I guess there is definitely some distinction being made between 3G and 2G at this point of time. What the court will do finally we just have to wait and see.

**Srinivas Rao**

Thanks sir, thank you so much sir. This is helpful.

**Moderator**

Thank you Mr. Rao. Our next question is from the line of Vinay Jaisingh of Morgan Stanley. Please go ahead.

**Vinay Jaisingh**

I have three questions. First is on your passive network, the passive margins have improved significantly to 42.1%, even top line moved up and 3G as you have said is around the corner, so is it that these margins are more sustainable, no one-offs out here and the top line should be growing impressively, that's question one.

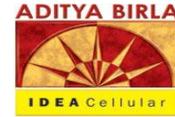
Question two on Capex, something which you have already dwelled on one of my colleagues had asked. The Capex so far has been about 8 billion for the first half and we are talking about another 32 billion of Capex coming in for the next second half. We haven't seen so much Capex being spent by the company for a very long period of time. I was going through the numbers, I couldn't see it ever, barring the time you had acquisitions. So are we realistic about this, are we looking at further reductions in Capex? Sub-part of this Capex question is are we happy that we are spending lesser and still getting growth, which means after probably a quarter of Capex spend, the Capex to sales come down to probably 14%-15% of top line, any thoughts there would be great.

The third question is on traffic. If you could breakup this quarter which went over on the 3% growth, how it was the first two months and what did we see in the last month, in terms of growth? That would give us some numbers of what to expect in October, November, and December that would be very helpful.

**Sanjeev Aga**

Vinay, on traffic, it will get too granular, but yes very roughly at a national level, September is slightly better than July, August, or June. The real improvement starts coming after September and we are only a few days into this quarter. So that's all I could share with you right now.

As far as Capex is concerned, superficially you are right, but you must remember this 8 billion or 800 crores is because we were deprived of imports, because of the security restrictions. And 3200 crores include a large amount; we intend to spend because of 3G mainly on equipment, the expansion to the core and expansion to transmission. Now once you get that perspective, it is not that spectacular. There is indeed a possibility that if there is any slippage



in execution, some of it could spill into the next quarter and we might have a figure lower than 4000 crores. This is the real reconciliation to your question.

**Vinay Jaisingh**

Sir, on the Capex does it also mean when we could survive in the last two quarters with incrementally low Capex as a percentage of sales, what do you think would happen post this one time 3G spend on Capex as percentage of sales, which I guess 6 months forward we will be talking about that?

**Sanjeev Aga**

Vinay, almost all Capex decisions are taken at the unit level. As you can understand, even in wretched quarter we have grown our volume by 3% and if I am not mistaken, in previous quarter we had 11% volume growth, so there is a lot of volume growth which requires expansion of capacity both from the core side, on the transmission side and on air interface, so that's number one, which is good news.

Secondly, we take our decisions based on population under coverage and on those we make the decisions, not at a macro level, but we have got data at a granular level, and if we find potential, we go for it, because at the end of the day, the long term strategic objectives are more important than short term. So it adds up, it is an aggregation of several micro decisions where new expansion is concerned and they all make sense, otherwise we wouldn't do it. When they stop making sense, we stop. But a large portion of it is capacity which you must recognize, if you look at us as a factory which is manufacturing data and air-time, in the last 12 months there is a massive increase, which would be equal to the size of many small telecom companies.

But the good news is that if you take away, say the expenditure on 3G, you see the big ticket expenditure was on the license fees, which is done. Now there is expenditure on 3G equipment which looks high, but really speaking it is lumped. It is going to be lumped in next six-nine months. Once that is done, and considering that 3G will also cannibalize some demand on the 2G equipment, on the voice side, maybe around September onwards, you will find there is not much requirement to go on adding Capex. So if you take a long term view, if you take away this lumpiness of the next two-three quarters, you will find the Capex requirement will start coming down.

**Akshaya Moondra**

Okay, Vinay, on your question of passive margins, I think you are talking about the Indus margins and definitely there is improvement. As I mentioned earlier, there is increase in the number of towers, there is increase in the average tenancy, even on the increased number of towers. Operationally, there are some one-time write backs which happen, but even if you



take them out, the impact would be less than 1%. So there is genuine operational improvement and also expansion of operations which will be sustainable.

**Vinay Jaisingh**

Sure thank you sir

**Moderator**

Thank you. Our next question is from the line of Malvika Gupta of JP Morgan. Please go ahead.

**Malvika Gupta**

Hi, thank you for taking my question. I have a question on how the usage trends at the existing subscribers were progressed during the quarter. My second question, whether the pricing pressure at the competitive levels, more so at the segment in certain levels were there were any changes that we saw, month-to-month as the quarter moved on? Thank you very much.

**Sanjeev Aga**

**On** your second question, Malvika, yes. If I take the last two quarters, there is a 3% decline last quarter, but there is an abatement quarter-to-quarter and there is indeed an abatement within the quarter. So the rate of decline in the third month is slightly slower, but this is such microscopic data that I would hesitate to say that you can just extrapolate and say that you will have a turn around and prices will start going up. But if you are asking me what is the trend, this is the trend.

Your first question I couldn't understand usage trend of subscribers beyond what I already answered. Prices have been going down and with the lag, elasticity does come in. and if elasticity is greater in the lower income so particularly in rural areas, and in many areas where utilization of capacity is low, we are finding capacity filling up. And of course price points are very low, which is bad for everyone. We can manage but some others will have a much tougher time. I mean the good news is as the market is growing and so we are bullish about the very long term.

**Malvika Gupta**

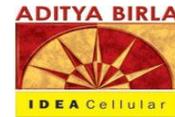
Thank you very much.

**Moderator**

Thank you Ms. Gupta. Our next question is from the line of Samir Naringrekar of BNP Paribas. Please go ahead.

**Samir Naringrekar**

Good afternoon Mr. Aga. Just one question, we are pretty much on the verge of launching 3G services, you must be faced with a dilemma whether to just go and do all out 3G rollout, I know that you would not convert all your existing 2G sites, but still it's a dilemma whether to incur the higher opex first or pretty much control the impact on margins and do a controlled launch over next few months. So what line of thought are you thinking along and if you could give us some metric that you would try to control the margins everything a certain range.



**Sanjeev Aga**

Sameer, when we have strategic choices, we don't act like accountants. So we have no dilemma, I would not be able to share with you what metrics we are using. Although, there is no rocket science to it, but having said that, there can be some insights which we developed the hard way. We have a fairly good assessment of where the demand is going to be and we see no reason why we should phase it out, so we would be going for it.

Of course the question is that even if you wish, you can't launch everything in one day. So it is going to be, how much we can launch over the next say two-three quarters, but in terms of what we wish to do, we are pretty clear and nothing is going to be slowed down just to keep margins high or low. If you believe something is right for business, we will do it and margins will take care of themselves.

**Samir Naringrekar**

Thank you very much.

**Moderator**

Thank you Mr. Naringrekar. Our next question is from the line of Gaurav Tyagi of Alchemy Shares. Please go ahead.

**Gaurav Tyagi**

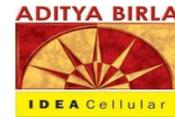
Sir, I have couple of questions related to industry specific dynamics. The first one being and I know this question has been asked earlier in the call, but again I wanted to have your view, what is the status on subscriber re-verification exercise as prescribed by TRAI. We believe the deadline is around 31<sup>st</sup> October, 2010, and the reason I am asking this is because I just wanted to understand whether this could have a significant negative impact in terms of subscriber disconnection similar to what we saw in March 2007..

**Sanjeev Aga**

Yes Gaurav, we are doing what the government requires us to do. But I personally have not been very happy because I have often said that I wish after this enormous effort we would have really improved national security. But having said that, we are probably among the operators who comply best and we make a very serious effort to do our best. As I mentioned in response to an earlier question, we have got a huge team which is collating, and finding out if there is any problem in the documentation and that has been largely done. And then people are contacted on a segmented basis and we have got a window to fix the problem, and where the problem can't be fixed, obviously there will be some disconnections. But that will be no different for us as it would be for others and I think in terms of compliance, we are probably better off. So we have a relatively smaller problem, although it's a problem for everyone.

**Gaurav Tyagi**

Absolutely sir, agreed. The second question, can you give some more details on MNP implementation because whatever little details we are get from the media, various dates are mentioned for various operators. So starting from Karnataka, is it a pilot launch just to test



MNP working or is it a commercial implementation, any view or color on that will be really helpful.

**Sanjeev Aga**

We have been ready for a long-long time, but for MNP, until every system across every vendor, every circle is working, there is a problem including roaming. It's a massive exercise. People in the media or the ordinary consumer do not understand, but anyway what is happening is not a pilot. What we have been told is that in Haryana, there is going to be the first implementation of MNP next month. And after that that it would be rapidly across circles, so it's going to be the real thing now.

**Gaurav Tyagi**

Okay, sir the last question, regarding subscriber acquisition and related expenses, these expanses are coming down in last few quarters and when viewed as a percentage of sales at 11%, they are at their lowest levels, so any color on that and do we see that, as you were saying with 3G and M&P coming in, any impact on that part?

**Sanjeev Aga**

You see, the key thing here is why do our verification costs go up or go down, they are function of two things, how many subscribers you get on, and secondly it is directly related to the acquisition product. For example, if you are selling a product with Rs. 200 our acquisition cost is higher, compared to, if you are selling a product of Rs. 20. So over the last one or two years, you find the product pricing has come down in the market, and therefore unit cost has come down. But along with that it means that stickiness also comes down. So your acquisition cost comes down, but subscribers stay less with you and they keep jumping from operator to operator.

**Akshaya Moondra**

And actually, what you are looking at as the head is the acquisition and servicing cost plus the advertisement and business promotion cost. In totality it is coming down, without getting into specifics, advertisement and promotion as likely to go up in the next quarter, clearly with 3G coming up soon.

**Gaurav Tyagi**

Sir, I totally get your point. Thanks a lot and all the best sir

**Moderator**

Thank you Mr. Tyagi. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Sanjeev Aga to add closing comments.

**Sanjeev Aga**

Thank you Rochelle, I have really no closing comments. Everything that we wanted to speak or answer has been covered in this one hour and thanks to all of you for participating, and speak to you next quarter.



**Moderator**

Thank you Mr. Aga, Mr. Moondra, and members of the management team. Ladies and gentlemen that concludes this conference call. Thank you for joining us on the Chorus Call conferencing service and you may now disconnect your lines. Thank you.