Vodafone Idea Limited Conference

October 30, 2020

Moderator: Good afternoon ladies and gentlemen, this is Janis the moderator for your conference call. Welcome to the Vodafone Idea Limited Earnings Conference. For the duration of this presentation all participant lines will be in the listen-only mode. After the presentation a question-answer session will be conducted.

We have with us today Ravinder Takkar – MD and CEO of Vodafone Idea Limited; and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited along with other key members of the senior management on this call.

I want to thank the management team on behalf of all the participants for taking their 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 discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces.

With this, I would now like to hand the conference over to Mr. Ravinder Takkar. Thank you, and over to you, sir.

Ravinder Takkar: Thank you Janis. On behalf of Vodafone Idea, I welcome all participants to this Earnings Call. Yesterday, our Board of Directors adopted the unaudited results for the quarter ended September 30th, 2020. The detailed press release, quarterly report and unaudited financials have been uploaded on our website and I hope you had a chance to go through the same.

Let me talk about the various strategic initiatives along with operational highlights for the quarter and I will then handover to Akshaya to share details on the Company's financial performance.

As the impact of COVID-19 pandemic and subsequent lockdown continues to be felt, I wish you and your loved ones are staying safe and healthy. Vodafone Idea continues to play a critical role, providing uninterrupted connectivity services to millions of Indians, during these challenging times.

<u>Moving on to key highlights of the quarter;</u>

This was an eventful quarter for us. The AGR uncertainty is largely behind us as the Hon'ble Supreme Court has allowed a payment period of 10 years to clear the AGR dues.

Further, as the last leg of the integration, on 7th of September, we have launched our unified brand 'Vi', which leverages on the legacy of two of the most loved brands of country - Vodafone and Idea. With this new brand we are now all set to regain the customer mind share, an area where we were missing from last couple of quarters.

Further, on 4th of September, our Board has approved the fund raising to support our network investment needs. I and Akshaya will discuss these developments in our remarks and then respond to any questions you may have.

Moving on to our strategy, which acted as a compass to navigate the critical phase of integration and continues to guide us as we move forward, is developed with the primary motive of offering superior customer experience. We believe better customer experience will help us in driving better 4G additions and consequently improve revenue, profitability, cash-flows and our competitive position in the market.

Let me now discuss the progress we have made on our various strategic initiatives

The first and the most important initiative is focused network investments to drive superior customer experience

As a company, our philosophy has always been to have a focused approach in investments, biased towards our profitable areas, to utilize our capex effectively while ensuring that we offer a superior customer experience in these areas. Going forward, we will drive incremental 4G investments in our 16 priority circles, which contribute 94% of our revenue and 86% of industry revenue, to further strengthen our position in these markets. We target to cover 90%+ population in these key markets in addition to increasing our data capacity. We also continue to invest in profitable districts of the remaining 6 circles.

An update on network investments -

While our capex improved this quarter compared to last quarter, it still remains lower than historical trends on account of COVID-19 induced disruptions. However, we added ~10,000 FDD sites primarily through refarming of 2G/3G spectrum to expand our 4G coverage and capacity. We continue to add LTE 900 sites, including through DSR. Till date, we have deployed nearly 61,300 4G TDD sites, to augment our 4G capacity and most of the deployed capacity is in our priority areas. We have deployed over 12,400 Massive MIMOs, which remains the largest in India and more than 11,800 small cells till date. Our overall broadband site count stood over 457,000 and we offer 4G coverage to ~1 billion Indians.

All these investments have provided us a significant capacity uplift, improving utilization levels, despite growing data volumes over a period of time. This in turn has improved our overall download speeds, leading to superior customer experience.

Our relentless pursuit to drive network improvement, through integration and incremental network investments post-merger, is clearly visible through our improving rankings. As per Ookla, our GIGAnet 4G network is now the fastest network in the country, which stands as testimony to our journey of becoming the superior 4G network compared to a year ago, when we had the fastest 4G speeds only in 3 circles of Delhi, MP and West Bengal. In addition to being the fastest 4G network, we are also the most consistent 4G network of the country, offering 4G download and upload speeds above the minimum threshold, as defined by Ookla. These findings are consistent across other third party reports, some of which are available in the public domain.

Let me reiterate that we are deploying an array of 5G concepts and technologies like Massive MIMO, DSR, Open RAN, Cloudification of core etc., while rolling out our 4G network. We also have the largest edge cloud deployment in the country.

The second focus area is market initiatives to drive ARPU improvement –

While tariff hike remains critical to improve the overall industry health, we have also undertaken several market initiatives to improve ARPU with focus on driving 4G/UL penetration. As I talked about, we have integrated our two strong brands in a single brand 'Vi' with a promise to carry the legacy of our two brands. We have launched a very high decibel campaign for Vi and several more are in the pipeline, which will highlight all our initiatives on superior network and improving customer experience. Over a period of next few days and months, there is a clear plan to create customer awareness about the new brand and its promise to the customer. These initiatives are targeted to regain the customer mind share.

As stated in the previous quarter, Vodafone Idea has renewed its focus on digitization of customer servicing across all touch points, as well as complete automation of the distribution channel creating seamless and efficient journey for the channel partners. All these initiatives have helped us tremendously during these challenging COVID times. We have also rolled out post-paid digital acquisition in several cities, including door to door delivery and digital KYC processes, which we gradually plan to expand to other cities as well as for our prepaid portfolio.

The third focus area is Business services and new fast growing segments –

Business services remains one of our focus areas. The strong relationship with customers over several years and global know how of Vodafone Group provide strong platform for future growth in this segment. While we continue to focus on our existing segments, as we move forward, cloud services is becoming central to our growth strategy, via both own assets as well as through strategic partnerships.

We continue to maintain a clear leadership in IoT offerings which is an emerging segment and has some exciting use cases such as connected cars, farms, smart meters and several others. We believe IoT has potential to grow multi fold in the near future amid government's push towards 'Digital India' and 'Smart Cities'. Our enterprise-grade, highly-resilient IoT e-SIM solution, allow multiple network profiles on a single SIM, with the capability of remote service provisioning, on a real-time basis over the air. This is opening up whole gamut of some exciting use cases across industry such as automotive, logistics, agriculture, healthcare and many more.

We have also expanded our security service portfolio with Managed Security Services, to enable businesses become securely digital. Managed Security Services is built on next generation Firewall technology, giving a complete perimeter-based protection. This means customers can easily control applications, prevent intrusion, and get advanced visibility across the network.

During the current pandemic, we continue to support enterprises and SMEs to go digital in a secure manner, through our suite of products and services. Our comprehensive Carrier Services offerings power the digital infrastructure of some of the largest OTT service providers in the country. In a post COVID digitally connected world, our enterprise business offerings are well placed to thrive.

The next strategic initiative is driving partnerships and digital revenue streams

We have several regional and global content partners and we will continue partnering with the "best in class", rather than owning the value chain. Our content portfolio is comparable with our competitors while our approach of partnership is very different compared to hybrid approach by one of the competitor and walled garden approach followed by another. Our strategy on partnerships extends way beyond content. We have partnered with various ecommerce platforms, handset manufacturers, financial institutions, NBFCs among many others to create value not only for the customers, but also for the company and its partners.

As we plan for future, we are now focusing on our platform capabilities to offer a deeper integration with our partners for a differentiated experience and to create monetization opportunities.

And lastly, we have made good progress on our cost optimization exercise. We target to achieve Rs. 40 billion of annualized opex savings over 18 months. As of Q2FY21, we have already achieved ~25% of these targeted annualised cost savings.

Moving on to operational highlights for the quarter

Revenue for the quarter was Rs. 107.9 billion, a growth of 1.2% QoQ, as economic activities have gradually started to resume. The subscriber base declined to 271.8 million in Q2FY21 from 279.8 million in Q1FY21, a decline of 8 million. However, gross additions improved with gradual opening of retail stores. The subscriber churn increased to 2.6%, as the market activity increased during the quarter with lifting up of restrictions.

At the end of the quarter, the 4G subscriber improved to 106.1 million vs 104.6 million in Q1, an addition of 1.5 million 4G customers. The data volumes declined by 4.0% QoQ, as data usage normalised compared to the significantly higher volumes witnessed during the early months of lockdown.

An update on Indus stake, on 31st of August, Vodafone Idea, along with other parties have agreed to proceed with the merger completion. NCLT has also recently provided its approval. We intent to monetize our 11.15% stake, value of which is currently around Rs. 38 billion.

Further, this quarter our Board has approved fund raising of up to Rs. 250 billion through a mix of Debt and Equity. We have also received shareholders' approval for the equity raise. We are progressing well on this and expect to conclude this exercise in next couple of months.

An update on the regulatory matters

On the AGR matter, the Supreme Court gave its final judgement on 1st of September, ending the uncertainty on payment timelines, which was a welcome relief. As VIL has already paid Rs. 78.5 billion, more than 10% of total dues, the first installment is due on March 31, 2022. Following the judgement, we have also written to DoT to rework the preliminary demands, adjusting for computational errors, admissible pass-throughs and payments made but not considered while computing the demand. We also continue to actively engage with the government seeking a comprehensive relief package for the industry, which faces critical challenges.

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

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

As mentioned by Ravinder, the quarter sequentially improved as economic activities have gradually started to resume. Resultantly, revenue was up by 1.2% for the quarter to Rs. 107.9 billion, as against Rs. 106.6 billion in Q1FY21. Adjusted for IndAS 116 impact, EBITDA is Rs. 19.3 billion for the quarter, as compared to an EBITDA of Rs.18.4 billion in the last quarter. After adjusting for one offs credit of Rs.3 billion in this quarter as well as the last quarter, the underlying EBITDA has improved by Rs.0.9 billion QoQ. This EBITDA improvement of Rs. 0.9 billion was primarily on account of higher revenue of Rs. 1.3 billion as well as benefit of cost optimization exercise, which was partially offset by higher subscriber acquisition costs as gross additions improved with opening of business post lockdown

Q2FY21 Capex spend improved to Rs. 10.4 billion vs Q1FY21 Capex of Rs. 6.0 billion. During the quarter, we have received Rs. 4.4 billion, in addition to Rs. 15.3 billion last quarter, as part payment from Vodafone Group towards the AGR dues under a mechanism as per the Implementation Agreement dated 20th March, 2017. We have also received tax refund of around Rs. 9 billion during the quarter.

Net Debt stands at Rs. 1,145.1 billion as at Sep'20 as against Rs. 1,155.0 billion in Jun'20. The cash and cash equivalents balance as at Sep'20, is Rs. 14.3 billion.

On 1st Sep, 2020, the Hon'ble Supreme Court confirmed the preliminary assessed dues submitted by the DoT as the final amount and also allowed payment to be made in annual instalments until March, 2031. Accordingly, during the quarter, we continued to recognize the AGR obligations based on the judgment of the Hon'ble Supreme Court, License Agreement, etc. As the next installment payable by the Company is due by March 31, 2022, we have reclassified the requisite amount to other noncurrent liabilities. Further, interest on liability towards AGR judgment is now accounted under finance costs.

With this I hand over the call back to Janis and open the floor for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora: First question, can you share your thoughts on the new postpaid plans announced by Jio, are you seeing any impact and do you see a need to respond? Also, last quarter you had lost about 1.5 million postpaid customers which was partly because of M2M customers due to impact of lockdown. Have some of them come back this quarter, as we are not seeing that and the numbers have declined again.

Ravinder Takkar: Let me take that question. On the postpaid offers by Jio, first of all I think it's well-known in the industry that postpaid customers tend to be less price sensitive. They tend to be more sticky as well as sensitive to the company that they service from. Also, Jio had a postpaid plan at Rs. 199 plan, which was significantly lower than the offers that we had and the ARPUs that we have for postpaid for a fairly long period of time and that plan did not gain any traction. I think this new plans from them is a clear indication to target higher ARPU, which as an industry we have talked about how higher ARPU is very-very important. I think this move clearly highlights what our competitors are also trying to do which is to improve the ARPU in industry and I think this is a move in the right direction. The Rs. 199 plan now becomes Rs. 399 plan which will provide an ARPU uplift. I think this is a welcome step in the industry.

Now you asked us specifically if we are seeing any impact of that. It's early days but so far I have to say that the impact has been very little on our existing base in terms of either desire to move or even their request to understand what those offers are. As you know we also offer many of these services to our postpaid customers. We have not only a very large base, we also offer many other plans which offer similar services to our customers.

On your other question regarding M2M, the M2M base has declined last quarter predominantly due to the lockdown as you can imagine that the retail industry and many other industries slowed down or closed down, the use of the M2M SIMs have thus come down. What we have started to see now is that with the opening up of the country slowly, the businesses are getting back up and opening, and we have started to see that the M2M SIMS have started to pick up. The trend is now going in the right direction and we expect that to continue with further opening up of the country and businesses start their normal operations as we move forward.

Kunal Vora: On CAPEX, it still remains below Rs. 16 billion for last two quarters, is it because of funding issue and uncertainty or this level of CAPEX is sufficient. How should we look at CAPEX for this year and maybe next year?

Akshaya Moondra: Kunal, as we had also explained in the last quarter, Q1 was impacted somewhat by the lockdown. Now the lockdown impact has gradually gone away in this quarter, so by the end of the quarter the CAPEX level is back to business as usual. As we mentioned earlier, our initial plan was to complete the integration which has been completed and along with that a significant amount of capacity has been created. Our further capacity requirements are not significant and hence the CAPEX requirement on the capacity side is not significant. We have also stated earlier that our strategy is to expand our 4G coverage from the current level, however that initiative we will take once the funding is tied up. In the interim, we are largely focused on making investments which are required in line with the growth of subscribers and growth of traffic and to that extent the CAPEX levels would be somewhat increased from the last quarter levels because there was an impact of lockdown continuing on early part of the quarter. However it will not change significantly from the current levels.

Moderator: The next question is from the line of Vivekanand Subramaniam from Ambit Capital.

Vivekanand S: I have two questions; one pertains to the tax refund and the indemnity, the amount that has been received from the Vodafone Group. How much of the tax refund and the indemnity is received, and how much pertains to the Vodafone Plc or Vodafone India Tax refund? And secondly on the indemnity, what is the likely amount that we will receive from the Vodafone Group in the remainder of FY21 and FY22. Question two, is what is your sense of the market right now and Ravinder, you mentioned that the Jio pricing of Rs. 399 is a welcome move and much higher than their existing Rs. 199 price plan. In your view how does the prepaid market correct its tariff in the days to come and will you be taking any steps to take the pricing table up?

Ravinder Takkar: Akshaya, I will take the second question first and then you can come in for the second one. Vivek, on the market I think you have heard me say several times before that the pricing in the market is unsustainable, because it provides either very low or almost zero return on capital invested. In a prepaid market which is such a large market where all players are at large scale and even then if the return cannot be achieved, then there is something wrong with pricing and I think pricing in the market needs to improve. The view is that in the short run, the ARPU needs to get to about Rs. 200 and then of course in longer-term it has to get up to Rs. 300. If we were to get to Rs. 300 in 2 years from now, we will probably be looking at going back to where we were in 2016 from the inflation adjusted perspective. From a pricing perspective, that is the right level and certainly affordability is there, especially if you consider that usage, especially data usage has gone up 10-12 times compared to the last 4 years. That is clearly the situation and I think that's something that the industry needs to go to.

I think one of the very promising thing that has happened in this space is that the government has shown recognition of the issue because government makes a percentage of license fee and spectrum usage charges based on the revenue of the industry, which has also seen a significant amount of decline. Through various discussions, the government has also started to look at floor pricing and they have started a consultation, which was moving along at a fairly good pace just before the country got shut-down due to the COVID lockdown. As the country emerged from the COVID lockdown, we now have a new chairman of TRAI, Dr. Vaghela. We are engaged with him, the industry is engaged with him and this is one of the topics on his agenda to see what has to be done. All the submissions from all the players have been in favour, the floor pricing needs to come in because the pricing is well below the market price.

While we wait for floor pricing, in the interim there is no reason why prices cannot go up and they have been going up because all three operators decided to increase prices. We've already said before that we will not shy away from raising prices and we could be the first one. We took the first step last time and we are happy to be again the first one to take that step forward. We have strong indication that the other players will follow as well. I would say that between floor pricing as well as continued price increases, I think one or both of these things can happen or should happen and I would expect some activity to take place in a coming time for each one of those things. I think this is essential and I have a strong faith that it will happen.

Akshaya Moondra: On the question of tax refund and indemnity, as we have explained earlier also that the total cap on the indemnity to be paid by Vodafone group under this arrangement is approx. Rs. 84 billion. Under this arrangement, in Q1 and Q2 cumulatively we have received about Rs. 20 billion, so balance Rs. 64 billion is to be received over the remaining period against the AGR liability.

As far as the tax refund is concerned the entire tax refund which is received in the quarter is on account of erstwhile Vodafone, and that is also part of the indemnity arrangement. Just to be clear, at the time of merger there was roughly net amount of Rs. 83 billion primarily comprising of tax refunds. At the end of Q2, about Rs. 68 billion of tax refunds related to erstwhile Vodafone India is still to be received. All in all, the total credits which will be available towards AGR is Rs. 64 billion of cash contribution from Vodafone Group and about Rs. 68 billion of tax refund which is expected to be received. In terms of the timing of receipt, these are linked to payments, so if the next payment happens in March '22 then the next receipt from Vodafone Group will only be after that. Hope that answers your question.

Vivekanand S: Couple of small follow ups; Ravinder thank you very much for explaining the pricing paradigm. Just to drill down a bit further on this, are you saying that in the interim till a floor pricing comes through, are you saying that you will also be happy to take the first step towards correcting the pricing and if so what are the factors that you're looking for before you decide to take this price hike. The reason I'm asking is that in December '19 we took a price hike but our revenue did not grow. Just trying to understand in a situation or under the circumstances where we still have a coverage gap versus others that you yourself have admitted and will fix, how should we think about your own pricing approach?

Ravinder Takkar: The answer to that question is I don't think there's anything that stops the industry from increasing prices while floor pricing discussion is on. That has been done before and I don't see any reason why it cannot be done again. While I think we can maintain healthy pricing with the help of the industry, probably floor pricing will be required because I think that is something that will have to be done to bring the industry back to normal and in the meantime some of those steps can be taken. From our perspective, as I said we are not shy to take the first step, we have taken it before and we can take it again.

As I mentioned in my opening speech, we have the best quality network, it is not only said by us it is also proven by all the third party reports and Ookla, which is one of the reputed ones in this space, they have awarded us the best 4G network and the most consistent 4G network in the country. I think certainly that experience will now be available to our existing customers as well as to others who want to test and enjoy the quality of our network. From that perspective, the issue around coverage gap is less and the important thing is that we already cover almost a billion population where our network quality is good. In the top 16 priority circles, we have covered much larger proportion of the population, our network quality is good and we should see an impact of that.

If the prices go up, I don't see ourselves to be in a comparative disadvantage. On the coverage gap as we talked about, when we have the funding we will cover that gap. In the meantime we cover a substantial portion of the country and certainly in our top 16 circles we have very-very good coverage and we think that that will provide a great experience to our customers given the quality of our network as proven by not only ourselves but also by Ookla.

Moderator: The next question is from Pranav Kshatriya from Edelweiss Securities.

Pranav Kshatriya: My question is around the fund raising which you talked about. Can you give us color on what sort of discussions we are doing, what kind of fund raising you are looking at and when do you expect that you can get any funding for the company?

Ravinder Takkar: As we mentioned earlier, our board has approved for us to raise up to Rs. 15,000 crores debt and up to Rs. 15,000 crores of equity, as long as the total combination of that is upto Rs. 25,000 crores. We have since that time, also received shareholder approval. We are actually in several discussions with interested parties and there is good interest. As the engagements are ongoing, I cannot tell you anymore details but certainly they are progressing well and I expect that we will have some conclusion to this in the coming two to three months. That part is going quite well and we are optimistic.

Moderator: The next question is from the line of Sanjay Parekh from Nippon India AMC.

Sanjay Parekh: I had a question on the 4G addition. Now that our network integration is over, what would be a specific strategy to see that our 2G/3G subs move to 4G and we retain them and also our market share on 4G addition significantly improves? If you can guide us on what are the few things we are doing?

Ravinder Takkar: As you know that in the last 2 years, one of the biggest things that we were trying to do during our integration exercise was consolidation of our network, and at the same time improving our 4G capacity as well as our 4G coverage. The coverage has expanded significantly. Also the way we did integration to avoid risk was we started with our low market shares or smaller revenue circles and we have progressively gone over to our bigger market share circles, so the bigger circles were more back loaded in that integration exercise. Now that integration exercise is completed, we have started to talk about how much capacity and coverage increase that we have done. We have over a billion-population coverage in our 4G network and while our capacity increased to over 2x by

March 2020 vs what we had when we started the integration exercise. In the last 2 quarter we added capacity more than the demand. Significant amount of effort has gone into doing that and as I said it's evident in the results that we have seen not only from our internal tests but also from third-party reports. While we were going through this exercise it was difficult for us to communicate and talk about what we were going to build because we were in the process of building. Also from a brand perspective, we had stopped investing heavily because we were going towards a single brand.

Now that integration is behind us, our single brand is launched, the network quality that I talked about has been confirmed by third-parties; the point going forward is to really talk about the quality of the network, communicate with the customer the benefit they get to experience, and at the same time for us to invite other customers who want to go from 2G to 4G, let them test the quality of the network, get the experience and hopefully they migrate over and that is our strategy. This is not something that is new, this is something that has happened in the industry, we have been doing earlier and our competitors have been doing it earlier, so this is something that we are good at.

We believe now we are in a place where we can actually make that migration with confidence given the quality of our network and the completion of our integration and our efforts are going to be 100% focused on that part. I can tell you that in less than 2 months after the launch of our brand, we are starting to see a positive momentum. Hopefully this will continue and this is something that we have to do, and I expect positive results from here. That is really the plan, it's built around real solid network experience as well as customer communication and brand push behind it. That is we believe the right way to make it happen.

Sanjay Parekh: Do you think our approach of go-to-market strategy has an issue and it's not to do with capital or spend. You very well clearly explained how integration was done but in terms of our go-to-market strategy and moving our own 2G customer to 4G, do you think are there any gaps or that is not an issue?

Ravinder Takkar: Sanjay earlier when we were going through the integration exercise, there were clearly gaps because when you are consolidating there are times when there are outages, you have to turn off the network as you have to add more capacity, you have to add more coverage. Also because the networks were not integrated the coverage and capacity in the two brands were actually different and the capabilities were different. So, from a go-to-market perspective while we were doing the best that we could, the consistency of the execution and actually a common message was obviously missing because we have got two brands and networks are not fully integrated and capacity and coverage that is getting rolled out every day, every week, every month, which was increasing over period of time.

Now, there is no confusion or there is no discrepancy in go-to-market, it's a single brand, and we offer unified network experience throughout. Sanjay, hopefully I answered your question, and we don't see any gap in execution. Now as we have a focused go-to-market, we have a unified brand and we have a combined integrated network, our strategy is clear. As I said, this is something that we have been doing for years and now with the integration completed we have to just go back to the execution of that.

Moderator: The next question is from the line of Ashish Aggarwal from Principal AMC.

Ashish Aggarwal: Wanted to understand just one thing on the tariff hike. You said that we are not hesitant to take any tariff increases. Just wanted to understand what is stopping us? Is it that we are waiting for this floor pricing to come up first and then talk about it or what is stopping us from taking that first step? Secondly, on the profitability side, despite doing almost Rs. 8,400 crores of savings earlier and now almost 25% annualized savings achieved, our EBITDA on an ex Ind-AS basis, is just Rs. 1,600 crores. Do you think that this will move and our ARPU moves up to like Rs. 130-140 levels?

Ravinder Takkar: Ashish on the tariff side I will repeat, we are not hesitant to make the first move but you have to time it a little bit. Completing our integration, launching our brand, building the brand salience, these are things that we have been busy with along with ongoing consultation with the government on floor pricing and what the timing and plans would be. As I said earlier, I don't think either one of those two decisions are far away and we expect those to play in the coming time but I can't reveal to you or tell you exactly how and when we will make that decision. On the profitability part, Akshaya I will leave it to you.

Akshaya Moondra: On profitability, we have achieved Rs. 84 billion on synergies post-merger and then in the last two quarters we have achieved roughly 25% savings against the Rs. 40 billion guidance that we have given. Now these cost reductions are reflected in the profit and loss account but what you are saying is partly right, that essentially the significant recovery and the cash generation from operations can only come from the tariffs going to the correct levels which is not the case right now. We are definitely working on things which are entirely within our control which is the cost part. Tariffs is a function of what we do and what market dynamics are and we will be focused on that because that is the way the long-term health of the industry will improve.

Moderator: The next question is from the line of Vishnu K. G from JM Financial.

Vishnu K. G: Just wanted to ask your thoughts regarding the data usage. One of your competitors had also reported a slight decrease in the data usage post easing of the lockdown. The data usage will get stuck at these levels or do you think there is further headroom for the improvement in data usage?

Ravinder Takkar: We went through a fairly unprecedented time as we had a sudden lockdown which took place in Q1. Everybody was stuck in their homes and if you remember from last quarter, the usage skyrocketed with more than 30% increase at one time in a matter of few weeks. The important part was our network quality held up even with high usages that were taking place and we were able to do that while we were still in lockdown. As the lockdown started to ease, as people are going back to business as usual, doing other things than purely entertainment consumption which was taking place. We started to see the data consumption coming down a little bit but overall there is no indication that data usage in the industry is going down. It will go back to what used to be on normal levels and we believe that will happen. It's just that on quarter-on-quarter basis because of the unprecedented nature of the lockdown that changed trajectories a little bit, so I don't see a big issue here.

Moderator: The next question is from the line of Sanket Baheti from GeeCee Investment.

Sanket Baheti: Where do you think your subscriber numbers will get stabilized because there is a good amount of subscriber loss that is happening on a quarter- on-quarter basis, so where do you think you will stabilize in terms of number of subscribers?

Ravinder Takkar: I hope that you are able to see that on a quarter-on-quarter basis we have continued to show an improving trend where the decline in customer base is slowing down and it was tied to the fact that we were integrating and consolidating our network and we were going through this process but the trend has continued to improve and you are right there are still customer losses that are taking place but I can tell you that not only are they reducing quarter-on-quarter but even on a month-on-month basis. August is better than July and September is better than August and so on.

As I mentioned earlier with the quality of the network and the experience that our customers are having over the network, we believe that this trends will only improve as we go along. Also the brand launch has a significant impact because the brand salience gets build as we have started talking about the quality of our GIGAnet network and we're communicating that to the customer more and more who we will start to experience it and will come to test it. We thus expect the overall trends will start to improve and move in the right direction.

The other thing that's important to note is that in the lockdown, we ended up in a situation where gross additions which are essential part of the market functions slowed down. As the market has started to open up, gross additions have started to pick up. In our case they have still not come to normal level compared to where they used to be before the COVID lockdown but certainly we see month-on-month improvement taking place in gross additions and I believe that trend will also continue. Which means if we are able to hold on to the customers because of the network quality, we can talk about it and certainly with our brand launch and our communication will help improve the gross additions and hopefully with this the subscriber mix improves. We don't see any reason why this trend will not continue and stabilization in our base will not happen, so we are looking forward to that and I can tell you this trend is showing in our numbers and we hope that will continue.

Sanket Baheti: Just a follow-up on this, so within the quarter for July, August and September, based on whatever you have said, the trends have reduced on the subscriber loss?

Ravinder Takkar: I can't give you the details but I can tell you that monthly trends have certainly been improving.

Sanket Baheti: As all the liabilities are now known and there is clarity on AGR, what will be total accrued interest cost on AGR during the quarter?

Akshaya Moondra: As per the P&L for this quarter, the total financing cost, pre Ind AS 116 basis is Rs. 4,128 crores which includes about Rs. 1,100 crores on account of the AGR liability financing cost.

Moderator: The next question is from the line of Arun Nahar from Alpha Enterprises.

Arun Nahar: Your competition is about Rs. 50 away on ARPU. Do you see that gap closing and by when? How much of it is a function of the fact that the gentlemen from GeeCee Investments just said, is because of the customer bleed rate?

Ravinder Takkar: The reason why there is an ARPU difference is directly attributable to the difference in the mix of the customer base. They have a higher mix of customers on UL/4G compared to ours and that's the only reason. As we talked about earlier, because of the quality of our network improving with integration getting completed and the fact that our customers now will get to experience what has been certified as the best network in the country, we expect to add more UL/4G subs. As the brand saliency will improve and customers come to our network and join 4G services, and migration from 2G-3G over to 4G, this will results in ARPU increases.

The issue for us is not about catching up with their ARPU, the focus for us is that we want to turn more and more of our 2G customers to 4G, and add new customers who will enjoy the 4G network and then the ARPU will improve, so this is the plan that we have. We now have the capabilities with the improved network quality, the brand launch, the new go-to-market plan and we have already started to see the results of that, so that is the trajectory we are on and we will continue. By the way, this was the plan that other competitors have followed as well, unfortunately for us we were in the middle of our integration and they did some of those investments earlier than us. We have now completed our integration, our investments have gone in, the quality of our network is now evident and it's for everybody to see and experience, so we expect to get the benefit of that as we go to market with those plans as well.

Arun Nahar: Your competition is already talking about raising their ARPU. You are about Rs. 50 away from your next competitor. Do you have a timeline to at least reach that existing benchmark?

Ravinder Takkar: I don't think of my timeline to reach the competitor's ARPU, that's not how we think about things. What I think about is how I provide a greater customer experience to my customers and how do I attract other customers to come and enjoy my network and migrate 2G customers to 4G, and the ARPU increases happen according to that. We believe the quality of network and the brand and our focused go-to-market execution will drive that. My intent is to do that and not to try and catch up with my competitors on an ARPU gap. ARPU gap will automatically reduce as I do more and more of this.

Moderator: Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Ravinder Takkar for closing comments.

Ravinder Takkar: Thank you Janis. To conclude, we have had challenging last few quarters. With AGR overhang largely behind us, we have turned a corner. We have launched our new unified brand “Vi” and with our improved network performance, we are all set to regain customer mind share. We are making progress on our strategy and our cost optimization exercise has already started to yield incremental savings. We have also initiated fund raising exercise to support our strategic intent. We believe this will help in improving our revenue, profitability and our overall competitive positioning in the market. Thank you all for joining this call. Stay safe and healthy.

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