



# Idea Cellular Q3-FY14 Earnings Conference Call

**January 28, 2014**



Idea Cellular  
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**Moderator:** Ladies and gentlemen good afternoon. This is Inba the moderator for your conference call. Welcome to Idea Cellular conference. For the duration of this conference all participant lines will be in the listen-only mode after the presentation a question and answer session will be conducted.

We have with us today Mr. Himanshu Kapania – Managing Director of Idea Cellular and Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular along with other key members of the senior management on this call. I want to thank the management on behalf of all the participants for taking valuable time to be with us. Given 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 conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this I hand the conference over to Mr. Himanshu Kapania. Thank you and over to you sir.

**Himanshu Kapania:** Thank you Inba. On behalf of Idea I welcome all participants to this earning call. Yesterday our Board of Directors adopted the audited results for the third quarter of financial year 2013-2014. The detailed press release quarterly report and results have been uploaded on our website and I assume you had a chance to go through the same.

The company is pleased to return to its upwards trajectory of revenue growth with 4.6% sequential quarterly expansion on strength of 4.1% quarter-on-quarter total minutes growth and 19.4% in quarterly mobile data volume growth. Despite our growing size at Idea we believe we will remain a \$4 billion start up. The company remains entrepreneurial at heart, nimble and agile on its feet, laser sharp in execution and collaborative in approach. With growing size we are reemphasizing our new powerful attributes, thinking big acting with honesty and transparency, but all through many changes over the years three fundamental cultural tenants will remain the same at Idea – Customer Centricity, Employee Orientation, and Purpose Driven Focus Execution. At Idea it is ingrained within us that India is a land of opportunities, even though this journey is unpredictable and the futures cannot be extrapolated from the past. We at Idea had set ourselves to meet the hopes and dreams of Indian individuals and communities helping the societies to transition and country to transform with the power of telecommunication not only in voice telephony but also in exciting emerging world of digital age. In our actions you will notice that translation of this belief into Idea's capex and spectrum investment philosophy.

Firstly, **Voice Market** – India mobility voice market still remains underpenetrated with only 60.3% all India VLR penetration and just 40% consumer penetration in rural India. Actual people penetration is even lower given the presence of multi SIM users and dual SIM handsets. To capture this voice potential especially in the midsize and small towns, in country's hinterland and deep rural markets Idea has stepped up this GSM investment, adding nearly 14,000, that is 16% incremental GSM sites, in the calendar year 2013. Idea coverage has expanded by



over 46,500 towns and villages in the year 2013. GSM services now extend to over 344,383 towns and villages. We expect to complete GSM footprint expansion of Idea services in the next 15 to 18 months.

Secondly, **Mobile Data** – Mobile Data is in the early phase of growth in India. As our most successful India cricket Captain M.S. Dhoni had said “break the rules and stand apart, ignore your head and follow your heart because the head leads to conclusion and the heart leads to action”. We at Idea believe in the long run with no alternative or parallel broadband services investments either by fixed line or by the cable industry ubiquitous mobile services will meet most of the Indian consumers’ needs for high speed data services. We also believe there will be no bypassing of technology in India. The country will follow the global pattern of service upgrade from 2G that is GSM or CDMA to 3G that is HSPA or EVDO and over the next 6 to 10 years when mobile broadband demand becomes robust and needs additional capacity use of 4G services on LTE etc. At 143 million wireless data subscribers as of March 2013 subscriber, data user penetration is only 16.5% of the total mobility base. Majority of early mobile data adopters use GSM edge platform for data usage as ecosystem for 3G including device entry prices and 3G services coverage availability is still a constraint. 4G services in spite of an auction as early as year 2010 and with high spectrum payout of over Rs. 385 billion for three blocks of PAN India, 2300 or 2500 MHZ has still not been commercially rolled out. In fact we hear from media report efforts that government operator to return some of this spectrum back to the government.

Having stated above in the near future mobile data will have a good consumer demand as in this increasingly interconnected world the megatrend of digitization will definitely shape the future of all India citizens or society, governments and companies.

In the developed world digitization is now advancing even more rapidly and fundamentally changing the ways business and society functions. It presents both opportunities and challenges in a large country like India to systematically build digital infrastructure to meet next two to three decades of demand. This is primarily as DoT remains focused on short term revenue maximization for spectrum auction to balance fiscal budgets rather than define a proper roadmap for mobile broadband spectrum and infrastructure development for the country. Given this volatile, uncertain, complex and ambiguous situation companies like Idea has to carefully chart out its course of mobile data investments, while ensuring we tap all the opportunities that knock our way but carefully time ourselves not to be ahead of technology curves. There is no benefit of first mover in mobile broadband space but it is more critical to build robust long term sustainable wireless broadband network which is future proof and globally most popular spectrum band.

Based on overall assessment Idea has stepped up its investments on the 3G coverage expansion. In the calendar year 2013 Idea has expanded its 3G presence by 28% adding 4,359 new 3G sites reaching 19,904 sites by far the highest presence in 10 service areas, other than Punjab service areas where Idea is waiting for commercial authorization of its 3G spectrum won in 2010 auction. Just to remind you Idea’s 3G spectrum presence in 10 telecom circles delivers 67.5% of its total revenue highest among any other private telecom operator.



**Thirdly, Spectrum Auction** – Certainly with the government reducing the PAN India 1800 MHz auction reserve price to Rs. 8,821 crores per five MHz increasing the total quantum of 1800 MHz spectrum to 403.2 MHz and reducing three metros 5 MHz 900 MHz spectrum reserve price available from licenses due for extension after 20 years. There seems to be a lot of interest in the scheduled February 2014 auction. You would appreciate Idea would not be able to discuss its specific plans for the auction, I would like to remind you that government is still holding a reasonable spectrum quantum across bands of 700, 800, 1800, 2100 and 2300 MHz to meet pan India mobile data aspiration of six plus operators in the country. We believe there is no need for auction frenzy. Over next two to three years key mobile operators would be able to acquire relevant spectrum bands to meet all future mobile data requirements on 3G a later on 4G. We also read TRAI is ready with its recommendation on spectrum trading. We are confident with the supportive government policies on spectrum trading and merger and acquisition, financially strong operators can shift focus from regulation to markets, aggressively invest to grow both emerging wireless broadband services and meet rural voice demand. In this environment it is critical to separate the signal from the noise. Idea with anti-fragile properties, robust business model, resilient culture and laser sharp execution is fully capable to manage paradoxical storms of headwinds and tailwinds.

On the regulatory front following are the key developments during the quarter:

- A) Spice license name changed to Idea. DoT vide its letter dated 29<sup>th</sup> November 2013 approved transfer of Punjab and Karnataka erstwhile Spice licenses to Idea subject to company agreeing to pay Rs.600 crores penalty and other conditions. The company has challenged the above-mentioned DoT letter and the demand at TDSAT. The Honorable Court has restrained DoT from taking any coercive steps. Our petition would be heard from February 2014 onwards.
- B) 3G spectrum for Punjab service area, due to pending transfer of operating UASL, Spice licenses of Punjab to Idea or otherwise the authorization for commercial use of 3G 2100 MHz spectrum won by Idea for Punjab service area on payment of Rs. 322 crores in the year 2010 is awaited. Currently, the matter is sub-judice before the Honorable Supreme Court.
- C) Extension of seven Idea licenses. As per the license contract, seven Idea licenses for the service area of Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Kerala, and Haryana and UP West fall due for 10 years extension in December 2015. The company invoking its contractual rights available under the CMTS license extension has filed petition at TDSAT seeking direction to DoT for extension of its licenses for further period of 10 years. Idea petition has been admitted and has been clubbed with similar petition filed by other operators for metro licenses.

Besides above three, the 3G intra circle roaming case is well covered in the media and we have no additional information to share.

Moving on to **Business Performance**:



As it is customary, we start with an update on Idea's competitive ranking. As per the latest TRAI gross revenue release for the period July to September 2013 Idea had a highest revenue market share acronym RMS improvements, from quarter2 FY13 to quarter2 FY14, by 1.5%. The incremental RMS for quarter2 FY14 versus quarter2 FY13 was also highest ever and highest across the industry at 35.1%. The company maintains its enviable five-year track record of fastest growing Indian mobile operator. During the period quarter2 FY13 to quarter2 FY14, Idea has been growing three times when compared with the pace of growth of rest of all operators combined excluding Idea. The cumulative quarterly revenue growth rates (acronym CQGR) of Idea from quarter2 FY13 to quarter2 FY14 is 4.5% when combined of all of other operators revenue CQGR is only at 1.5%. Idea's high revenue and profitability growth has been achieved in spite of overall Indian mobile industry revenue growth in FY13 and annual trends based on first half for FY14 is trailing at low single digit levels, far below nominal GDP growth of the Indian economy. Mobile industry contribution to nominal GDP has slipped to 1.3% level from its peak of 2% in 2005 – 2007 period. Idea for the last three to four years is growing at 1.6 to 1.7 times industry improving annual RMS by 0.9% to 1% and maintaining its status of fastest growing Indian mobile operator for five years in succession.

The performance of Idea of five standard parameters for the period October to December 2013 quarter is as follows:

**Point #1: Gross Revenues** – The absolute standalone revenue in the OND quarter of 2013 is at Rs.66,105 million a growth of Rs.9,970 million at the rate of 17.8% from quarter three FY13. The multiple drivers of this robust annual revenue growth in quarter three FY14 a classical factors namely highest industry VLR growth, steady growth in voice minutes, exponential data volume growth and improvement in Voice Realised Rate. Consumer preference for brand Idea remains strong as company added 18 million incremental subscribers on VLR in the calendar year 2013. Voice minutes expanded between quarter three FY13 versus quarter three FY14 by 9.4% to 144.6 billion minutes and data volume exploded by 107.6% to 20.8 billion megabytes. The value added services contribution increased from 14.6% in quarter three FY13 to 16.1% in quarter three FY14 and overall improvement of 1.5% on Y-o-Y basis. The Average Realized Rate Per Minute ARPM improved by 0.2 paisa per minute on a sequential quarterly basis and 3.8 paisa per minute on Y-o-Y basis. Improvement in Voice Realised Rate and significant contribution from value added services has lead to the sharp improvement in ARPM.

The analysis of rate improvement has two components. Firstly, as explained earlier the process of Voice Realised Rate improvement is now complete. From March 2013 Idea clamped down on the promotional free and discounted minutes for new customers and discounts for existing customers on value vouchers and this program was concluded by July – August 2013. This festival season we are happy to report the voice minute's growth return to 4.1% on sequential quarterly basis indicating the market has absorbed the Voice Realised Rate improvement initiated in quarter one FY14.



Second, significant contributor to improved ARPM is higher value added services contribution. Mobile data as a percentage of revenue has increased from 5.7% in quarter three FY13 to 9.5% in quarter three FY14 an improvement of 3.8% Y-o-Y basis. The explosive mobile data revenue growth has helped balance the non-data VAS contribution fall from its peak in quarter three FY13 at 8.9% to 6.6% this quarter a fall of 2.3%, thus overall VAS percentage contribution improved by 1.5% is helping higher ARPM.

On analyzing TRAI gross revenue reporting Idea's incremental RMS exceeds current RMS not only on aggregate basis but in each and every 22 Idea India telecom service area starting with eight Idea leadership markets where combined Idea's RMS is 26.4% in quarter2 FY14 placing us at number one position but still during the period quarter2 FY13 to quarter2 FY14 these eight service areas delivered 59.1% incremental RMS. In the next seven Idea established markets where combined idea RMS in quarter two FY14 is 11.2% the company delivered 23.9% incremental RMS. Even in the remaining seven new service areas where Idea combined RMS is only 4.1% the incremental RMS for these service areas is 13.7% when measured between quarter two FY13 and FY14. Please refer to Idea's quarterly report for more details. On overall basis Idea's incremental RMS on Y-o-Y basis was at 35.1% giving us huge confidence to step on the pedal and improve Idea's presence in the Indian mobility market.

**Point #2: Cash Profit and EBITDA** – The 37.7% annual standalone EBITDA growth in quarter three FY14 had multiple drivers including revenue trajectory from voice and data business, scale benefit and better cost management. 49.8% of incremental gross revenue of Rs.9,970 million growth between quarter three FY13 and FY14 has translated into EBITDA incremental growth that is Rs.4962 million on Y-o-Y basis. The EBITDA margin on yearly basis has improved by 4% to 27.4% with an absolute EBITDA this quarter at Rs.18,135 million. On consolidated levels including Indus 16% contribution Idea's EBITDA on Y-o-Y basis has grown by 39.5% to Rs.20,557. Consolidated EBITDA margin on yearly basis has improved by 4.7% to 31.1% in quarter three FY14. Idea EBITDA margin now compare closely with India telecom mobility market leaders reminding the power of pure play mobile operators over integrated players in terms of cost structure. In the 15 established service areas with a combined RMS of 18.9% Idea standalone EBITDA margin continues to steadily improve and quarter three FY14 margin is as 31.4% excluding Indus contribution. But as we improve our network presence in seven new service areas where Idea won back spectrum in November 2012 EBITDA loss has increased from Rs.1,259 million in quarter two FY14 to Rs.1,581 million in quarter three FY14 an additional loss of Rs.322 million. The fresh capital investment needs time to translate into revenues while we maintain our calibrated approach in new service areas. Increase EBITDA loss is natural fallout in these markets until we improve our RMS from the present level of 4.1%.

The double bottom line drivers of voice and data business helped Idea more than double its profit after tax from Rs.1,911 million in quarter3 FY13 to Rs.3,981 million in quarter3 FY14. The standalone cash profit for the company remained healthy at Rs.15,663 million, a growth of 41.3% over quarter3 FY13 helping Idea reduced net debt by Rs.27,364 million during calendar year 2013 - lowest in the industry at Rs.89,450 million. In spite of 35%



plus annual EBITDA margin growth, amongst the highest against most blue chip large cap stock on Nifty, Idea stock trades at deep discount on EV/ EBITDA multiplier against most highly rated large cap stocks.

**Point #3: Active Subscribers** – Steady growth of quality consumer are key to Idea realizing its vision of consistent, competitive, sustainable and profitable growth. The company is pleased with strong consumer preference for brand Idea. During the calendar year 2013 Idea added 18 million incremental VLR subscribers and Idea's VLR EOP as on 31<sup>st</sup> December 2013 stood at 129.95 million. The company has been vigilant in improving the quality of subscriber base as of December 31<sup>st</sup> 2013 Idea has 100.5% of the reported EOP at 128.7 million as active VLR customers, by far the highest in the industry. The improved quality is reflected in increased Average Revenue Per User acronym ARPU to Rs.169 this quarter versus 158 in quarter3 FY13, inspite of attracting higher proportion of rural subscribers and bottom of pyramid customers from the urban markets. Another parameter subscriber churn also exhibited similar trend as quarter three FY14 churn fell by 1.2% to 5.6% in comparison to quarter three FY13. Just like RMS trends based on latest TRAI VLR reporting as on October 2013, Idea has improved its VLR market share to 16.8% an improvement of 1.2% against quarter two FY13. Further, while overall Indian mobility industry VLR growth between October 2012 and October 2013 was 40.4 million VLR subscribers, Idea garner the maximum incremental active VLR subscribers at 14.8 million an incremental VLR market share of 36.7%. The incremental VLR, incremental minutes, incremental RMS market share over the last one year period in excess of 35% remains its testimony to Idea's focus on voice market and accelerated investments in GSM services.

**Point #4: Minutes of Usage** – After company clamped down on free and promotional minutes in quarter one FY14 impacting minutes pace of growth and decline in minutes in quarter two FY14 is relieved to witness return on minutes growth in this quarter. Voice minutes grew on a sequential quarterly basis by 4.1% from 138.8 billion minutes to 144.6 billion minutes an improvement of 5.7 billion minutes. On Y-o-Y basis minutes of usage has grown by 12.4 billion at the rate of 9.4% reconfirming our bullishness on Indian consumers intrinsic unmet voice demand. MOU per sub has risen by 9 minutes to 376 minutes per user on a sequential basis in quarter three FY14 but even though on a Y-on-Y basis MOU per sub in quarter three FY14 has fallen by 8 minutes against 384 minutes per user in quarter3 FY13 an increased ARPU of Rs.11 of 169 in quarter3 FY14 provides strong indication of elasticity of demand. The increased in ARPM of 3.8 paisa per minute rate realization at the rate of 9.3% has been absorbed by the customers. As stated earlier Idea remains committed to steady capital infusion across business verticals of GSM 3G NLD, ILD, IT, ISP etc. During this quarter Idea installed 5,630 GSM sites increasing its network presence to 101, 600 GSM sites. When measured for full calendar year 2013 the company registered a highest ever improvement in BTS presence by 13,938 at the rate of 16%. Idea now covers 7,327 census and non-census towns and Idea coverage expanded to 337,000 rural villages across its 22 telecom circles. We believe we are on the last leg of GSM investments and plan to complete coverage expansion over the next 15 to 18 months.

Long Distance traffic growth is steady at 17.1% reaching 13.4 billion NLD minutes this quarter. The sequential ILD minutes decline trend of last quarter has been reversed though ILD minutes declined by 4.6% on Y-o-Y basis to



1.24 billion minutes in quarter three FY14. Separately, the company is making steady progress in long distance and intra circle fiber expansion. The cumulative Idea fiber cable transmission network has expanded to 80,000 kilometers; company is now turning his attention to increase OFC PoPs in identified 128 cities. Next two years capital investment will have a higher outlay for intra city PoPs to meet the burgeoning demand from wireless broadband services.

**Point #5: Mobile Number Portability** –The success in MNP remains a key lead indicator of growing popularity of Idea’s mobile services. Existing customers of other operators choosing brand Idea remains a matter of pride for the company. As on 31<sup>st</sup> December 2013 Idea has a net gain of 8.4 million MNP customers from other telecom operators. Today 6.5% Idea subscriber EOP includes customers acquired through MNP from other leading operators. The company is pleased with its record that one out of every four existing mobile customers who chooses to port from out from the existing service provider preferred to be with Idea, reaffirming growing power of brand Idea.

**Moving on to Wireless Data Business:**

From this quarter Idea is eliminating from its mobile data reporting incidental data users. An incidental data user is one who has still not been initiated into the digital world but only due to compatible ready to use device or lack of awareness accidentally use this mobile data. From this quarter company is not reporting any mobile data user who uses less than 100 kilobytes in a month. We are also at a process of studying best global practices of data user reporting and then finally will align Idea mobile data user reporting of 2G and 3G to best in the class. Due to the new definition Idea overall mobile data user base has fallen to 25.5 million 2G plus 3G against 33.6 million reported last quarter on the basis of old definition. Mobile data penetration is 19.8% of overall Indian consumer EOPs of 128.7 million. Most of the Idea’s wireless data consumers have adopted OTT application and a regular Internet services. Last quarter we have shared penetration of Idea data consumers amongst popular applications.

The update for this quarter is as follows:

1. Idea’s Facebook users have grown by 2.1 million on sequential quarter basis from 15.6 million to 17.7 million users.
2. YouTube users watching videos on the mobile has risen by 0.9 million quarter-on-quarter basis to 8.9 million Idea YouTube users.
3. WhatsApp users have grown by 1.7 million during the quarter to 6 million. We remained among the top three service providers for most popular Internet applications and emerging OTT applications.

With reduced incidental users from mobile data subscriber base, the mobile data ARPU has swelled to Rs.91 in quarter three FY14 an improvement of Rs.39 at the rate of 75% versus Rs.52 in quarter three FY13. Similarly,



blended mobile data usage per user has exponentially grown to 309 megabytes per user blended for 2G and 3G users with an increase of 85% during the year from 167 megabytes per user in quarter 3 FY13.

We expressed our anguish during the previous quarter on the emerging grim tariff battle for supremacy in mobility space has shifted from voice to data consequently data average rate per megabytes has slipped this quarter again by 1.4 paisa per MB over the last quarter on back of a 2.5paisa megabytes fall between quarter one and quarter two FY14. In the last six months the ARPM has fallen by 11.6% that is 3.9 paisa per megabytes. The reduced rate is vastly compensated by increased wireless data volume growth. Over last one year mobile data volume has grown by 10.8 billion megabytes an explosion of 107.6% from 10 billion megabytes in quarter three FY13 to 20.8 billion megabytes in quarter three FY14. 45.4% of these 20.8 billion megabytes is consumed on Idea's 3G platforms that is 9.8 billion megabytes and remaining 54.6% of Idea's GSM EDGE platform reinforcing that there is still a number of applications like Facebook, WhatsApp, Email, Search etc which work at acceptable performance level on GSM edge platform. Idea's mobile data revenue in quarter three FY14 as a percentage of service revenue is at 9.5% contribution. In last one year mobile data contribution has increased by 3.8% from 5.7% in quarter three FY13.

Interestingly, during last one year while mobile data grew at the rate of CQGR of 20% driven by consumers intrinsic data demand, the mobile data revenue has grown by CQGR of 18.7%. The wireless data revenue has grown from Rs.3,108 million in quarter three FY13 to Rs.6,619 million this quarter and improvement of Rs.3,061 million at the rate of 98.5% Year-on-Year basis.

**Moving on to 3G Business** – The growth in 3G users improved this quarter with increased Idea 3G coverage in 10 service areas falling smart phone prices and emerging new OTT application for mobile users. On sequential quarterly basis, Idea added 2.5 million 3G customers using either mobile data or voice services. The 3G EOP base as on 31<sup>st</sup> December stands at 8.7 million an increase of 4.6 million at the rate of 112% during this calendar year 2013. The number of 3G device owners on Idea network is also on the rise. As of 31<sup>st</sup> December, 2013, over 15.1 million out of the Idea's 128.7 million subscribers owned a 3G device that is 11.7% of a subscriber base. In the calendar year 2013 additional 6.9 million Idea users upgraded their phones to 3G Smartphone's. Currently, 57.6% of Idea's 3G device owners use the Company's 3G services. The pace of 3G platform adoption is expected to accelerate as HSPA services coverage improves and operators like Idea expand their 3G presence from 10 service areas to pan India as and when 3G ICR is resolved or government's auctions additional 3G spectrum blocks in the near future. Idea's branded handset sales volume remains steady as we continue to offer strong value proposition ensuring the Smartphone device prices continue to reach affordability for mass consumers. 3G mobile data ARPU has been steady at Rs.112 an improvement of Rs.15 at the rate of 15.5% from Rs.97 in quarter three FY13. 3G data usage per 3G subscriber is now steady at 427 megabytes per 3G users, an increase from 390 megabytes per user in quarter three FY13. The overall 3G volume has grown exponentially by 110% over the years from 4.5 billion megabytes to 9.5 billion megabytes but still 3G network capacity utilization is low and has a huge scope for growth.



This quarter Idea stepped up its 3G network expansion with integration of 1,873 new sites. In the last one year company has installed 4,359 new HSPA sites. Idea's 3G EOP in the 10 service areas of Maharashtra, Kerala, Andhra Pradesh, Gujarat, Madhya Pradesh, UP West, Haryana, UP East, HP, and J&K has reached 19,904 by far the highest industry 3G coverage combined for these 10 service areas leading in 3G reach and quality. These 10 service areas represent 44.5% Indian mobile revenue market but for Idea these 10 service areas represents 67.5% of its overall revenue. As and when the 3G Punjab telecom service authorization for commercial use is received 3G revenue coverage for Idea will increase to 72.7%.

**As we conclude** – I would like to add winning in this volatile uncertain and ambiguous world is not just about hardware, it is also about software, a new kind of value lead and purpose driven leadership driving the company towards peak performance. At Idea peak performance leadership is one which is able to simultaneously manage both short term and long term goals of the business to the maximum of its potential. Leadership is not a game won permanently but even if we succeed today there is still another test tomorrow. The new world that we live into demands agility, adaptability, innovation and ideas. We remained committed to succeeding in this changed world. Our beliefs and attributes are best described in short poems by Christopher, it reads as follows. Come to the edge we might fall, come to the edge it's too high, come to the edge and we came, and He pushed and we flew.

Thank you. I now hand over to Akshaya Moondra for more details on the financials.

**Akshaya Moondra:** Thanks very much Himanshu. A very good afternoon to participants from India and a good morning or evening as applicable to overseas participants, who are in different time zones.

The standalone revenue for the quarter registered a growth of 4.6% compared to last quarter mainly driven by 4.1% growth in total voice minutes, 19.4% growth in data volume and 0.5% improvement in Voice Realised Rate. With the strong growth in data volume, data revenue as a percentage of service revenue improved to 9.5% during the quarter. The EBITDA margin of 27.4% for the quarter was lower by 0.2% compared to Q2 FY14 mainly due to increased advertising and business promotion expenses.

The depreciation charge was higher by around Rs. 860 million compared to Q2 FY14, mainly due to accounting of an additional depreciation charge of around Rs. 600 million as the company has revised the useful life of certain fixed assets. The net interest and finance cost was lower by Rs. 362 million compared to Q2 FY14 mainly due to reduction in net debt and lower forex loss during the quarter.

The standalone PAT stands at Rs.3.98 billion for this quarter and company generated cash profit of Rs.15.66 billion; a growth of 7.6% over previous quarter, further strengthening Idea's balance sheet.

The net debt as at the end of this quarter stands at Rs.89.5 billion compared to Rs.92.9 billion for last quarter. The net debt to EBITDA ratio based on the annualized EBITDA for the quarter stands at a healthy level of 1.23.



As for the consolidated financial the contribution from Indus to the net profit was Rs.696 million as compared to Rs.491 million in the previous quarter resulting in consolidated net profit of Rs.4.68 billion.

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

**Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. Our first question is from Sachin Salgaonkar of Goldman Sachs. Please go ahead.

**Sachin Salgaonkar:** I have three questions; first question is on MOU growth. When we look at this quarter's trend and compare it with the historical trend just wanted to understand whether this is industry wide phenomena of slowing minutes and going forward should we expect this to continue despite voice revenue growth remaining strong. Second, I read certain media articles which quoted Mr. Kapania commenting about a data price war, so just wanted to have a little bit more clarity, is this pan India phenomenon? Are we seeing smaller telcos on data getting aggressive or even the larger telcos are doing the same? And lastly, if we look at the industry trends in the last few quarters directionally the tariffs and margins are inching up. Could we see the same trend continuing assuming a new telco comes and acquires 900 or 1800 MHz spectrum in the upcoming auction? Thank you.

**Himanshu Kapania:** Thank you so much Sachin. The third part of the question require us to speculate but let me start with addressing the first part of the question. There is no doubt that the overall minutes growth for the industry is lower in the first nine months in comparison to what was witnessed in the year 2011, 2012 and 2013. The reason, you have to remember that this is completely different paradigm. In earlier paradigm there were a lot of free minutes that were earlier given for customers to join our network as well as the discounts that were available on buying a value voucher. That's why we mentioned in previous conference calls, and we again to repeat what we had said, the better way to be able to measure is what is the total value that a customer is paying out of his pocket and that is measured through ARPU. ARPU continues to steadily improving for Idea. The ARPU has improved by Rs.11 over the last one year and it is improved by Rs.5 on a sequential quarter basis, so both are extremely positive trends.

Having said that, as I mentioned in my opening remarks, while Idea has been growing three times the pace of combined all operators put together during the last one year, end of the day industry has to grow faster. It is surprising that the impact of economic slowdown is also now being felt on mobility business and we are hoping once economic slowdown reverses its trend, we will have the earlier period growth back in industry. Otherwise on an overall basis based on reported revenue for quarter two this year versus quarter two last year, industry has grown by 7.9% while Idea has grown by 18.9%. Further, if you remove, out of that, Idea's growth, industry growth is just at a level of 4.5% to 5%. This is never before phenomena.



Second part where data price is concerned who is leading the data price war? Most of the data price war is being lead by large operators and not at all by small operators. Small operators remain concentrated on the voice side of the business. It is large operators who see rate cut as an opportunity to get supremacy or leadership. They are the ones who had started this battle of higher discounts. It's not about headline tariffs, it's about higher discounts that have been offered to customers and that is why you will notice that Idea has realised rate per MB, that we consistently share, has down by over 11% in the last six months.

As regards the third part is how many new operators were to join and when they are going to lay there network and launch services, what impact will it have on prices? I think it's a very, very premature at this point of time. We not even had an auction. And I would like to remind all of you that the last auction in 2010 there was some 4G spectrum that was purchased but over three years have passed and no commercial launch has taken place. We will wait to see what happens on that but I think it is very premature to able to get into a discussion on this topic.

**Sachin Salgaonkar:** Okay sir this is very clear, one small follow up question about the economic slowdown. Now, is this only urban centric phenomena, rural centric phenomena or we are seeing it across India?

**Himanshu Kapania:** Frankly, I would have said that it is only a urban phenomena but the fact remains that even rural dominated service areas are also witnessing extremely low growth. Even UP, Bihar, Madhya Pradesh etc. all of them are witnessing slower growth than what we would have ideally like to see and this is surprising. This slow growth rate is Inspite of two significant events in the last one year a) improvement of rate and b) new revenue stream in form of mobile data. I think it is a passing phase and I am confident that consumer demand led industries like telecom will lead the way to GDP revival of the economy.

**Moderator:** Thank you. Our next question is from Suresh Mahadevan of UBS. Please go ahead.

**Suresh Mahadevan:** Congratulations on good trends particularly in the voice as well as data. I think I had a couple of quick questions. One is you have grown minutes with improving pricing in the voice side, so that should lead to some operating leverage however we haven't seen that in this quarter and I think this applies to data as well essentially where you are growing volumes. I mean clearly pricing has come up a little bit but we haven't seen the benefits of operating leverage in this quarter so I just wanted to understand whether it is due to more money being spent on marketing or more sites being rolled out what exactly is causing that? That is question number one. The second question is related with data, I think when we talk about data with some of the investors, one of the question which keeps coming up in India is given 3G has reached a level of affordability and 4G ecosystem as you hinted it is not very well developed and in 3G there is only 5 MHz of spectrum so how much data can it really handle? Do you really need more spectrum at some stage? How do you think about these challenges especially if the base case is that 3G is the mass market solution for India's data needs? Thank you very much.



**Himanshu Kapania:** Thank you so much Suresh for your kind words. I completely agree that the trends for both on a combination of minutes and pricing in voice as well as trends on data ARPU are extremely robust and give us a huge amount of confidence to be able to make investments. As I mentioned in my opening remarks there is a need for a balance between short term expectations of shareholders and a long-term belief and vision of the company to be able to take this company to the next level of growth. For this we are making right choices between short term and long term. There is no doubt we could have focused only on operating leverage and could have delivered better profits in the short run but that won't have been the correct thing to do for our shareholders who are looking at mid-term and long-term returns as well as our customers expected superior quality. So, if you notice Idea has expanded its coverage by 46,500 towns and villages in last calendar year and this is nearly 15% expansion of our coverage. There is not only expenses we are making on capex or opex or network, we have to follow up with the similar investment on sales and marketing as we go to larger number of towns and villages. We have to invest in company stores to expand our distribution and this investment are all front loaded. Having said that, inspite of this massive 15% investment, we have more or less kept our revenue per site and EBITDA per site at a steady level and going forward the benefit of operating leverage will invariably reflect on Idea P&L. Idea is building a capacity ahead of time and we are extremely confident the kind of pull brand Idea is getting this capacity will finally be monetized and we get additional operating leverage.

I come back to the second part of your question as far as mobile data concerned, is 3G 5 MHZ enough? Answer to that is as far as 2014 to 2017 requirement is concerned, in our projections that we have made based on current trends, this 5 MHZ is sufficient to take care of all our needs of capacity till 2017 and 2018. By that time, it is our belief, that there would be more 2100 MHZ available and we will take a call at that point of time what would be the best options for us. So at least for the next three to four years sufficient capacity is available. I will hasten to add that capacity constrain is going to happen in few metros but Idea Cellular is not a metro driven operator, we are at circle driven operator, our business is very well expanded and we do business across 1000s of towns and villages. We are seeing even 3G demand coming from the smaller towns and there it is far easier to put more number of sites and handle capacity than a metro or over one to two million population towns. So, if we have to only focus on midsize towns or towns less than 1 million population then we have capacities to be able to last at least till 2020.

**Moderator:** Thank you. Our next question is from GV Giridhar of IIFL. Please go ahead.

**GV Giridhar:** I have few questions. You said 3G will be mainstream for six years and thereafter the market will move to LTE but we are seeing 1800 MHZ auction immediately so is that not going to change the course a little bit considering that we don't really have fixed timeline for 2100 MHZ that's number one. Number two is that in your new circles revenues we didn't see much growth this quarter so what lies behind that? And number three, I believe effective from 15<sup>th</sup> January we have the new TCPR guidelines pertaining to data and SMS renewals for special tariff vouchers needing the consent of subscribers before the renewal is made so is that underway and



have you seen any impact? Will it be a material positive or negative impact? What happens if the subscriber doesn't confirm, does he fall back at the base rate? So those are my questions.

**Himanshu Kapania:** So, let me answer the easier portion which is your third question. On 15<sup>th</sup> January, as far as value vouchers are concerned, in the prepaid domain customer buys value vouchers on a periodic basis. We don't have automatic renewal of any value vouchers that takes place so it is by his choice that he buys value vouchers for SMS and data. It will have no impact on the business as far as the third part of question concerned because we don't have at all auto renewal mechanism both on SMS as on data. Customer has to walk up to a retailer and buy value vouchers on its own.

Coming back to the question number one, which is 3G for next six years and then 4G. This is a view that Idea Cellular holds, it doesn't mean that is the view that all industry operators hold. Our view is driven by what we are seeing around the globe. Our view has been that India is a laggard market both in terms of adoption of technology and per capita income. We have seen that's happened in GSM space, when we launched our services in the period as early as '96 and '97, for a period of six to seven years GSM also struggled. Today it's a natural to assume GSM growth is given but till around 2004 – 2005 mobility voice also used to struggle because that was the period when the growth was happening in the Western Europe and later it was happening in China. We believe there is a lag factor vis-à-vis China of around four to six years. Now, the same situation has been on the 3G. 3G was launched in Western Europe and in US much earlier even though it was auctioned in India in 2010 it's only now in 2014 that some degree of traction that we are noticing. As far as LTE is concerned there are launches primarily in United States, Japan and Korea and in a small degree in some other developed countries. It is just about in the process of infrastructure getting ready in China and our assessment is it will take at least 15 to 18 months for the infrastructure to get ready in China and you have to give them another three to four years for its development. So based on past trends and charting principles that is our assessment and that's what we are transparently sharing with you. End of the day it may not be every operator's assessment and we will closely watch the situation and then take a view what is to be done on various spectrum bands. But we also said that the big advantage as far as LTE is concerned, if it becomes a big and affordability becomes very strong on devices front the choice on LTE are multifold in terms of spectrum bands i.e. 700, 800, 900, 1800, 2100, 2300 all of them can be used on LTE bands. So there is no dearth of choice as in GSM space or in 3G space.

I will take the last question on revenue for new circles. As we had mentioned when we went for promotion discount reduction in most new circles, we found that the traction for wherever our market share was extremely low had fallen quite a bit. We are in the process of correction of this. It is a one quarter impact and while we are not happy with no revenue growth in the new circles during this quarter but there has been a good minutes growth in the quarter. The overall industry growth in these seven circles was also very muted. We are extremely confident that it is a one quarter phenomena and going forward you will see significant growth in the new circles as well.



**GV Giridhar:** So, your RPM growth in your established circles would have been higher number quarter-on-quarter than your blended growth right?

**Himanshu Kapania:** See, I have mentioned, RPM is a big misnomer at this point of time because now RPM has on the numerator including revenues from voice and revenues from data while only voice minutes as denominator. You will have to start seeing RPM from this point of view because denominator happens to be only minutes while data volume and revenue continues to be extremely robust.

**GV Giridhar:** Sorry, I meant voice RPM in your established circles must have been somewhat higher than your blended reported number right.

**Himanshu Kapania:** That has been always being the case.

**Moderator:** Thank you. Our next question is from Reena Verma of DSP Merrill Lynch. Please go ahead.

**Reena Verma:** Just couple of questions. Firstly, with regard to your roll out, can you please help us understand where you stand in terms of percentage coverage now and what is the target coverage in population percentage terms if that works for you. Secondly, in terms of the pace of overall site rollout for established versus new circles, could you please share with us where most of the sites are being deployed is it in established markets or new or is it equally split and finally, on the rollout part your traffic per site seems to have fallen almost 10% from two quarters ago, I am just wondering if this is a structural phenomenon or I should expect a pickup going forward. Those were my questions on the rollout. My next question was on your voice tariffs, your commentary in the press release is very, very silent on the subject of voice tariffs at least as I understood it. If you could please share your outlook on voice tariffs? For almost two quarters now you have been warning us about the completion of your tariff correction exercise, does that mean for the outlook over the next two quarters please? And finally, if there is any update on your QIP plans?

**Himanshu Kapania:** There is no update on QIP plan. As mentioned earlier we have 12-month window and definitely it's not happening before the auction. We will keep you posted if there is any change.

As regards, voice tariff I think by being silent we have been stating in no uncertain terms that we don't see a voice tariff improvement in the next two quarters. We have finished our exercise of promotional minutes reduction and we want minutes to come back and revenue per sites to improve. If you notice the trends are extremely positive, maybe you missed out the most important component that is a very robust subscriber growth which Idea has witnessed in the last calendar year 2013. We have added 18 million subscribers. It's almost we have been able to hold average VLR per site, we have had 15% increase in our network coverage and we have nearly 15% increase in our subscribers (VLR subscribers) during the same calendar year. We have almost same level of VLR growth as you are correctly pointing out is MOU per sub which is fallen over the last one year but it is more than compensated. You are looking at MOU per site and I would urge you to look at



revenue per site and on an average basis we have been able to hold revenue per site in spite of fall of MOU per site and going forward, as I mentioned to Sachin and to Suresh, that there is a huge operating leverage that's available because capacity has been built and the pace at which the VLR subscribers are growing if it continue to grow for next one to two years we will see far higher operating leverage because expenses have been front-loaded and its benefits will see going forward.

As last part of your question what is targeted percentage of coverage, I think we have been upfront stated that we are in the last leg of our GSM expansion about 15 to 18 months of expansion. It's a very tricky for a sub-continent like India to be able to give you specific coverage because we have not been able to find out one number that you can easily look for, but there is a lot of science which is going into our planning. We are identifying large pockets of minutes and revenues where Idea doesn't have coverage and these pockets are what we are currently concentrating all our energies on where Idea coverage is not present. Once we are completely satisfied, we believe that it's a journey of another 15 to 18 months that Idea coverage is present in those large pockets then we will stop the expansion on coverage basis and the only GSM expansion will be to handle the capacity demands as and when it arises. I hope it can answer your question but I can't give you single financial number to make your life easy.

**Reena Verma:** Just may I ask that if you are saying large pockets which were not covered is it like a mix of established new markets or is it mainly in the new markets?

**Himanshu Kapania:** Both. Just to clarify we are not overinvesting in new circles, we had balanced our investments. If you notice we categorize now circle into 3 categories. A) Eight circles which are leadership circles. B) The next seven circles where we are 11.2% current revenue market share. And C) The new circles which are 4.1% of revenue. There is also a lot of gap in the seven circles which we need to cover and even in leadership markets, there are markets where there are pockets where there is good minutes present, where either our coverage is incomplete or our presence is almost negligible which we have to cover.

**Reena Verma:** Thank you for that. May I just quickly ask a follow up question to an earlier one in from others on the 3G versus LTE debate. Do you have feedback from the vendors on whether the 3G ecosystem is at the risk of becoming redundant over the next say few years as LTE takes up more and more traffic?

**Himanshu Kapania:** The only information that is available is the global size of the business. To our understanding GSM now handles anyway between 6 to 7 billion people (subscribers) who currently use the platform of GSM. Almost a year back when we visited large vendors like Ericsson and Nokia they shared with us over a billion users on 3G and I don't have last count but GSMA release mentioned close to 1.3 to 1.5 billion users who are currently on HSPA and it continues to grow very strongly at this point of time. As far as LTE is concerned there are few million users at this point of time so it is very early to be able to say that whatever has been built over ages will be turned down overnight because of a new kid on the block. But we have to carefully watch the situation and



then make it big moves. These are big bets to be made and we are believer in ecosystem, we are believer in global scales of economy because that's where we get our benefits of cost and we are not going to do anything which is isolated in nature, we are going to do something which is in line with global spectrum bands and most popular technologies.

**Moderator:** Thank you. Our next question is from Vinay Jaising of Morgan Stanley. Please go ahead.

**Vinay Jaising:** Firstly, congratulations on the great set of results, the numbers for traffic as well as the data positively surprised us. I have three questions, on the data front you did spend a lot of time earlier talking about the ARMB fall and the volume growth which was satisfactory. But do you see this ARMB fall pursuing in the next couple of quarters or do you see a stagnation of that also on the same thing the volume growth 19%, do you see that continuing in the next couple of quarters that's my first question. And I will club for the same thing on data do you see more number of towers or incrementally your capex which is about 15% of sales now go to 20% level. My second and last question after this is, on the auction you did mentioned again twice on the new technologies come in but assuming you were to even look at only 3G would you look at an all India 3G rollout which means the auction for you would be for the incremental circles and 3G which you aren't present in? That's it from my side.

**Himanshu Kapania:** Thank you so much. You have been very kind on our performance, market doesn't seem to be as kind on the same but we believe that we have very strong and robust model. You are absolutely right that the tariff and the subscriber growth have more than satisfied us in this quarter and over the last one year. As regards this discussion about ARMB and will there be a fall? At this point of time the battle is still on and we expect that there would be some more fall in the next quarter beyond that it is very difficult to predict whether the fall will continue or not, but whether it will be more than compensated by the volume growth the answer is definite yes. You have seen the volume growth of over 100% in the last one year and 20% on quarter-on-quarter basis. We are expecting the CQGR to continue for few more quarters definitely. That is the reason as I had mentioned in my opening remark we stepped our investment on not only improving 3G coverage but also we are following a strategy of wherever a GSM cell site has over two gigabytes of data per day, it has been converted into 3G. We are seeing a huge throughput for once there is sufficient number of customers who are using GSM is getting into 3G so the explosion on volume is definitely going to go for some more time and that we are clearly seeing the same.

Now, as regards specifically on auction, what would be our 3G strategy, you are asking would we follow an approach of going pan India and Suresh was asking that would you buy a second slot beyond 5 MHz. For us, as you are aware, our business is not so secular. We remained focused on our established markets. We will make sure that all efforts are made to cover our established market whatever is necessary. After that if we have sufficient funds available we will look at expansion, but expansion would be into markets where Idea's competitive position is steadily improving and we are generating sufficient free cash flows for us to be able to



afford, to be able to add more technologies and add more investments. We believe that time is on our hand there is no reason to panic and we will play this game with patience and we are not going to be in a rush to be able to spoil our balance sheet.

You asked will our capex to the sales ratio which is at 14% to 15% will it change? Excluding auction, we don't expect it to change even if there is additional spectrum that we buy, we don't expect to change given the pace at which we are growing (revenue) at 17% to 20% on a year-on-year basis. We have told 14% - 15% (Capex to Sales) is sufficient capex to manage. You are noticing even now within the 3,500 crores of expenditure we are putting up a reasonably large number of cell site both in GSM and 3G, so we don't see us to be able to increase our percentage. But going forward market should start seeing capex-to-sales ratio including the amortization of spectrum. Our recommendation is to all of you is that that's the best way (Including spectrum amortisation) to look at capex to sales ratio, because market is currently so confused about this one-off events that it seems to discount far too much. We will start looking at capex that we have seen in the other parts of the world including the amortization over the 20-year-period of the auction money that you pay for spectrum then it will be far easier for everybody and we will remain focused on that number.

**Vinay Jaising:** If I may chip in just one more question. It's a sub part of what you answered earlier as well. The voice ARPM growth which had happened for the last couple of quarters, do you think a large part of that is behind us or do we still have promotional minutes which will be removed hence the voice ARPMS would be increased in the future.

**Himanshu Kapania:** Voice ARPM in the long run will increase. The reason why our currently hold opinion is that we want to see cannibalization of voice on towards huge data growth that is taking place and we don't want to be caught unaware of that situation. We are very careful at this point of time to see any impact on that will happen. In the long run ARPM will improve not only by voice RPM growth but also by ARMB growth. So Voice Realised Rate will improve in the long run, but in the short run it's going to be step function, it's not going to be a line function which the market have been seeing. We have acted on it we want to improve revenue per sites once we achieve that then we will do the next steps on this.

**Moderator:** Thank you. Our next question is from Miten Lathia of HDFC Mutual Fund. Please go ahead.

**Miten Lathia:** In your opening remarks you mentioned that the focus of capex going forward will be more on intra-city fiber, while you reiterated that your capex-to-sales won't change I was wondering if that would meaningfully alter the absolute capex that we would do excluding the spectrum payouts?

**Himanshu Kapania:** No, it will not. I was just trying to do an allocation principle because we are also coming to an end of GSM investment cycle.



**Miten Lathia:** Okay, technically if one were to do a pan India 1800 LTE network versus pan India 1800 GSM network, do you think it will be an exact overlay or would there be significantly different number of sites.

**Himanshu Kapania:** I don't know what objective is? It depends on what we are attempting to achieve. As far as a typical 1800 GSM site is concerned has distant to cover which depends on location. If it's metro the distance could be anyway between 800 meters to a kilometer, if it's a large town it could be between 1-2 kilometers and it's a small town to rural areas it will be doing 2-2.5 kilometers. Now, anything which is in more than 300 to 400 meters away with an LTE site would not get the speed and capacity that we are talking. But for a cell site of 1 kilometer radius its speed will be far lower than what a 3G speed will be there. I won't be able to give a comment unless I know what is objectives of the company and what is they are trying to do and what type of consumers they are just trying to tap.

**Miten Lathia:** Sure sir, I was thinking more about our aggressive 2G GSM investments. GSM is a technology, have we taken a view that it will be around for another 15 years and hence still aggressive to investing or do you think much of what we are doing can be reuse in any case?

**Himanshu Kapania:** No, first and foremost I have stated it and we continue to believe in the voice market. India has only 60% penetration on VLR and if you have to go by human penetration it will be anyway between 45% to 50%. There are more than 50% Indians who currently don't own a mobile service and if I were to remove children below 10 years and aged people about 65 – 70 years there is at least 30% - 35% in the right demographics who would still don't hold a mobile services and which will enters the category. There is none of them is going to enter the category in to digital space or internet world until they have experienced and use the voice category. GSM in low income markets like India is not going away in any big hurry so that is a very clear conviction as a company that we have. There is nothing to worry about. It just because you see what happens in Japan and Korea. There is no correlation of the income level in those markets to income levels of India and the size of the markets in terms of the landmass and population distribution which is there, because they are basically metro lead markets and we are completely rural lead markets so none of it that you can see of Japan and Korea is going to get replicated in India. We are very strong believer that GSM will continue over the next 10 to 15 years.

**Moderator:** Thank you. Our next question is from Kunal Vora of BNP Paribas. Please go ahead.

**Kunal Vora:** First question is that churn level has increased a bit and also like overall spending on SG&A, is there any increase in competitive intensity which you are seeing that's one. Second is, the non-VAS data revenue include SMS has been on a decline, how do you see that going forward? And lastly I wanted to hear your thoughts on how much is Idea willing to spend on spectrum, you will have like multiple options you have got spectrum renewals coming up, you might want to protect your 1800 turf like with a new potentially new LTE operator you could also wait for 800 and 700 so what are your thoughts about spectrum investment.



**Himanshu Kapania:** I am asking Akshaya to answer the first two questions. I will answer the last question.

**Akshaya Moondra:** Your first question is relating to churn and the second is relating to non-data VAS revenue. On the non-data VAS revenue we have been seeing decline and in the last quarter we had a new regulation which had to do with double confirmation. Thereafter we have also put in some internal controls in place somewhere in this quarter to make the process fully robust. So currently what we see is while there is a consumer behavior and we will have to see how it transpires, but we believe that from cleaning up perspective we have done whatever we needed to do and this should represent the bottom of non-data VAS. Going forward we should see some improvement. Of course, there is some extent of cannibalization which happens from VAS to data revenue. The particular area where this concern is most expressed is P2P SMS. However, we still continue to see a growth in SMS revenue. So while that is the most common area of cannibalization but in absolute terms we are still saying that the SMS revenue on a P2P basis continues to grow.

On your question of SG&A being higher, actually it is mostly representative of the advertisement and promotion expenses and this is something as we have stated does not necessarily follow a particular quarterly trend. We plan for it depending on where is the seasonality, what is the right time to spend so it is just a reflection of that. I don't think it is reflection of the competition level being very different from what we have witnessed in the recent past.

**Himanshu Kapania:** As regards auction I think we are very close to an auction and it will not be fair for us to do share our strategy with you, so you will have to excuse us for that.

**Moderator:** Thank you. Our next question is from Sanjay Chawla of JM Financials. Please go ahead.

**Sanjay Chawla:** I wanted to know about the 3G ICR arrangements where we have seen some scaling back over the last couple of quarters. Was there any further impact in the third quarter or in this quarter on the bottom line? And secondly, Himanshu if you could share your thoughts on 3G on 900 MHz versus let's say 3G on 2100 MHz in a metro setting and a non-metro setting. How do you look at those two options. And thirdly, I was wondering if you could share data revenues what would be the percentage of content or App related revenues?

**Himanshu Kapania:** No, there is no additional information as far as 3G ICR is concerned, there is nothing incremental to add. Its impact was more or less seen in the quarter two, but I will ask Akshaya if he is going to add something. And let me quickly cover the other two questions.

3G 900 versus 2100 is a good theoretical debate but as there is no 900 available because this is going to be used for extension or renewals. I think this debate is worthless in our mind and we don't want to get into this debate because we don't believe that there is an opportunity available unless the government found extra 900 for this debate to be initiated.



**Sanjay Chawla:** Just looking at a very narrow situation, let's say in a metro where there could be an opportunity to continue 2G GSM on 1800 and then repurpose the 900 for 3G, is that a scenario which is feasible?

**Himanshu Kapania:** I do not see that to happen in 2014. It may happen in 2020 or 2021 but we are discussing 2014 and you are discussing us not as an operator who is extending his licenses or renewing its licenses but as an operator who become a predator in an attempt to be able to buy if somebody sells out. I don't think there is an opportunity that exists. It is all in the realm of imaginations of markets so from our point of view that opportunity doesn't exist, that is why it is a very theoretical debate. It would be who were to extend his license and continue to run his GSM in the long run does it convert into 3G or maybe you convert into 4G the time will tell. I think it's very speculative for us to have a discussion on that topic.

I move to a third part of the question which is data revenue is primarily being led by over-the-top applications we have given you information on Facebook users, YouTube users, we have given you on WhatsApp application and similarly Google applications being among largest but all these are public applications. The private applications are not much to really write about other than Blackberry and their messenger applications.. It would be very difficult to go and give you every OTT wise breakup on the overall revenue. We are providing wireless broadband services and there are various content providers which are providing applications for consumers to enjoy.

**Sanjay Chawla:** Himanshu I was asking more in terms of revenues from app downloads, not necessarily the usage of those OTT Apps?

**Himanshu Kapania:** Apps download revenues we don't get. We get our revenues from what we sell i.e. mobile data. Apps revenue is almost insignificant number. Yes, I know what you are referring to, Idea App Mall but that's a very small component of our overall revenue. Akshaya, you want to add something on 3G ICR.

**Akshaya Moondra:** On the 3G ICR Sanjay just to clarify that right now the restriction is that we cannot add any new subscribers but of course there is a normal process of churn which keeps on happening so that is the only impact that the normal churn keeps on happening on the existing subscriber base and we are not able to add any new subscribers in our seeker circles.

**Sanjay Chawla:** But are you getting less and less revenues on that front?

**Himanshu Kapania:** Naturally.

**Akshaya Moondra:** Yes, naturally as the number of subscribers will go down the revenue will decline.

**Sanjay Chawla:** No, I mean more in terms of revenues from ICR seekers.



**Himanshu Kapania:** Yes correct, the subscriber goes down so does our revenue goes down.

**Moderator:** Thank you. Our next question is from Rajeev Sharma of HSBC please go ahead.

**Rajeev Sharma:** I have just two questions. First, is on this whole 3G versus 4G debate. Himanshu my question is I maybe a little wrong there but only 60% of the 1800 band is contiguous now, I absolutely take your points on the ecosystem but do you see 60% of this band being contiguous it is sort of a scarce commodity and agreed that LTE can take 5 – 6 years but losing on to this spectrum can be a competitive disadvantage or do you consider this spectrum valuable? And second question is, you being doing very good on voice but could fiberization of the existing sites do you think that will increase and where it stands now and do you think you will be able to manage adequate fiberization of the sites, the 3G sites in particular so that you can capture data growth in a robust manner that's it from my side.

**Himanshu Kapania:** Let me answer the second part of the question, will Idea be able to manage fiberization, answer definite yes. We have been for the consistently over the last few years sharing the growth of Idea network fiberation and from negligible level we have moved to 80,000 kilometers, from a near zero level we have moved to 2,500 PoPs. Now, if we have 19,000 3G sites and it will continue to grow building fiber PoPs. Do we need 1 PoP per site, answer is definitely no. There was an earlier ratio of 8% which we have raised to 12% and we are likely to raise to 15% so at best between 8% and 15% of total 3G sites will have PoPs to handle speeds upto 100 mbps. Beyond that we don't need fiberization for towers and we are gearing ourselves for the same. In my opening remarks I did allude to the fact that on the allocation of an absolute capex while the capex-to-sales ratio will be steady, the proportion of expenditure on fiber especially on PoPs is what we are increasing and already lot of efforts are going towards the same.

Now, as far as your specific question on 1800 MHz spectrum available, answer is definitely it is available spectrum. Is contiguous available spectrum - Yes 60%. But is that the only spectrum that's available that is where the whole point getting missed out. There is 700 MHz that is currently available while the government has chunk of 45 MHz for each of 22 service areas and at least we see 30 MHz will be available. There is also 1800 MHz contiguous spectrum which is coming in from defense, at least two blocks and there is also 2100 MHz at least two if not three blocks of spectrum that is coming in and there is 800 MHz block. While 1800 MHz is globally popular 800 MHz is equally popular and at least if I recall correctly between 12 to 16 circles across India has 5 MHz of contiguous blocks. So, there are sufficient choices so frenzy is not necessary. If you get maybe that's fine, if you don't get it's not the end of the world. It is not that this is the last time and it (auction) will never again happen and the doors are closed, that is not a situation.

**Moderator:** Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Kapania for closing comments.



*Idea Cellular*  
*January 28, 2014*

**Himanshu Kapania:** Thank you so much. I know there is a lot of interest in analyst, media, and the shareholders on what is going to happen in the auction. There are multiple debates about technologies & spectrum bands. All we can say that Idea Cellular is a very cautious company and it takes decision which are long term in nature rather than short term in nature. Idea Cellular has strengthened its balance sheet if you recall, we are a company about few years back our net debt EBITDA was closer 3 and we had brought down to 1.23. We are far more robust company and in the current situation with a huge consumer pool, Idea Cellular is extremely confident to be able to manage any situation that arises, so there is nothing for the shareholders to really worry about. We remain extremely bullish on India telecom and will continue to be able to grow this business. Thank you so much for your patience shown and to listen to our presentation.

**Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Idea Cellular that concludes this conference. Thank you for joining us and you may now disconnect your lines.