



“Idea Cellular Earnings Conference Call”

January 28, 2015



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

We have with us today, Mr. Himanshu Kapania – Managing Director of Idea Cellular and Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular, along with other key members of the senior management on this call.

I want to thank management on behalf of all the participants for taking valuable time to be with us. Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time.

I must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. With this, I hand the conference call 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 earnings call. Yesterday, our Board of Directors adopted the audited results for the third quarter of the financial year 2014-15. The detailed Press Release, Quarterly Report and Company Results have been uploaded on our website and I assume you had a chance to go through the same.

Idea is pleased to join a select group of 'Global Telecom Operators with over 150 million quality subscribers' offering the company a platform to upgrade nearly 1 out of 6, 825 million Indian mobile users with Idea's mobile voice wireless broadband services, mobile banking services and other emerging telecom services. But in spite of adding highest industry subscriber net adds in calendar year 2014 of 22.3 million, the company's customers increased their mobile spends on Idea network by Rs. 10 to ARPU levels of Rs. 179. Team Idea future vision remains a balanced focus on new subscriber addition and improving ARPU of each of its customers. With India mobile penetration still only at 68.7%, industry has an opportunity to attract another 300-400 million nonusers to the mobile category. Further with only 22% of Idea customers assessing internet from their mobile, the company believes the ARPU improvement momentum of its growing base will sustain.

Over the previous five calendar years from 2010 to 2014, Idea has doubled its Revenue from Rs.145 billion to Rs.302 billion @ CAGR growth of 19.8%. In the same five calendar year period, the standalone EBITDA for the company has nearly increased 3 times from Rs.32 billion in Calendar Year 2010 to Rs.



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90 billion in Calendar Year 2014 @ CAGR growth of 29.2% thereby increasing EBITDA margin by 7.7% from 22% in CY2010 to 29.7% over CY2014. In the same period, the Profit After Tax - PAT has grown by 3.5 times @ CAGR growth of 36.6% from Rs. 8.6 billion in CY 2010 to Rs.30 billion in CY 2014.

We believe Idea has maintained its status of fastest growing Indian mobile operator for over 5 years on the strength of its investments in network, IT, sales and distribution, servicing, employees and brand. Idea's gross block has nearly doubled from Rs. 335 billion in calendar year 2010 to Rs. 599 billion in calendar year 2014 with only small increase in net debt from earlier levels of Rs. 93 billion as on 1st January 2011 to Rs. 110 plus billion as on 31st December 2014. The company has been able to finance Rs. 250 billion of investments in network and additional 157.7 MHz spectrum purchase through auctions primarily from internal accruals other than incremental financing from QIP and rights issue of Rs. 37.5 billion in June and July 2014. Today, Idea with net debt to annualized EBITDA at 1.12 remains at the lowest leverage level amongst highly indebted and financially stressed Indian mobile operators.

Idea's success in calendar year 2014 is the outcome of its relentless pursuit of voice business with highest net subscriber addition and growth in existing user 'Minutes of Use', while improving the company presence in mobile data market across 2G and 3G networks. In CY2014 out of Rs. 46 billion incremental revenue growth over calendar year 2013 of its overall revenue of Rs. 302 billion, voice still contributed to 63% that is Rs. 29 billion incremental growth and mobile data increased by Rs. 18 billion contribution at 38% while non-data VAS and other services declined in their contribution to annual growth. Contrary to analysts' projections, the volume of minutes registered a 14.3% year-on-year growth against 11.9% minute's growth in calendar year 2013.

At Idea, it is ingrained within us that India is a land of opportunity, even though this journey is unpredictable and future cannot be extrapolated from the past. Your company remains entrepreneurial at heart, nimble and agile on its feet, razor sharp in execution and collaborative in approach. With growing size, we keep reemphasizing on thinking big, acting with honesty and transparency. But all through many changes over the years, three fundamental cultural tenets will remain same – Customer Centricity, Employee Orientation and Purpose driven focused execution.

With the above philosophy, Idea gears itself to enter into the 5th Global Auction to be conducted by DoT for a quantum of 177.8 MHz of In Use 900 MHz spectrum, 99.2 MHz of 1800 MHz spectrum, 103.8 MHz of 800 MHz spectrum block and based on media reports, 85 MHz of 2100 MHz spectrum. While you would appreciate Idea would not be able to discuss its specific strategy for the auction, I



would like you to remember the following key points before drawing any far reaching conclusion on the forthcoming auction.

1) At 465.8 MHz including 85 MHz of 2100 spectrum, this fifth DoT auction is the largest quantum of spectrum auction offered by Indian government and the proposed reserve price will account for an outlay by the private sector of over Rs. 802 billion. There has never been ever such kind of financial outlay committed by the private sector telecom operators in the previous four auctions and the last spectrum auction was just held a year back. The industry is highly leveraged with overall debt in excess of Rs. 2,700 billion for all operators.

Recently, the government has announced an agreement on separation of defense band and commercial use band in the 1700 to 2000 block. This is landmark announcement which will not only release additional 105 x 3 that is 315 MHz of spectrum in 2100 MHz band but will release additional 4G ready 1800 MHz spectrum. Out of the full 75 MHz band of 1800 MHz block, now 55 MHz in the defined 1805 to 1860 MHz downlink band is reserved exclusively for commercial use by the mobile operator's thereby harmonizing 1800 MHz spectrum for clean usage.

Besides future availability of commercial spectrum in 1800 and 2100 MHz band, government has also announced availability of 700 MHz with only 10 MHz block quantum on Pan India basis reserved for defense. The government has also additional commercial block in 2300 and 2500 MHz for promoting digital India program.

2) TRAI recommendations on spectrum trading and sharing are likely to be approved by the government after the auction. Similarly Department of Telecommunication announcements of review of existing 'Merger and Acquisition' policy should help consolidate the highly fragmented mobile industry.

3) Idea since 2010 in the last three spectrum auctions has spent over Rs. 180 billion and acquired 157.7 MHz spectrum in 900, 1800 and 2100 MHz category. The company has reasonable track record at auctions displaying right balance between its business growth needs and financial prudence.

Based on the above, we believe there is no need for auction frenzy. Our assessment suggests there is sufficient spectrum for 6 plus operators to meet their mobile data aspiration over next 2-3 years. Key Indian mobile operators would be able to acquire relevant spectrum bands to meet all future digital data requirement from 3G and later for 4G platform. We hope financially strong Indian telecom operators will balance their investments between spectrum purchase and long-term capex needs to meet growing rural voice and wireless broadband and digital services demand of the country.



Our summary on auction: It is critical to separate the signal from the noise. Idea with anti-fragile properties, robust business model, resilient culture, and razor sharp execution is fully capable to manage the paradoxical storms of headwinds and tailwinds.

Separately besides getting ready for auction, Idea is pursuing its legal recourse. Idea has filed an appeal at the Supreme Court for its 9 circles license extension after 20 years of license use and weakness in the present auction design as there is no fallback auction of 900 MHz with 1800 MHz spectrum to ensure continuity of existing services. The Supreme Court appeal is listed for hearing on 11th February 2015.

Moving on to current quarter business performance update:

As is customary, we start with an update of Idea's competitive ranking. Based on latest TRAI gross revenue release for the period 'July to September 2014', Idea has the highest 'Revenue Market Share' (RMS) improvement from Q2 FY14 to Q2 FY15 by 1.4% to national RMS of 17.2%. The incremental RMS for Q2 FY15 v/s. FY14 was at 30.3%, reassuring the 7-year Idea growth momentum will sustain.

With increased consumer adoption of Mobile Data and sustained growth in Mobile Voice portfolio, the telecom industry after a gap of three years has rebound back to a double digit growth rate @ 10.6% in Q2 FY15 v/s. Q2 FY14. However, Indian Mobile telecom industry contribution to nominal GDP is still low at 1.44% against developed economies telecom sector contribution of 3–4% of their GDP. As spectrum cost, the key raw material for the sector, shifts from administered regime to market determined auction price – 9 to 10 times the earlier allocation, market fragmented structure is expected to consolidate. We anticipate spectrum trading, harmonization and fresh M&A guidelines should pave the way in Calendar Years 2015 and 2016, to exits /mergers of low market share financially stressed Telecom Operators. Further, as telecom spends as a % of the overall consumer wallet increases, we estimate Indian Mobility contribution to GDP to rise nearer to international benchmarks and Mobile industry growth rate may continue to accelerate faster in next 5 years.

The performance of Idea on five standard parameters for the period October to December 2014 is as follows:

1. **Gross Revenue:** The 21.2% YoY gross revenue growth to Rs. 80,148 million in this quarter is driven by highest industry VLR addition, sharper growth in Voice Minutes, explosion in Mobile Data Volumes, while the Average Realised Rate per minute remained flat.



During the quarter, Idea carried 170.7 billion Minutes on its network, registering 26 billion Minutes growth, an unprecedented 18.1% YoY Minutes expansion in comparison to 9% between Q3 FY13 to Q3 FY14. Similarly, Mobile Data Volume exploded to 46.1 billion megabytes, registering 25 billion megabytes growth @ 121%, thus both lines of businesses, Voice & Data, are delivering strong performance.

Due to competitive pressures and increased contribution from Idea's emerging and new service geographies, the Voice realisation remained under pressure and has fallen sequentially by 0.6 paise to 35.6 paise per minute in Q3 FY15. However, 18.4% quarterly jump in Mobile Data revenue, contributing 15.7% to its Service revenue, helped Idea improve its overall Average Realisation per Minute – ARPM to 46.3 paise in Q3 FY15 v/s. 45.9 paise per minute in Q2 FY15.

The 'Value Added Services' (VAS) contribution has improved sharply to 23.1% of Service Revenue, an unprecedented gain of 7% contribution to Service Revenue in last one year.

2. **Cash Profit & EBITDA:** Idea's consistent, competitive, profitable and sustainable revenue growth has helped company reach standalone EBITDA margin of 31%. The key drivers of Idea's standalone EBITDA at Rs.24,860 million racing at 37.3% annual growth rate were classical factors including robust new subscriber additions, consistent voice minutes growth, explosion of Mobile Data Volume, Scale benefits and better cost management. 48% of incremental annual gross revenue of Rs.14,043 million has translated to incremental EBITDA growth of Rs. 6,758 million. Idea during last one year has improved its EBITDA margin by 3.6% to 31% from 27.4% in Q3 FY14, on the back of 4.2% EBITDA margin improvement between Q3 FY13 at 23.1% to Q3 FY14.

On consolidated basis, including Indus 16% contribution, Idea EBITDA for this quarter is Rs.27,527 million at 34.3% margin an improvement of 3.3% YoY margin.

In the 15 Established Service Areas, Idea blended RMS improved to 20.4% in Q2 FY15 against National RMS of 17.2%. The standalone EBITDA for these 15 Circles is at all-time high of 35.4%. The 7 New Service Areas revenue growth is picking up with sequential quarterly growth of 8.7% and annual growth at 38.5%. But losses from these 7 New Circles, where company won back spectrum in November 2012, remains high at Rs.1,881 million, as Idea increases its investment in these New Circles. The key to reduction in EBITDA losses remain improving competitive standing from Q2 FY15 levels of 4.8% RMS. The blended 7 New geographies incremental RMS of 14.1% between Q2 FY15 & Q2 FY14 gives confidence that the company is on the right path.

The Q3 FY15 strong Cash Profit of Rs.20,286 million, YoY growth at 29.5% reminds us Idea generates over Rs.81 billion Cash Profit per year growing at minimum CAGR of 25%, providing the company



sufficient confidence and headroom to participate in forthcoming 900 MHz license renewal spectrum auction.

Even though the present quarterly financials do not reflect any utilization of 65.2 MHz of 900 & 1,800 MHz newly acquired Spectrum in February 2014 Auction for over Rs. 102 billion, Idea Financial Return Ratios are steadily increasing. All key KPIs have improved over the year, despite this quarter Idea's review and decision on prudent basis to reduce the useful life of its Key Core Network Equipment from present 10 to 9 years. The Q3 FY15 ROI at 12.4%, ROE at 12.5% against 11.9% in FY14, ROCE at 8.7% v/s. 7.1% in FY14, suggest all return ratios are steadily improving and we understand among the highest in the industry.

3. **Active Subscribers:** Steady growth of quality customers is key to Idea realizing its long term growth vision. In the Calendar Year 2014, Idea added 22.2 million subscribers, highest addition in the industry. In spite of huge 17% incremental new customer addition in year 2014 to its EOP VLR Base as of 31st December 2014 of 152 million subscribers, the customers mobile spends on Idea Network increased by Rs.10 to ARPU levels of Rs.179, a clear testimony of growing power of brand Idea.

Another key parameter, subscriber churn rate has also declined in Q3 FY15 by 1.2% to 4.2% from earlier 5.6% in Q3 FY14.

The overall industry net subscriber growth, after falling in CY2013, between December 2012 to November 2013 to 46.3 million has risen in CY2014 sharply to 70.9 million during December 2013 to November 2014. Idea leads the industry Net Subscriber growth in same period and has raced to VLR EOP Subscriber Market Share of 18.1%, an improvement of 1.2% in last one year. Further, during the last 2 years, Idea has garnered the highest incremental VLR customer share with 30.7% incremental subscriber share in CY2014.

To repeat, in all competitive benchmark parameters including incremental VLR share, incremental RMS and incremental Minutes share, Idea during last one year is garnering 30% market share, clear example of improved Idea standing in GSM Voice Market.

4. **Minutes of Use:** Voice Minutes grew on sequential quarterly basis by 5.1% from 162.5 billion to 170.7 billion Minutes, an improvement of 8.2 billion minutes, corroborating Idea repeated pronouncement there is sufficient growth opportunity in Mobile Voice Market.

In spite of 17% Net Subscriber Addition, the MOU per Subscriber has increased by 13 Minutes over last one year from 376 Minutes per User in Q3 FY14 to 388 Minutes per User this quarter. While Voice



realized rate is under competitive pressure, it has been partially offset by elasticity of demand and higher usage per subscriber.

On Network GSM investment, in the Calendar Year 2014, Idea integrated 8,331 additional 2G sites expanding the footprint to 109,931 GSM BTS covering 7,422 census towns and 3,54,000 rural villages.

The company is also making steady progress in Long Distance and Intra City Fibre expansion. Idea Optical Fibre Cable has now expanded to over 90,000 km, a growth of 10,000+ km in Calendar Year 2014. The overall OFC 'Points of Presence' (PoPs) has expanded to 4,700 Nos. with special focus now on Top 200 towns identified to meet the burgeoning demand from Wireless Broadband Services across 3G & 4G technology.

5. **Mobile Number Portability:** Since its nationwide launch in January 2011, nearly 114 million customers have availed MNP facility offered by Indian Mobile Industry. The trends emerging from MNP clearly distinguish strong operators in terms of consumer preference for better quality of services and brand value. In the see-saw battle for supremacy in MNP space, Idea has maintained leadership position for over 3.5 years. As of 31st December 2014, Idea leads and has a net MNP gain of 11.9 million customers from other existing telecom operators, with 'one out of every four' existing mobile customers, who choose to port out from their existing operator prefer to shift and stay with world class Idea services.

Moving onto wireless data business:

In line with the emerging Digital Services connectivity demand, Mobile Data Volume exploded to 46.1 billion megabyte, sequential quarterly growth of 16.9% at 6.6 billion Megabyte. Consequently, the Mobile Data revenue has sequentially grown by 18.4% to Rs. 12.4 billion per quarter.

The key drivers for sequential growth of Mobile Data business on 2G & 3G platform is classical including – new mobile data subscriber addition, increased Mobile Data Usage per subscriber and steady Mobile Data realized rate.

The overall Mobile Data User on Idea 2G & 3G platform has risen to 34.2 million an increase of 3.2 million users on sequential quarterly basis and 8.6 million in Calendar Year 2014. But, there is sufficient room for subscriber growth as only 22.7% of Idea strong 150+ million consumer base currently access internet from their mobile. As subscribers upgrade their handsets and need for Internet Services is felt across geographies, including smaller town and rural landscapes, as well as



consumers across all social economic classes and age brackets beyond youth experience the exciting new world of internet, the Net Data Users will continue to rise. It is estimated Indian Mobile Internet Users will expand from current 200 million to 500 million in the next 3 to 5 years as consumers make Internet part of their daily life.

The blended usage for subscriber on 2G & 3G platform has been steadily rising. This quarter Mobile Data Usage has risen to 470 Megabytes per User. On QoQ basis the Mobile Data Usage per Subscriber has increased by 23 Megabytes per User from 447 in Q2 FY15. In comparison on YoY basis the per subscriber Data Usage has risen sharply by 161 Megabytes from earlier 309 Megabytes per User in Q3 FY14.

After a steep fall in the 'Mobile Data Realized Rate' between Q3 FY14 to Q4 FY14, the Mobile blended 2G + 3G Rates has steadied. This quarter Idea held on its Data rates at 26.9 paise ARMB in comparison to 26.5 paise per megabyte in Q2 FY15. While, both 2G & 3G ARMB is on a downward slide, the blended Data rate held on due to increased proportion of higher realised rate 3G traffic ratio in the overall usage. The 2G + 3G blended Mobile Data ARPU is now healthy at Rs.126 per Data User an improvement of Rs.35 over the Calendar Year 2014.

The 'Value Added Services' (VAS) contribution has improved sharply this quarter to 23.1% of Service Revenue, an unprecedented gain of 7% in last one year. The key driver for Non Voice VAS Services growth is Mobile Data Revenue, now contributing 15.7% to Service Revenue. The Non Data VAS Services contribution has been steady at 7.4% of Service Revenue, an improvement of 0.8% over the year. But, Mobile Data contribution has risen by 6.2% of Service Revenue in Calendar Year 2014 from 9.5% in Q3 FY14, boosting 'Non Voice Product Share' in the overall Revenue portfolio.

Moving on to 3G business: Idea added 2.8 million new 3G Voice & Data users in the last quarter pushing 3G EOP to 16.1 million levels. In the Calendar Year 2014, 13.7 million of Idea subscriber base have upgraded their devices to latest 3G devices mostly new smart phones. As on 31st December 2014, 19.2% of the Idea strong 150 million + EOP i.e. 28.9 million customers own 3G devices. But only 12.9 million @ 45% of the 3G device owners access Mobile Internet on Idea's 3G Network. The company is making every effort to convert the 3G device owners to use Mobile Internet Data Services on Idea's extensive 3G Network. Efforts include expanding 3G Network footprint, improving indoor coverage, education of customers on various application of internet and intranet and special trial and promotional offers are being intensified.



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Once the 3G device owners start using 3G Platform of Idea, they deliver healthy Usage of 705 Megabytes per month and their Data ARPU is robust at Rs.196. In Calendar Year 2014, the overall 3G Data Volume has grown by whopping 2.6 times to 25 billion Megabytes. The 3G Volume growth is faster, now 54% of the Mobile Data traffic is on 3G platforms, an improvement from earlier contribution to overall traffic of 45% in Q3 FY14.

Idea today operates its own 3G Services in 11 Service Areas. In CY 2014, the company has expanded its 3G footprint with incremental investment of 7,840 3G sites, taking the overall 3G Node B count to 27,744. In February 2014, Idea won 3G spectrum for Delhi on 900 MHz. The company has received the spectrum from DoT on 16th January 2015 for commercial use. Idea is gearing itself to launch its 3G Services on 900 MHz in Delhi Metro during the first half of this calendar year.

To conclude, as mobility market services expand, Indian Telecom business offers exciting growth opportunities in Mobile broadband and rural voice telephony. Brand Idea with growing consumer affinity, strong cash flows, expanding 2G & 3G Network footprint and competitive spectrum profile including 4G spectrum, reaffirms its ability to overcome current short term uncertainties, emerge stronger and consolidate its market position to tap existing and emerging telecom services. In this volatile, uncertain and ambiguous world it is not about hardware. It is also about software - value led and purpose driven leadership driving company to Peak Performance. We at Idea are preparing to live in new world demanding agility, adaptability and innovation. Our leadership team has geared our employees and partners to Peak Perform levels simultaneously managing short term challenges and driving long term goals of the business to maximize Idea's potential at the market place.

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

During the quarter which is also the festive season, the voice traffic saw a strong increase of 8.3 billion minutes registering a growth of 5.1%, while the increasing adoption of data services pushed the data growth to 16.9% compared to last quarter. The strong growth in both voice and data volumes resulted in a quarter-on-quarter standalone revenue growth of 5.9%. With this robust growth in revenue, the standalone EBITDA margin for the quarter improved by 1.4% compared to last quarter and the EBITDA of Rs. 24.86 billion for the quarter registered a quarter-on-quarter growth of 11%.



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The depreciation charge for quarter was higher by Rs. 2.62 billion as the company has reviewed and reduced the useful life of core network equipment from 10 to 9 years. The impact of this change will be around Rs. 1.9 billion for the next quarter and a further reduced amount for FY16.

The net interest cost for the company continues to decline as the operational cash flows contribute to reduction in debt. As in the last 2 quarters, the interest of Rs. 1.32 billion on deferred payment obligation related to 3G and LTE spectrum is capitalized for the quarter. During the quarter, the exchange loss of Rs. 814 million on long-term foreign currency loans has been capitalized. As a result, the debt and gross block amounts are higher by Rs. 814 million each.

The net debt stands at Rs. 110.9 billion and the net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at 1.12. Standalone net profit for the quarter stands at Rs. 6.78 billion after absorbing the impact on change in life of assets at PAT level of Rs. 1.72 billion. Contribution from Indus stands at Rs. 887 million in this quarter resulting in a consolidated net profit of Rs. 7.67 billion.

The cash profit for the quarter is Rs. 20.3 billion compared to Rs. 17.1 billion, excluding dividend from Indus in the last quarter. The capex for the quarter was Rs. 9.5 billion without including the capitalized exchange loss and interest. Total capex during the first 9 months stands at Rs. 23.5 billion.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Kunal Vora of PNP Baribas. Please go ahead.

Kunal Vora: Thanks for the opportunity and congrats for good results. First question is on the spectrum auction. Can you share your thoughts on your spectrum requirements leaving aside the 900 MHz renewal for which you will be compelled, what other spectrum would you require? It looks like while there will be ample spectrum available but it is increasingly becoming unaffordable for the operators, your thoughts on that? This is question number one. Second is, on the net neutrality debate, like Airtel recently was looking to charge for VoIP, where do you stand on that? And last question on LTE, it looks like earlier you were looking to launch services after 2016 but in the quarterly report which I saw yesterday, it looks like you are looking to launch services in 2016, any stand in the position for LTE? Thank you.



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Himanshu Kapania: Thank you Kunal. Let me answer your questions in the order that you have asked them. On spectrum auction, as I mentioned in my opening remark, we will not be in a position to share our specific strategy for the spectrum auction. What we can confirm at this point of time that Idea Cellular will participate in the spectrum auction for renewal of its 900 MHz spectrum.

The second part of the question is net neutrality, I think there are a lot of media reports on net neutrality and here net neutrality is being referred to as riding of voice on the network of telecom operators. So obviously this is an area that is going to be hotly debated in the calendar year 2015 and 2016. Rather than us giving a specific comment and our views on it, on a call which goes to media, we are going to give our views to the TRAI which is likely to issue a consultation paper shortly and we are extremely hopeful that there is going to be level playing field for all kind of operators. Here telecom operators are looking for level playing field because telecom operators are currently subjected to various kind of taxes including the license fee, spectrum usage charges and service tax. It is also subjected to various kind of controls by security agencies and we are hoping that there is a similarity of charge and in the confusion of net neutrality, this is not being lost out.

As regards LTE, we have not made up our mind when we are going to launch LTE services. We are a very return oriented company. We have bought 1800 MHz spectrum, 60 MHz in the February 2014 auction. Out of that, 45 MHz is in contiguous blocks which we have reserved for launch of LTE services but for us to be able to launch LTE services, first and foremost consumers have to make their move. As of now out of the 152 million total subscriber base that we have, there are less than 1 million customers across India who own 4G devices. Unless their quantities are large enough and at every site level, we find 500 to 700 customers who use LTE services, we are unlikely to launch. We would rather wait for market to launch or consumers to make the move. I hope this is clear.

Himanshu Kapania: Yeah very clear. Thank you sir.

Moderator: Thank you. Our next question is from Aditya Soman of Goldman Sachs. Please go ahead.

Aditya Soman: Good afternoon and congrats on a great set of numbers. Actually my first question was on your data use. Your overall data use has now gone up to about 705 MB for 3G users. Can you comment on where the data is being used and what Idea is doing specifically to promote incremental data use on its network?



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Himanshu Kapania: Thank you, Aditya. You are absolutely right that there has been explosion of data not only in terms of overall volume but even on per user basis the volume has been growing. Most of the discovery of data has been by the consumers rather than by companies like us. There are multiple options that are now available both on internet as well as on intranet and a large number of the 3G users use data for accessing videos. If you notice the difference between a 2G data user versus 3G data user, a 2G data user can access social networking sites, e-mails, and light applications and the minute the customer wants to access videos he moves onto 3G. That is the reason why the volume of usage on 3G is much higher than that on 2G network. I hope it answers your question.

Aditya Soman: Yes. So in short, it will be largely for video use, right?

Himanshu Kapania: A significant portion will be for video but once the customer moves to 3G, he also does take care of other application which is social networking sites as well as mail requirement and search requirement.

Aditya Soman: Right and the other question was also on data use. About half of your data subscribers are now using sort of 3G in terms of revenues. What are you specifically doing to sort of move your subscribers to shift from say 2G use to 3G use and what will sort of the eventual move be to shift them from 3G to say LTE?

Himanshu Kapania: Let us go step by step. As I mentioned in my opening remark, there are 34.2 million overall users who access internet from the mobile. Out of the 34.2 million users, 12.9 million users are from 3G and remaining are the 2G users. Now first and foremost, company's effort is while the overall EoP base of the company is 152 million, there is a possibility, and we believe an opportunity, for additional 118 million who are nonusers of mobile data at this point of time to upgrade to mobile data usage over the next 3-to 5-year time period. As far as converting the 34.2 existing mobile data users to 3G usage, first and foremost the consumer has to upgrade his device to 3G. As I mentioned in my opening remark, Idea today out of its total base of 152 million; 28.5 million users hold a 3G device but only 45% of them are currently accessing data on Idea's 3G platform. There is a large number of consumers who are buying 3G device but they still are just about entering the exciting world of internet and a lot of effort will have to be done not only by mobile operators but also by various application providers as well to change the behavior by consumer. While from our own side, we have been expanding our coverage as you noticed that we have added over 7,500 sites of 3G network over the last one year and we will continue this momentum going forward. Secondly we are also educating customers



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on various applications available on internet using mass market advertising campaign like 'IIN' and 'No Ullu Banaoing' as well as on intranet and thirdly, we are offering trials and promotions for nonusers to enter the category.

Aditya Soman: Thanks a lot. That was helpful. I will come back in the queue for the more questions.

Moderator: Thank you. Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much sir. I have one question particularly on the voice trends. What we have noticed particularly for this year, we are seeing fairly strong growth in usage but tariff either flat or falling, a dynamic which was not the case in fiscal 2014 where we were seeing more tariff increases. So is that a conscious effort on your part or this is just a mix issues where your areas where there is high growth continued to grow faster?

Himanshu Kapania: Thank you, Srinivas and you are absolutely right post-November 2012 auction, there was hardening of voice rate in the calendar year 2013. In the calendar year 2014, the voice rate has been flat or in fact now started to fall. The reason for that has been two fronts. As far as Industry is concerned, one front is that low market share telecom operators have become active and if you can notice both the subscriber share as well as minutes share that has come out from TRAI, they (low market share operators) have been adding more subscribers and that is one competitive pressure. Second as far as Idea specifically is concerned, it has a portfolio of 3 types of geographies, one completely established 8 circles where we are number one, then the emerging portfolio of seven circles where we are number 3, and lastly the seven new circles where we won back spectrum in 2012 where we are number 6 on the overall ranking. The realized rate varies in all the three and there has been a larger growth in the emerging Idea markets and the new circles in the last quarter. So a combination of both of above is putting pressure on rate but there is elasticity of demand and the usage per subscriber has been growing and overall minutes have grown by 18% on year-on-year basis versus the period of 2013 where the minutes had grown only by 9%.

Srinivas Rao: This is very helpful sir. Just one more question on your auctions and you have always maintained even in your opening comments now that there is no need to actually get caught up in the frenzy. Even in your last auction at least the results reflect that you were more calibrated in your bidding strategy, would it be fair to say given this auction where your need to buy back is lot more, it would be prudent to be a less calibrated than what you were in the previous auction which is in last February?



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Himanshu Kapania: I would like to go back to my opening statement. The total spectrum on auction is over 450 MHz by the Government of India. We have renewal spectrum in 900 MHz about 59 MHz. Our spectrum which is coming up for renewal is around 12-13% of the total universe available. We are extremely hopeful that there is not going to be frenzy as far as our specific spectrum is concerned. So let us wait and watch and see what happens.

Srinivas Rao: Thanks and final one clarification, maybe Akshaya can give that. The total spectrum which you are buying and which you have bought in two tranches and the third one which you will participate, most of the D&A cost will it start reflecting by say fourth quarter of 2016? Is that a fair assumption?

Akshaya Moondra: Let us put it like this, right now what is not being amortized out of the spectrum that we hold today is the spectrum reserved for LTE and the 900 MHz in Delhi. Going forward, the renewal spectrum will be amortized from the time the existing license expires and the new license kicks in.

Himanshu Kapania: Just to clarify, the spectrum that we bought in 2010 is completely under amortization, spectrum we bought in 2012 is being amortized and spectrum that we bought in 2014, 15 MHz out of 65 MHz is being amortized. Remaining will start amortization the day we start using the spectrum.

Srinivas Rao: Understood sir. This is helpful. Thank you so much.

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

Vinay Jaising: Thank you so much. Firstly congratulations on the results. I have three questions. First on the EBITDA margins, the marked improvement on the consolidated EBITDA margins, how much of that would you attribute towards the reduction in diesel or crude oil prices? The reason I asked this is this quarter the crude oil price is averaging a much lower, so what do we expect in the quarter we are in? That is my first question. Should I stop or ask all three of my questions sir?

Himanshu Kapania: Akshaya can respond to this specific question.

Akshaya Moondra: So on the EBITDA margin improvement, roughly 0.2% could be coming from diesel price reduction.

Vinay Jaising: So just 0.2 for the last quarter?



Akshaya Moondra: Yes.

Vinay Jaising: Great sir. Secondly we spoke in a lot about the volume growth on data and the explosion, how it is moving? Here what you think will be the impact of capex in the quarters to come? We have seen increase in fiber even in this quarter for about 3,000 km. The concern I have is capex could really increase a lot more. That is the reason why I am asking this question?

Himanshu Kapania: As you have seen as far as the auction is concerned, the same rule applies for capital investments. Since the time Aditya Birla Group took charge in 2006 and we started to invest in from 2008 onwards, Idea Cellular has been very consistent in its capital investment strategy and earmarked an outlay of around 3,000 crores to 4,000 crores per year over the last 7 years. Going forward, we expect, from a capital outlay perspective, to spend around the same number. Why would we say that? The reason is we are a very strong believer of not to spend capex based on what the market is spending but based on our ability to absorb capex. We deploy capex which is discretionary spend because we want to increase our returns and that is the reason our margins are improving, our return ratios are improving. We have a business model for all our capex investment. We do not like to spend capex ahead of time. When we are convinced that we can give good returns to our shareholders and our promoters, then only we will spend capex and that will be the policy going forward not only in the next year but over the next 5 years as well. Akshaya want to add something.

Akshaya Moondra: Vinay if I may add, I think you look at our capex trajectory for the last 3 years and this is the fourth year we will be at a consistent level of about Rs. 35 billion a year of capex other than spectrum. If you look at before that 2 years, we were at a level of about Rs. 28- 30 billion, this was before the launch of 3G technology. So actually the increase has happened from a level of 28 to 30 billion to 35 billion because new technology came in. As new technology comes in and which has also had an impact on the fiber investment, the investments in older technology also start reducing. So if your concern is coming from two points, one is the data traffic growing up and secondly launch of new technology LTE at some point of time, we have seen both these things happening with the launch of 3G technology in 2011 and if you will see historically whatever you are foreseeing for the future has happened in the past. As Himanshu said we have no reason to believe that this trajectory would be significantly changing. Yes, as and when LTE launch happens, there will be some shift in the current capex levels but not of a significant nature.



Vinay Jaising: Sure. Sir one last question and I guess Akshaya that one is for you. You have mentioned about 4.5 billion as the one-off on account of depreciation for changing no matter from 10 years to 9 years for the core assets. So is it safe to assume this 4.5 billion has about 1.1 billion per quarter? So historically when we would go into the future in FY16, the numbers would be sustaining as to what the current depreciation level is for this quarter?

Akshaya Moondra: You seem to have added Q3 and Q4 projected figures. Let me just repeat the figures for the sake of clarity. For this quarter, the impact has been Rs. 2.62 billion. For the next quarter, it is likely to be in the range of about Rs. 1.9 billion. For FY16, overall I can give you an estimate of Rs. 6 billion, that you must take as a very rough estimate, but the impact reduces as you go forward.

Vinay Jaising: Thank you so much.

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

Sanjay Chawla: Thank you for the call and congratulations on the results. My first question is over the last 2 quarters you have added more 3G BTS than 2G BTS. So is it safe to assume that this same trend would continue in future and secondly if you can also give some sense on the average 3G utilization in terms of the net utilization level in a 3G network in the last one or two quarters?

Himanshu Kapania: As the first part of question, will 3G BTS will be more than 2G BTS, answer is likely yes and as regards 3G utilization, while it varies across circles, it is our assessment at this point of time it is between 40%-60% levels.

Sanjay Chawla: Himanshu at what level are you required or would you ideally like to add a BTS in case utilization exceeds a certain percentage in a location?

Himanshu Kapania: Currently we are in an expansion mode. I will repeat what I had mentioned in the last Earnings Call. Currently Idea have about 30%-40% sites varying across circles, upgraded from 2G sites to 3G. Our first attempt is to make sure that we expand our coverage to a level between 60%-70% of our 2G sites upgraded to 3G. The basis of this upgrade remains as consumers buy 3G handsets and we find there are consumers, at least 300-400 3G handset in a 2G BTS area where we serve currently GSM services, then we upgrade the site for 3G services. There has been the basis on which we have been upgrading services. Our own assessment is, the need for additional sites exclusively for 3G especially in areas because we have 900 MHz spectrum and we have very robust voice minute growth



is going to be minimum, at best 5%-7% of the sites would be exclusive 3Gs sites and there is no more space to be able to add more standalone 3G site. I hope it answers the question.

Sanjay Chawla: Sorry is it 5%-7% of the total sites maybe required as 3G only sites? Is that what do you mean?

Himanshu Kapania That is right.

Sanjay Chawla: This is quite useful. Sir could I just squeeze in one quick question, actually a clarification. Akshaya, you mentioned 2.62 billion is the extra depreciation charged and the PAT impact at the standalone level is 1.72 billion. So this means that this additional charge has been tax deductible?

Akshaya Moondra: Yes, this is just change in policy for depreciation so it will impact tax. Without getting into details there is a MAT impact and there is an overall tax impact. The overall tax rate is based on tax depreciation, but there will be some impact. You can take that offline.

Sanjay Chawla: Okay, I will probably take it up offline. Thank you very much and all the best.

Moderator: Thank you. Next question is from Piyush Chaudhary of CIMB. Please go ahead.

Piyush Chaudhary: Thanks and congratulations for great set of numbers. Firstly on the 3G side extending to the earlier discussion, is it possible to share some numbers on the population coverage which we have in our own circles currently and what is the target in 2 years' timeframe like by March 2017?

Himanshu Kapania: We have not done that calculation but it is a good idea now to start doing the calculation, hopefully over the next 1 or 2 quarters we will start sharing the same. But surrogate of that can be the current percentage of 2G sites which have been upgraded to 3G. That is why we keep repeating that only 30%-40%, varying across circles, are the existing 2G sites that have been upgraded to 3G. We will provide you coverage information in a quarter or two quarters from now.

Piyush Chaudhary: Great, that would be really helpful. And Mr. Kapania as you mentioned that 60%-70% would be the target, what is the timeframe you mentioned now of that of converting 2G sites to 3G sites?

Himanshu Kapania: I am referring to our 11 circles where we have existing spectrum. We are hoping to do that over 2 to 3 years depending on volume of demand and where we can find as I said the condition



for the site to be upgraded is that there are at least 300-500 3G device users there who had upgraded their handset and the total volume of 2G data is a reasonable enough for us to get returns.

Piyush Chaudhary: Great sir. So it is 2 to 3 years' timeframe, great. And one last question, you mentioned that the 3G cell site utilization is varying from 40%-60%. Would that mean even in a peak period, peak hours utilization is also 60% the level which we are reaching at this point of time and there is sufficient headroom for the older cell sites which we have deployed couple of years back also to kind of season up?

Himanshu Kapania: My broad answer is yes.

Piyush Chaudhary: Thanks a ton and all the best.

Moderator: Thank you. Next question is from Rajeev Sharma of HSBC. Please go ahead.

Rajeev Sharma: Thanks for the opportunity. Congrats on a good set of numbers. I had just two questions. First is on data rates. Data is definitely the growth driver with 3G now contributing 54% of your traffic. We are expecting Reliance 3G or 4G new entrant to launch this calendar year, maybe in the next 3 to 4 months or 5 to 6 months and it is a very strong possibility that just to penetrate the market to have initial customers, they come with very low data tariffs. We have seen in the past when Tata DOCOMO expanded GSM, they came with per second billing, even though it was 90-day promotional offer but the industry replicated this and there was a 15% decline in the average realization. How do you see the data tariffs, the data realizations in the event of this 4G launch? Do you see incumbent operators or if you can comment just on behalf of Idea holding to it or you see that volume growth will be good enough to even set of 40%-50% decline in data tariffs? That is my first question. Second is, if you can provide some color on your enterprise business as to how you are focusing and how is it shaping up?

Himanshu Kapania: Thank you Rajeev. It is difficult to estimate. You have pointed out to the last price battle that took place in 2009 when the voice capacity was increased with a number of operators entering the mobile voice business but what you are estimating that there will be repeat of the same when there is going to be launch of 4G? We do not know with certainty what will happen but we can at this point of time put some pointers. For the battle for mobile data to happen, obviously consumers in a very large number have to start buying 4G handsets or have to upgrade their existing 3G handsets. If that happens, yes what you are estimating and assuming the 4G operators were to come at a far lower



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price at the current operating price, then we will be affected. But we are not anticipating a very large volume of 4G handsets to be adopted in a very short period of time. In the medium term, yes there will be a lot of upgrades of handsets will take place, but I would like to remind you that 3G auction took place in 2010. We launched our services in 2011. Even as we speak, only 10% of Idea subscriber base of 150 million are currently 3G users, so we will wait to see how many of them finally upgrade themselves to a 4G device. It is difficult to project more than that but device is going to play extremely important role. We have to see whether the new operator will focus on overall tariffs, whether they will focus on wholesale markets which is dongle based which obviously does not affect us from a smartphone strategy or whether they will subsidize devices. It is premature for us to be able to give an accurate answer at this stage.

As far as enterprise business is concerned, it is both postpaid and enterprise that has been area of focus for us. But area of focus in both postpaid and enterprise has been mobile voice and mobile data business. We are not in the fixed line category of the business and that is why neither we are expanding any fiber to there or entering into any new lines of business, other than small category wherever fiber does reach, we offer ILL and MPLS. It is a very small component and that is not our stated long run objective of the company. I hope it answers both your questions.

Rajeev Sharma: Thanks very much Himanshu. All the best for coming quarters.

Moderator: Thank you. Next question is from Varun Ahuja of UBS. Please go ahead.

Varun Ahuja: Thanks for the opportunity. Just wanted to dwell more on data. I just wanted to check on, I think there have been a lot of concerns also on profitability of data now since you have been doing this data network for a long. Just wanted to know your thoughts, can you really bifurcate the profitability within data and voice and how much of a turn you are seeing on that? Secondly, continuing with this data profitability, is it fair enough to say that the profitability on 2G data is far higher than 3G data and given that you just still have 5 MHz of 3G spectrum? I know you have been saying that you are looking for more 3G adoption, is it fair enough to say that you will not push much of 3G growth until and unless you get more spectrum because it is just 5 MHz, there is not sufficient capacity, and you will be more happy with 2G subscribers on data?

Akshaya Moondra: Varun let me address the questions on profitability and I leave it for Himanshu to address the question on spectrum. On the profitability, essentially one is the two businesses are somewhat different in character. If you see today in the Indian business model, data is characterized by



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lower pre-EBITDA cost but higher post-EBITDA cost whereas voice is more pre-EBITDA cost and less post-EBITDA cost. Also it is not possible that you can bifurcate these businesses, you have to have a complete offering. The way we look at it is that by doing incremental data business, are we able to improve our return on capital employed or return on investment. We acquired the 3G spectrum at the time when there was more competition on the voice front. Subsequently competition dynamics have somewhat improved but as the data business has increased in volumes, the return on investment has improved. In case of Idea during the last auction we acquired 50 MHz of spectrum for LTE and 3G which is not yet deployed and despite that with increasing data volumes and revenues, we have been able to improve our return on investment. So I would say that one should look at it in a holistic manner and see that whether incremental data revenue is giving you an improved return on capital employed. I think nobody has this luxury or choice of saying that this is better or that is better, or operators will focus on this business more or that business less. The choice is whether you (operator) want to participate in the growing data business or not. We definitely believe that participating in that growing data business results in better return on investment over a longer timeframe.

Himanshu Kapania: I completely agree with Akshaya. I just want to incrementally add one point that it is very difficult to be able to make an accurate partition between return on voice and return on data. The only way to look at is for a standalone data operator, will he be able to get a similar kind of margins that you (voice plus data operators) are getting. When there is a company which has blended business of voice and data it is our belief that a very large component of business and cost of that is currently borne by voice and that benefit will not be available for a standalone operator who does only voice or only data. So the blended business, a balanced business has a best opportunity for return.

Varun Ahuja: Yes, that is helpful sir. Sir on the second part on 2G and 3G, you think until you have 5 MHz you will be more happy to have 2G subscriber rather than move 3G data sir?

Himanshu Kapania: So first and foremost it is not about our happiness, it is about how the market is behaving. I just want to remind you that India has 825 million subscribers overall and it is our assessment that the total 3G subscribers in India among all operators is not more than 75 to 80 million subscribers. Today there is only 10% of the current subscriber in spite of 5 years down the line services have been launched, the penetration is only at a level of 10%-11%. We have to wait for this to change and it is our internal assessment that it is going to take another 5 to 6 years for 40%-50% of our Indian subscribers to be able to upgrade themselves to 3G. That is the reason if the customers continue to hold their 2G device and the 2G device is available still at a price point of Rs. 750 to 1,500, there is no reason for us



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not to be able to promote additional ARPU from a 2G voice customer and if he has got a data handset, we will encourage him to be able to access internet from his 2G data handset.

Varun Ahuja: Thank you sir. That's helpful.

Moderator: Thank you. Our next question is from Abhishek Gupta of IDFC Securities. Please go ahead.

Hitesh Shah: Hi Hitesh here, congratulations on good set of results. Two question that I had. One is voice RPM has been coming off from last few quarters, how has been the trend for the same for established and new circles and second question, any thoughts on monetizing the standalone tower portfolio and also Indus holding?

Himanshu Kapania: Thank you, Hitesh. So as far as voice RPM is concerned, there has been decline all across that is why I have been using a word competitive pressure. As the ratios have been changing and newer circles ratio is slightly improving on the overall portfolio, you see a larger decline in as far Idea is concerned.

As far as monetization of tower or Indus portfolio, there are no such plans at this point of time.

Hitesh Shah: Thanks and wish you all the best for future and the upcoming auction.

Moderator: Thank you. Our next question is from Pranav Kshatriya of Edelweiss. Please go ahead.

Pranav Kshatriya: Thank you for taking my questions. I just have two questions. Firstly on spectrum, we are seeing a very strong growth and you already said that there is BTS utilization is around 40%-60% for 3G. So what will be the timeframe when we would be looking for additional spectrum or will look for deploying more sites? That is my first question. Secondly, on network cost – the network cost as a proportion of revenue has gone down and if I adjust for one time charge in last quarter, it has declined sequentially. This is despite adding quite a few 3G and 2G sites. So what exactly is leading lower network cost? That is it, thank you.

Himanshu Kapania: I will handover to Akshaya to respond on the network cost but let me reply on the spectrum. Would we need a second carrier for 3G, the answer is at this point of time no. Generally speaking, as I mentioned earlier that there is a significant expansion of 3G BTS that the company has to do. We have to finish this exercise before we turn our attention to additional spectrum.



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Akshaya Moondra: On the network cost, actually if you take away the impact of one-off in the last quarter, the network cost has remained more or less flat and that is because the increase in number of sites has been offset by the reduction in diesel prices which has had a positive impact. So these are the two main factors which have enabled it to remain a little flat and there could be some other minor variations.

Pranav Kshatriya: If I can just add in upon that, the diesel prices have declined since last few days. So if the diesel prices have to remain at this level, what kind of reduction will be there in the network cost in Q4?

Akshaya Moondra: I do not remember the exact date but I think the diesel price reduction happened at the beginning of the quarter, but yes as there is further price decline or some decline has happened in the middle of the quarter, there will be continued further benefit in the coming quarters. But it would be directly impacted by diesel price reduction which has already happened. Compared to Q2 over Q3, we had a cost reduction of about Rs. 20 crores which I had indicated in response to one of the earlier questions.

Pranav Kshatriya: Thank you very much.

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

Himanshu Kapania: Thank you so much to all our telecom analysts' colleagues in India and across the globe. As always, your questions are very incisive and it gives us a lot of food for thought and it also helps us in our planning. Thank you so much and keep sending in your questions. All the very best.

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