



“Idea Cellular Limited Q3 FY15-16 Earnings
Conference Call”

January 22, 2016



*Idea Cellular Limited
January 22, 2016*

Moderator: Good Afternoon, Ladies and Gentlemen. This is Malika, 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 team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks 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 Malika. 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 2015-16. 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.

In this period of upheaval and disruption, such as the ones we are living in, change is the new norm. Our success isn't based on our ability to simply change. It is based on our ability to change faster than the competition, customers and businesses. We consistently challenge ourselves and remain in pursuit to lead in thought, practice and category growth. It is no mean feat that the company has maintained its enviable status of 'Fastest Growing Indian Telecom Operator' for eight straight years.

Consumer preference for brand Idea continues to rise as company added 29.7 million incremental subscribers on VLR in the calendar year 2015, highest in the company's history. Idea now serves 182 million quality customers, providing it a unique platform for future growth in Mobile Voice, Wireless Broadband, Digital Content and Mobile banking Services, etc. Over the previous three calendar years, Idea subscriber EOP has risen by 72 million from 110 million as of 31st December 2012 to 182 million as of 31st December 2015, a cumulative growth of 65%. Idea's gross revenue has also risen by nearly 60% from Rs. 219 billion in Calendar Year 2012 to Rs. 349 billion in Calendar Year 2015. In the same three calendar year period, the standalone EBITDA for the company has increased by 2.25 times from



Rs. 51 billion in Calendar Year 2012 to Rs. 114 billion in Calendar Year 2015 @ CAGR of 30.9%, thereby increasing EBITDA margin by 9.5% from 23.1% in Calendar Year 2012 to 32.6% in Calendar Year 2015. Further, over the same period, the Profit After Tax – PAT has grown by 3.4 times @ CAGR of 50.6% from Rs. 9.4 billion in Calendar Year 2012 to Rs. 32.2 billion in last Calendar Year. The company has maintained its status as among the fastest growing Indian listed company on three fundamental cultural tenets – Customer Centricity, Employee Orientation and Purpose Driven Focused Execution.

However, due to bunching and front loading of financial investments primarily for spectrum renewal of expired licenses and acquisition of new 3G & 4G spectrum followed by accelerated capital deployment to increase population under coverage for 2G, 3G & 4G Services, the balance sheet of Idea has expanded multifold in recent times. Idea's Gross Block including CWIP has increased from Rs. 453 billion as of 31st December 2013 to Rs.967.9 billion as on 31st December 2015, an increase of Rs. 514.9 billion in last 2 years. This quantum jump includes over Rs. 405.6 billion of spectrum commitment in recent 2014 and 2015 Auctions. Consequently, the Net Debt of the company has expanded to Rs. 376.9 billion and Net Debt to annualized EBITDA now stands at 3.30. Just to remind you, nearly Rs. 317.9 billion of total Net Debt is under category 'Deferred Payment Obligation' financed by Government with 10 equal annual instalments payment for principal and interest and then first three years as moratorium from payment. The borrowing from the banks and financial institutions is less than Rs.60 billion.

The Idea team on the power of 182 million quality subscriber base, wide and deep distribution with over 1.5 million retail sales outlets in nearly 385,000 towns and villages pan India and strong consumer brand affinity is gearing to replicate its past 8-year success story. Our confidence stems from company's Cash Profit jump over last 3 years which has risen from Rs. 44 billion in Calendar Year 2012 to Rs.100.5 billion last Calendar Year, a CAGR of 31.7%. Idea team is confident to sustain similar level of Cash Profit momentum and generate reasonable double digit returns on the expanded Rs. 968 billion Gross Block investment.

As the Chairman of 'Cellular Association of India' I can, with a great sense of pride and confidence, state that the Indian Mobility industry is the crown jewel and the most touted success story of the Government's economic liberalization and privatization efforts. Over the last decade, Indian Mobile Operators have perhaps built the finest Mobile Voice infrastructure. Today, this world class infrastructure delivers high quality voice services to 1 billion Indians in over 450,000 towns and villages across 550 districts, generates nearly 12 billion voice minutes on a daily basis and has catapulted India



to the 2nd largest Mobility country in the world in terms of Mobile Users. Now, the Indian Mobility sector has taken on itself the responsibility of meeting the burgeoning demand for Broadband Access across length and breadth of the country. The top 3-4 operators are working at breakneck speed with diligence and scale vision to reach a billion Indian population in next 5 to 7 years, and offer full range of 3G & 4G Wireless Broadband services to the masses. Yes, we are in the midst of rolling out a robust and nationwide Wireless Broadband Infrastructure which is likely to be the pride of the country for ages and a global envy. This Mobile Broadband Infrastructure will transcend our country to the new exciting Digital World, transform lives of 600 – 800 million Indians and impact all Indian economic sectors encouraging it to adopt new and efficient digital way for conducting business. Consumers, Intermediaries, Enterprise and Governance will no longer work and transact as they have in the past.

All antecedents seem to indicate India is now on the cusp of digital revolution. Over the last 2 – 3 years, Indians across all age, income and education demographics have tasted some of the exciting digital services. Social networking, peer to peer messaging applications, photo and video sharing are examples of internet services that have caught consumer attention. Prices of 3G smartphones have broken the Rs.4,000 barrier and that of 4G handsets will follow suit. We are already witnessing a sharp increase in the smartphones shipments to India with 80 million+ smartphone sales in Year 2015 and smart device sales is slated to reach 150 - 200 million mark by Year 2020. As a result, the smartphone base will expand from its current level of 150 million out of a billion mobile phones to near universal at 600 - 700 million by Year 2020. Further, the potential opportunities arising out of increasing digitization of the Indian masses have already sowed the seeds of a fast growing internet economy. It has ushered in a breed of new startups – the digital entrepreneurs – who are entering diverse categories such as e-tail, entertainment, travel, fashion, information, education, health, logistics, real estate and payment services and offering newer digital services to Indian consumers. With these fundamentals beginning to fall in place, the coming era from Year 2016 to 2020 will witness mass mobilization as the only connectivity medium to the digital world. I understand telecom analysts are already projecting nearly 400 - 500 million wireless broadband users on 3G & 4G platform in Year 2020 from current level of 93 million 3G users as per TRAI Release of Q1 FY16.

Given the heterogeneity of the Indian market, consumers across different geographies, socio-economic profiles and demographics will need different types of internet based services across different genres. The internet discovery process is being worked in synergistic approach between various stake holders in the large eco system including Telecom Service Providers, Content Providers, Application Service Providers and Device Manufacturers. The demand for internet will build up as it



happens in every sector, through process of trial packs bundled with applications, content and promotions /price offers. For a billion Indians, 'One Size Fits All' approach is unlikely to work. Every internet user is different with different usage needs, for e.g. Younger consumers may be focused on messaging and communication, while older users may have higher internet need for health and commerce; Fishermen in Kerala may be interested in weather based internet updates while the farmers in Maharashtra may be more interested in agriculture related internet applications; Students may prefer educational content on the net and migrants may want Digital banking services. The need of rural consumers varies from urban consumers. Thereby, the principle of 'Different Strokes for Different Folks' will follow in this world. Idea Cellular will make every effort to identify unique and profitable such segments and own them.

In my assessment, it is evident with the arrival of Jio, the present fragmented Indian telecom sector will consolidate and only telecom players with an ability to sustain an integrated offering including Voice, High speed mobile broadband services, Digital Sales and Service channel, Digital content and Payments services on a nationwide basis will thrive. As more relevant applications become available, the average mobile data consumption of an Indian Internet User will expand 3 to 4 times pegging him at par with their South East Asian peers. With the quantum of internet users expected to multiply several folds, I strongly believe that current large Mobile Data infrastructure supply build up will actually fall short of the tsunami of wireless Data demand. Just like in the case of Mobile Voice Services, India will generate huge Mobile Data Volumes and will catapult itself to the 2nd largest Market in terms of internet users and scale of Wireless Broadband Data Volumes. It is in this context the role of 4G needs to be understood.

The 4G era dawning on us is not going to be a battle of rates or war of the corporates instead it is going to be a battle of consumer segments and applications. It is going to be about partnership and collaborations to build an ecosystem of digital services that would be relevant for the many different segments of the internet users. It is going to be about influencing and changing mindsets of millions of Indians who have never experienced internet and are waiting to become the netizens of tomorrow.

Possibilities will be limitless and probably as vivid as our imagination.

That is why, I reiterate, it is critical to separate the signal from the noise. Idea Cellular 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.



Leadership today needs courage, dogged determination and human emotional resilience to declare the future before others can seek it, then stand by it and project self-belief without any hesitation.

Moving on to Current Quarter Business Performance Update, based on latest TRAI Q2 FY16 Gross Revenue release for the period 'July to September 2015', Idea has improved its 'Revenue Market Share' (RMS) to 18.5%, an improvement of 1.2% market share over the same quarter last year. Between Q2 FY15 and FY16, the Mobile Industry has slipped to single digit growth rate at 6.5% due to reduction in IUC settlement charges and lowering of cap for national Roaming Calls and overall SMS charges by TRAI regulation. In comparison, Idea has maintained its status of fastest growing Telecom Operator with YoY growth between Q2FY15 & FY16 at 14.2%, 2.2 times the industry. 37.7% of the incremental Indian Mobile industry revenue at Rs.28.8 billion was contributed by Idea for the period Q2 FY15 v/s FY16, reassuring the 8-year Idea growth momentum will sustain.

The performance of Idea henceforth will be covered on four standard parameters and for the period October to December 2015 is as follows:

1. **Gross Revenue:** The Indian Mobility industry revenue growth estimate in the first nine months of FY16 v/s FY15 is trending to as low as 5.5% to 6.5% against 10.9% growth in the same period previous year. In comparison, Idea's long term business trends remain robust as standalone revenue growth for the Q3 FY16 on YoY basis is 12.4% with revenues of Rs. 90.1 billion against Rs. 80.1 billion in Q3 FY15. On normalization of IUC settlement charge reduction, growth would have been higher at 16.4%.

The factors driving the company revenue growth were volume led including YoY expansion of –

- a. Voice Minutes @ 16.7% to 199.2 billion minutes
- b. Highest ever VLR addition of 29.7 million
- c. Blended Mobile Data volume growth @ 75.8% to 81.0 billion Megabytes in Q3 FY16 v/s. Q3FY15.

However, the overall gross revenue growth was suppressed in comparison to strong volume performance due to rate pressure including –

- a. YoY decline in Voice Realised rate @ 10.6%
- b. Mobile Data Realised Rate YoY fall of 17.2%.



The Non Voice revenue contribution improved to 28.9% this quarter against 23.1% a year earlier, YoY improvement of 5.8% contribution.

2. **Cash Profit & EBITDA:** The standalone quarterly EBITDA at Rs. 28.5 billion grew annually by 14.7% at margin of 31.6%. 36.7% of the incremental annual Gross Revenue of Rs. 10 billion between Q3FY15 and 16 has translated into EBITDA, an incremental growth of Rs. 3.7 billion. In the 15 Established Service Areas, Idea blended RMS improved to 21.5% against National RMS at 18.5%. The standalone EBITDA for these 15 Circles is at 36%. In the 7 New Service Areas revenue growth is picking up with YoY growth at 30.9%. But losses from these 7 New Circles remained high at Rs. 1.78 billion against Rs. 1.88 billion in Q3FY15. These New Circles have improved their competitive standing by 140 basis point from 4.8% in Q2FY15 to 6.2% Revenue Market share in Q2 FY16 gaining nearly 35% of the incremental revenue of the entire Mobility industry in these 7 Circles.

In the Calendar Year 2015, Idea generated Cash Profit of Rs. 100.5 billion against Rs. 75.4 billion in Calendar Year 2014, a growth of 33.3%. During the last three Calendar Years, the company has sustained 30% + CAGR in Cash Profit providing the team confidence to meet the enhanced capex aspiration and Service Debt obligations.

3. **Active Subscribers:** Idea clocked 29.7 million Net subscriber addition on VLR in Calendar Year 2015 against 22.2 million customer addition in the Calendar Year 2014. The company is now servicing 182 million quality customers, highest ever sequential quarterly subscriber addition of 11.1 million, confirming Idea's subscriber growth story is intact.

As per last TRAI subscriber VLR Market Share report of October 2015, Idea further strengthened its 'Subscriber Market Share' to 19.1% an improvement of 1.2% in last one year.

The industry Net Consumer addition has accelerated to 81 million VLR Subscribers between the period November 2014 to October 2015 against 77 million addition in the same period last year. Idea's incremental VLR Share over last one year in the same period is at 31.6%, against absolute VLR share at 19.1% ensuring the Market Share growth momentum continues.

4. **Minutes of Use:** Voice Minutes grew on sequential quarterly basis by 5.1% from 189.5 billion to 199.2 billion Minutes, an improvement of 9.7 billion minutes. In spite of 14% Net Subscriber Addition, the MOU per subscriber has increased by 5 minutes to 393 minutes per User this quarter. On Network GSM investment in the Calendar Year 2015, Idea integrated 12,584 additional 2G sites



expanding the footprint to 122,515 GSM BTS covering 7,554 census towns and 3,76,000+ rural villages. Since last 18 months, Idea is upgrading its GSM Network BTS equipment in the Metro cities, large and mid-sized towns with latest version of Single RAN equipment so as to build capability to deploy two simultaneous technologies, namely 3G for 900 MHz spectrum BTS or 4G for 1800 MHz spectrum BTS along with GSM technology. The company is redeploying the older equipment to cover previously uncovered rural population. The company now covers 975 million Indian population and is gearing to service one billion Indians by the end of this Financial Year.

Similarly, the Optical Fibre backbone spread is fast being densified and by Calendar Year 2015 end, Idea Fibre spread has crossed 105,000 km and 6,360 OFC PoPs. Over 15,400 Km of optical Fibre has been added to our high Capacity Backbone Network during last one year.

Moving on to Wireless Data Business, the Mobile Data business is under intense short term rate pressure, as new Wireless Broadband Consumer demand growth is slower than the accelerated pace of Mobility Broadband supply increase from top 3 Telecom operators who are either expanding existing 3G footprint or launching new 3G or 4G Services using spectrum recently acquired in 2014 and 2015 Auction. We are confident that while initial consumer demand lags supply, given the pace of existing Indian Mobility subscribers upgrading their existing GSM feature phones to 3G & 4G smartphones as well as plethora of applications inviting consumers to access and experience high Speed Wireless Internet Services, it is only a matter of time when these first time internet users with upgraded devices would transcend to become regular 3G and /or 4G Users and deliver incremental Rs. 200+ ARPU. For example in Calendar Year 2015, 27.3 million Idea customers upgraded their old 2G feature phones to 3G and /or 4G smartphones against an overall reported new subscriber addition of 21.4 million. The smartphone upgrade of Idea subscribers has nearly doubled from 28.2 million 3G smartphone device owners as on 1st January 2015 to 55.5 million 3G or 4G device owners as on 31st December 2015.

The blended Mobile Data 2G + 3G + 4G contribution to overall Service Revenue has steadily risen to 20.2%, an increase of 4.5% YoY. The Mobile Internet Data Volume grew to 81 billion Megabytes, a sequential quarterly growth of 12.5% at 9.0 billion Megabytes and YoY Mobile Data traffic growth @ 76.1%, slower than in past periods. The blended Mobile Data 'Average Realisation per Mb' (ARMB) has fallen sharply YoY by 17.2% from 26.9 paisa in Q3FY15 to 22.3 paisa per Megabyte in Q3FY16 i.e. 4.6 paisa/ Mb fall over last one year. Therefore, the Mobile Data Revenue for this quarter is only Rs.18



billion comparatively slower quarterly revenue growth rate at @ 7.0% sequentially and annual Mobile Data revenue growth rate at 45.6%.

The Net Mobile Data blended Consumer base using either 2G or 3G and 4G platform has on sequentially quarter basis remained flat at 41.4 million, as company tightened its Data Subscriber reporting. The higher Mobile Data Usage per Data customer @ 653 Megabytes per user against 470 Megabytes in Q3 FY15 helped improve blended Mobile Data ARPU to Rs.145 in Q3 FY16 v/s Rs.126 in Q3 FY15.

Moving on to 3G business, In the Calendar year 2015, the 3G Mobile Data User base has risen by 8.2 million to 21.2 million as on 31st December 2015, still a low penetration of 12.3% on Idea 171.9 million reported subscriber base. Thereby only 38% of Idea's strong 55.5 million smartphone 3G /4G owners currently access Idea's high speed 3G or 4G broadband services available Pan India except Orissa either on own or partner Network. Our brand communication remains focused on converting these potential Non Users to 3G /4G Usage.

As 3G Coverage expands, we find maximum adoption of 3G by the earlier 2G Data Users. There are 20.2 million pure 2G Data Users in our Mobile Data base and based on last year's trends, the company anticipates these users will quickly upgrade to faster 3G /4G services, thereby improving blended Mobile Data ARPU. The 3G Data Volume has accelerated faster at 2.14 times from 25 billion Megabytes in Q3 FY15 to 53.6 billion Megabytes in Q3 FY16. Similarly, per 3G Data Subscriber, 3G Data Usage has improved from earlier levels of 705 Megabytes in Q3 FY15 to 866 Megabytes per 3G User in Q3 FY16. The Data ARPU of a 3G User is at a healthy level of Rs.196 during Q3 FY16, in addition to his spends on Voice & Non Data VAS.

In the month of December, Idea launched its own 3G Services in the 13th Circle of Kolkata Metro Service Area, extending own Spectrum 3G coverage to 79% of Idea revenue base.

In the Calendar Year 2015, the company has integrated 19,804 incremental 3G & 4G sites. Idea now covers over 340 million Indian population from overall 47,548 3G & 4G sites on its own Spectrum band.

Moving on to 4G business, On December 23, 2015, Idea took the next historic leap in company's telecom journey with launch of its High speed 4G LTE Network across four South India Telecom Service Areas of Andhra Pradesh, including Telangana, Karnataka, Kerala and Tamil Nadu. Further, Idea on 14th January 2016 has extended its 4G Services to telecom Circles of Madhya Pradesh and Chattisgarh,



Punjab and Haryana now covering 183 towns across 7 Circles for high speed LTE Services. Idea currently holds 1800 MHz 4G Spectrum in 10 telecom Service Areas which covers 50% of Indian Mobility market but over 60% of Idea's revenue. The company is poised to launch its 4G Services in remaining 3 telecom service areas of Maharashtra & Goa, Orissa and North East by March 2016 and plans to extend 4G footprint to over 750 towns by June 2016. Idea's own existing Wireless Broadband spectrum covers 87% of its revenue base across 17 Telecom Circles.

Additionally, Idea in December 2015, signed an agreement with Videocon Telecommunications Ltd for transfer of 'Right to Use' 1800 MHz in two of Idea's Key Telecom Leadership markets of Gujarat and Uttar Pradesh (West). Post completion of this transaction, Idea 4G Services will be extended to 12 Service Areas covering 75% of Idea's revenue base.

To augment the usage of Mobile Data Services, Idea marking its first foray in the digital space, has launched along with its 4G services an exciting assortment of Digital content in partnership with India's leading Content aggregators. In the first phase, Idea has collaborated in the area of Music, Movies, Videos and Games for Digital Content Services.

To conclude, as Mobility Market Services expand, Indian telecom business offers exciting growth opportunity in Mobile broadband and rural voice telephony. Brand Idea with increasing consumer affinity, strong cash flows, fast expanding 2G, 3G & 4G Mobility Network infrastructure footprint, reaffirms Idea's ability to overcome current short term uncertainties, emerge stronger and consolidate its market position to tap existing and emerging telecom services. Our mantra for success remains agility, adaptability and innovation with team geared to peak perform, compete and maximize opportunities.

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

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

The standalone revenue for the quarter grew by 3.8% to Rs. 90.1 billion compared to last quarter, driven by growth of 5.1% in voice minutes and 12.5% increase in data volume. However, the pressure on voice and data realization resulted in slower revenue growth. Consequently, the standalone EBITDA for the quarter stands at Rs. 28.51 billion, a 2.7% quarter-on-quarter increase and EBITDA margin is at 31.6%, a quarter-on-quarter decline of 0.3%.



The old licenses for seven service areas expired in December 2015 and company replaced the old spectrum with the spectrum won in March 2015 auction. Further, company has also launched 3G services in Kolkata service area on 10th December 2015 and LTE services in four service areas of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka on 23rd December 2015. Accordingly, the amortization and interest charge for the quarter, on account of these spectrum blocks being put to use, increased by Rs.628 million and Rs.892 million respectively. These represent the impact for part of the quarter, the incremental impact in the next quarter over and above the partial charge in this quarter with respect to the aforesaid spectrum blocks will be Rs.2.63 billion of amortization and Rs.3.72 billion of interest.

Post the aforesaid spectrum being put to use the value of spectrum which appears in capital work in progress, being the 900MHz band spectrum in Maharashtra, Karnataka and Punjab and 1800 MHz spectrum in seven service areas of Maharashtra, Madhya Pradesh, Punjab, Haryana, Orissa, NESA and HP, is Rs. 90.3 billion. The 900MHz band spectrum in Maharashtra will be deployed for 3G services in Q4FY16, the 1800MHz band spectrum in the six services other than HP will be deployed for LTE services in Q4FY16. These will additionally impact the amortization and interest cost for the next quarter.

The transition for the 900MHz band spectrum in Karnataka and Punjab at the time of expire of existing licenses will be in April 2016 and these will reflect in the results of first quarter of next financial year.

The standalone net profit for the quarter is Rs.6.61 billion compared to Rs.7.1 billion in Q2FY16. The cash profit for the quarter is Rs.23.49 billion.

Since the result declaration for Q2 FY16, we have received spectrum allotment letters for 900MHz spectrum in the service areas of Maharashtra and Goa, Madhya Pradesh, Gujarat, UP West, Karnataka and Punjab and 1800 MHz for UP West. Hence, during the quarter the company has recognized the deferred payment liability of Rs. 158.9 billion related to above spectrum. The only spectrum allocation which is now pending is 1 MHz of 1800 MHz band spectrum for Karnataka. With all spectrum related debt now recorded on the balance sheet except Rs. 1.24 billion relating to Karnataka spectrum which is yet to be allotted, the net debt at the end of Q3FY16 stands at Rs. 376.9 billion. The Net Debt to annualized EBITDA for Q3FY16 stands at 3.3 times.

The contribution of Indus to consolidated EBITDA and PAT are Rs.2.77 billion and Rs.1.03 billion respectively. The total interest capitalized in this financial year stands at Rs.17.7 billion including



Rs.5.51 billion capitalized in this quarter. Capex for the quarter stands at Rs.23.1 billion. We have revised our capex guidance for financial year 2016 from Rs.65 billion to Rs.75 billion mainly on account of accelerated 4G capex and associated fiber rollout.

With this, I will hand over the call back to Malika 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 the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: I have three questions, first question is on your capex guidance raise, want to understand what has changed in last three to six months which made you revise number again? On the ground we are not yet seeing inflection point in data and data uptake is happening gradually. So just want to know your thoughts out there. Second, can you please help us understand what net debt to EBITDA are you comfortable with and Akshaya, I know you addressed these questions partly, but want to understand that with the acquisition of Videocon spectrum, higher capex and the debt coming from the remaining spectrum, what is the tentative debt we could look at the end of 4Q? A related question is, any thoughts on risk of dilution if indeed 700 MHz auction happens this year. And lastly on voice tariffs, I mean we saw a decline in RPM this quarter, so can you help us understand what is happening in competition on voice and directionally how we could look at these tariffs? Thanks.

Himanshu Kapania: Thank you, Sachin. I will answer these questions in the order you have asked, starting with capex guidance. I would like to confess that we had first given our capex guidance at the start of the financial year of Rs. 5,000 crores and then in the month of June we had revised it to Rs. 6,500 crores. At that point of time we had estimated that we had a rollout plan in all the 10 circles and a plan for reaching 500 towns and we had estimated our cost is going to be Rs. 7,500 crores which is the current capex guidance that we have given. However, personally as a CEO, given the fact that we have in the last three to four years were spending only Rs. 3,500 crores, already one quarter was over and we had to carry out contract negotiation, I was not very confident that we will be able to execute the approved plan that we had.. I felt it is better to guide for what is likely to get executed. But I am presently surprised that our network team along with our partners have done an extremely expeditious rollout and what we had planned of reaching 500 towns requires capex of Rs. 7500 crores and we are making it. I had not anticipated that we will be able to rollout as early as 23rd of December. This is reflection of our plan, and our execution team actually executing ahead of what we had



estimated, otherwise there is nothing which had changed. If you are fine with this answer I will then move to the second question?

Sachin Salgaonkar: One small question sir, does that mean that FY17 capex has been now pulled over in FY16 and hence FY17 numbers could be lower than the year FY16 numbers because of that?

Himanshu Kapania: It is difficult to give you guidance but let us give you philosophy. We have internally a plan of identified towns and villages which currently as per us have high potential for data. The basis, of selecting these town, has been the experience on 3G as well as experience on 2G in these markets and we are following that plan. We would have covered a reasonable portion of the plan in this financial year and then we will finish that plan in the next year (FY17), after that, we will wait for demand to pick up. We are a very return oriented organization and we will remain focused on getting returns. After having reached a level that we believe is important for us to defend as well as to capture opportunity that is coming up for wireless broadband, once we reach those number of towns and villages, we will stop investments. The subsequent rollout will be incremental basis based on response from individual markets.

Sachin Salgaonkar: Okay sir, this is clear.

Himanshu Kapania: As far as net debt to EBITDA is concerned, while Akshaya will give you more details but I will tell you the philosophical thought because it is also linked to risk of dilution. As far as we have cash flow, as I explained in the calendar year 2015, we generated over Rs. 10,000 crores of cash profits and we have grown by 30%. It may not be sustainable to deliver (+30%) cash profit but we expect to do 20% plus cash profit growth in the subsequent years. That will be sufficient to cover our capex needs and we will have incremental amount available to deleverage us, so there is no reason for us to be worried about capex financing and deleveraging of the existing debt.

Now your specific question is, would there be a need for incremental large bunch of capex? Yes, Videocon transaction we have already announced and Akshaya will give you specific details on that, but as far as our needs, we have procured a large quantum of spectrum. If you recall, before 2010 we had only 100 MHz spectrum, post Videocon deal we would have reached 280 MHz of spectrum, we currently cover 87% of our revenue base with our own 3G and 4G spectrum. The uncovered revenue base in the other areas is not high market share areas for us. While we will have a specific auction strategy, but if you read our response that we have written to the TRAI, we have said that it is



premature for government to auction 700 MHz spectrum. At this point of time we will be very-very prudent and cautious to participate big time on those kind of spectrums.

Akshaya Moondra: Sachin for your specific figures, our net debt to Q3FY16 annualized EBITDA stands at 3.30 times, with the Videocon transaction it will go to about 3.55 times, but beyond that, other than the auction, there is no reason we see that the leverage should increase. As Himanshu said that having acquired sufficient spectrum to cover 4G for 75% of our revenue base and 3G for 80% of our revenue base, I think going forward all spectrum spends are totally discretionary and they can be tailored to what suits us best.

Sachin Salgaonkar: Okay, this is also clear.

Himanshu Kapania: As far as voice RPM is concerned, you are absolutely right that there is a fall of 10.6% and if you will ignore the impact of regulation where at least the impact is anywhere between 6.5% to 7%, there has been drop on account of market place battle. The reason for the market place battle was much larger subscriber growth in calendar year 2015 at a level of 81 million to 85 million against past years of 60 million to 70 million. But I will stick my neck out, I would say that we have bottomed as far as voice tariff decline is concerned and our company will unilaterally make all efforts to be able to reverse the trend.

Sachin Salgaonkar: Sir just to follow-up on this, it is clear that your number of subscribers have increased this year but what if these number of subscribers continue to increase in next year also, so will that further put on some pressure? I know you are as a company looking to raise out tariffs but if there are nine other operators who are looking to pressurize tariffs on a downward direction could that help, because subscriber momentum will continue perhaps maybe in next six to eight months also?

Himanshu Kapania: While we operate in the market and we cannot speak on behalf of eight other operators, all I can state is that at this point of time while all of us participated in 2014 auction and 2015 auction and anticipated the voice tariff, I am not talking of mobile data, to be flat or improve, but it declined. Now we are stating that when the rubber hits the road as the impact of large chunks of investments are all being reflected in the financials, we are going to make serious attempts as an operator to improve realisation. We believe that our balance sheet is no different, in fact it is slightly better off than the balance sheet of even the leader or the number two operator, each will be under



similar stress at this point of time and there is every logical reason for the tariffs to stay at the current levels or increase and not fall..

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

Kunal Vora: Two questions, on data tariff. I heard you on TV saying that data tariffs could decline to 20 paisa to 22 paisa which is not very far from where we are already. Considering that there is huge capacity which is coming up over the next one year from incumbents as well as new player which is coming in, don't you think the decrease should be much higher or, why do you think it will stabilize at these levels? That is one. And second question is, wanted to hear your thoughts on industry revenue growth going forward, it has been growing at 9%, 10%, leaving aside the termination rate impact over the last two, three years. Do you see competition bringing this growth rate down or do you think it can be maintained to increase? And on the same lines, you have been gaining market share consistently for many years, do you think with entry of new player anything changes? Thanks.

Himanshu Kapania: Voice was easier to comment, data tariff is a little harder. There is no doubt that in the last one-year Idea's data tariff has declined by over 17% we believe it has decelerated much faster than our liking and we will like to share that data tariff has in fact improved by 1 paisa over the average of the quarter in the month of December. We are making every effort to be able to weed out non-profitable customers and also customers which are at a very low realization rate. That is why we were prepared to leave certain growth and instead firm up tariff from here. We are eliminating single-digit tariff consumers from our fold. This is an attempt that we are doing at our own. It is our belief that while there is no doubt before the new operator comes in and then becomes reasonably effective, which we believe we have at least 12 months, we have a full one year available for us to be able to hold data tariff or depress the rate of decline. While there is also no doubt that we have to make lot of first time users enter into this category and we will do trials and promotions, but a very heavy user who are at very low profitability Idea Cellular is not very keen to be able to retain them. If you are fine with this, I can move to the next?

Kunal Vora: Just one follow-up here, what I also observed is that it looks like on 3G you are seeing data tariffs decline while in 2G surprisingly while volumes have declined the realizations have increased, can you help understand this?



Himanshu Kapania: I think it is not a perfect accounting science, it is all we can say. I would not read too much into that, but let me just give you a more qualitative answer. The pressure is that we are not able to increase 3G ARPU beyond Rs.200 level, so that is a pressure point and the 3G consumers are requesting for larger volume. At a particular rate point we are okay for that volume but below that we are trying to reduce those level of consumers.

As far as industry revenue growth is concerned, if you look back into the last time when the IUC was reduced, if I recall it was in 2010, industry revenue also then fell to a single-digit level and then it bounced back once impact of IUC normalised. So if you were to normalize industry revenue from IUC impact, roaming cap impact, SMS cap impact and some service tax impact, you will find the growth rate of industry is at a similar level. However, we have not been able to absorb almost 7.5% to 8% impact because of regulatory changes and that is what has hurt the industry revenue. We are estimating to reach to pre-2015-16 growth levels in the years going forward if there is no more headwinds that flow from a regulation point of view. If you are fine, I can move to market share question?

Kunal Vora: Yes.

Himanshu Kapania: All signs and trends on market share continue to show the same indication, so let's look at some of the factors. First, subscriber growth, while we are 19% VLR share, one out of three SIM cards that gets sold in India is coming to Idea. Let's look at revenue growth, while the revenue growth of the industry, for Q2 FY16 versus Q2 FY15 was at a 6.5% Idea growth was 14.3%. There is different reporting structure for TRAI then what we do for our accounts but our incremental revenue share was 27% based on TRAI reported numbers. Now what impact will the new operator have on the market, we have to just remember ourselves that the overall size of the market is currently split into voice and data, currently mobile data is at best at levels of 17% to 18% of the total industry revenue and 82% is voice. We continue to improve our share both in the voice as well as in the mobile data segment. When the new operator comes in, he will definitely help grow the mobile data business and we will have to squeeze our way through to get share in the mobile data space. However, the voice space where we are fastest growing, subscriber growth is strong, our coverage is improving and this is where consolidation is currently happening. Even during this year if you were to look at, in fact in third quarter itself six markets closed down, five in the eastern circle from RCom, one of Videocon in Gujarat and even further consolidation have been announced and more and more operators are joining hands together. So the competition in voice market is reducing and we are hoping to get a



larger share of the voice market that is why the confidence stems from the fact that we will be able to continue our growth journey in the voice market and hold ourselves in the mobile data market.

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

Suresh Mahadevan: Couple of quick questions. One, obviously voice is still growing which is very impressive but everybody focusing on data, at some point will we see the absolute number of minutes falling? You think at any point in the near-term like next two, three years? That is one question, how you see that. The second is obviously, now there seems to be a lot of focus on 4G rollouts, I mean obviously you bought the spectrum when you are saying 75% of your revenue is covered, I just wanted to understand India probably, if you leave out the big cities, can it remain a two tiered market with 3G doing a lot of work. I mean particularly if you roll out 3G in 900MHz? Because my sense is, I think as long as people are accessing data on a cell phone let's say 5 inch, 5.5 inch or even lower, shouldn't it really make a big difference in terms of customer experience, 3G versus 4G, especially if you are rolling out HSPA plus or something? So that is the second question. Just wanted to hear your thoughts on these two.

Himanshu Kapania: First and foremost, as far as the voice business is concerned, we were also concerned in the past that there would be a point where voice business will slowdown both in terms of subscriber growth and minute growth, however we are seeing no such trend. In fact voice minutes continues to be very robust. On a calendar year 2015 to calendar year 2014, this is a long period, in fact our minutes have grown by 17%. As I look back over the last three years, every year minute continues to grow much more than what it has grown in the past. This is obviously because of a lot of subscribers are entering in. While India has reported 900 million subscribers on VLR, it is our estimate that only 600 million Indians currently own a mobile phone. This is a unique situation. I do not think anywhere in the world, even in Africa, this situation reaches that not more than 55% to 60% population own a mobile phone after eliminating the people who are unlikely to be able to buy mobile phone. So if our estimates are right, we have a long way to go given the laggard market and a lot of uncovered Indians who are, as the GDP improves come into income category and as the coverage reaches them, these laggards will join the category and they will continue to help minutes to grow. We have to keep reminding ourselves that there are 1 billion Indians who will have a phone and there is only 150 million Indians today have a 3G, 4G phone. There is a very large feature phone market and minutes continue to be important and still a very important application. Also, I would like to remind you that internet



service mean education. Indian education, while we pride ourselves to the biggest engineers and doctors, education levels are also not more than 40% to 50%. We are here discussing a large portion of them who are currently not educated and will slowly discover the power of internet but they will continue to use voice through the feature phone. Given all these our socio economic dynamics, which are very different from the other parts of the world, we estimate that voice will continue to be an important source of revenue and GSM is a technology which will service it. If you are fine with that, I will move to the second part.

Suresh Mahadevan: Sure.

Himanshu Kapania: Our view on 4G is that it is a good technology for capacity, we do not see 4G as a technology for speeds. There is very niche application on HD video basis which you could run on 4G that one cannot run on 3G. So 4G is not all about speeds or better consumer experience, it is about having a larger capacity than 3G. We are treating a combination of 3G and 4G as an overall available wireless broadband infrastructure for consumers to access daily need internet applications. 99.9% needs of Indian applications will be serviced by 3G and or 4G. They are both interchangeable as far as we are concerned. Only thing is if the pricing for 4G spectrum was better and now the ecosystem is developing, equipment prices are similar, we do not hesitate to rollout 4G. We are not against 4G, for us both (3G & 4G) are interchangeable. That is why we always talk about 87% of our revenue covered and if we were to look at 67% revenue as I mentioned earlier, where we have now 10 MHz (3G plus 4G spectrum), we treat this together. This is besides the 900 MHz spectrum that you are talking about which at some point of time we can always use. We feel sufficient spectrum is available with us that is why we are not too much worried about whether there is auction or no auction.

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

Sanjay Chawla: I have got two or three questions, one is, Mr. Kapania if you could give some sense about the data market growth in terms of mobile broadband subscriber additions in the near to medium-term say one to two years, will we continue to see no further pick up in the monthly or quarterly adoption rate in the data business from the 93 million 3G subscribers at the industry level? That is one. Secondly, you have raised the capex guidance so what is the revised guidance with regard to the number of 3G and 4G BTS additions in FY16 from the 30,000 - 35,000 level that you indicated



earlier? And third is, the growth in inter-connect cost seems to be less on a quarter-on-quarter basis, is it due to lower ICR fee in Kolkata or also it is because of lower ICR in Delhi and Punjab?

Himanshu Kapania: I will try to answer the first and second question and give the inter-connect question to Akshaya. As for mobile data market growth, I think I spent almost 30% to 40% of my opening remarks trying to project what is likely to be mobile data growth into future and how our company, besides infrastructure rollout, is making massive efforts to be able to capture this mobile data growth. Now let me again address that part. A large amount of our teams are in the process of identifying the profitable segments on the mobile data, and also coexistent segments that are currently not entering the internet world but capable of entering into internet world. We believe treating internet services as a pipe and just a plain simple pipe is not the best way for a telecom operator and we are investing in technologies by which we can understand consumer usage of internet much better besides, a digital sales and services channel, entering adjoining businesses in the digital content space, businesses in the digital wallet space, all of these information we have started to share. We are building a very large effort within the company to be able to capture the growth and work to drive internet for the customers who are currently either casual users or non-users and bring them in to the fold of internet. So while infrastructure build out is important but we are also making high effort on adjoining business so that Idea can identify profitable segments, Idea can identify newer segments and participate and lead the growth in these areas.

Sanjay Chawla: Himanshu, my question was more on the data category growth in terms of the adoption rate.

Himanshu Kapania: Yes, right in quarter one FY16 TRAI reported 93 million broadband subscribers at Industry level and there is no doubt that we are in the 5th year running for the 3G and growth has until now been slow on a population penetration at 7% to 8%. Given now the coverage expansion is very-very rapid, heavy efforts are being done for category build out and as well as the mobile data prices are becoming more affordable, we are hopeful, while we have seen some slowdown in quarter three, we see this more of aberration rather than as a rule. We are extremely hopeful that Digital India will be big success for the country.

Sanjay Chawla: And what do you think is the reason for the price elasticity in data not being adequate enough, because we are seeing ARMB declines but not more than one times increase in terms of elasticity, in terms of the usage.



Himanshu Kapania: As I mentioned, let's split the answer in two parts. First part is, there has been a supply for 3G and 4G services in the last 4-5 months much more than the demand. But this is a one-time supply which has increased many folds. We are very confident that the non-users, the first time users, the casual users, will adopt the internet the way the social interaction is improving, way the society is adopting to digital services will catch up in the medium-term. There may be a one quarter, two quarter pressure but in the medium-term itself we are extremely confident that both subscriber growth as well as volume growth will be seen equal to the previous levels. As I explained to you, the company has done the effort to be able to get both subscriber and volume growth back, so let us wait and see, beyond that at this point in time I cannot make any incremental points. Our efforts are on. We are a marketing company and that would be the key to us, category growth will be most important for us.

Sanjay Chawla: And on the BTS addition that we expect now after the revival?

Himanshu Kapania: We have already mentioned that we are expected to do overall 40,000 to 45,000.

Sanjay Chawla: And that includes the 2G BTS?

Himanshu Kapania: Yes, that includes the 2G BTS.

Sanjay Chawla: I think this was the earlier guidance also, 30,000 to 35,000 3G plus 4G sites and around 10,000 2G sites.

Himanshu Kapania: I have to remind you that we are doing a single RAN strategy, because of that a lot of replacement is taking place and we may not be able to complete rollout in new population areas. There is twice effort which is happening when we install a new BTS it will be installed in a metro or a large town and then replaced old BTS will come back to our warehouse. We then need to do logistics or then it will go into new population center which could not be in the same state or it could go to a different state. Given these kind of efforts which are going on, it is lot of time consuming. I would put this year BTS number as 40,000 to 45,000. A lot of effort is going on in the company, it has been very difficult to give you precise number because there is a lot of work in progress at this point of time.

Sanjay Chawla: Is the part of an incremental capex also allocated toward fiber and non-BTS non active capex?



Akshaya Moondra: Yes, that is right. To answer your last question, I am not very clear because as far as the roaming and access charges are concerned they are more or less flat as a percentage of revenue. The growth in minutes is 5.1% and the growth in the cost is 4.2% and that would normally be the case because data which is an important part, does not have associated pass through. Hence, the cost may not increase in direct proportion to the increase in minutes.

Sanjay Chawla: Akshaya in recent quarters we were seeing that the increase in the inter-connect cost is higher than the sequential minutes growth, but this time it seems to be lower. So presumably it was driven by ICR charges also. So my question is, have you seen any reduction or reversal in some of the ICR fee that you pay?

Akshaya Moondra: There is no significant change. I mean sometimes in quarter-to-quarter there could be small differences but there is no change in direction. We have just launched Kolkata recently and in Delhi we are expanding. I do not think that is having any impact on this.

Sanjay Chawla: And just a housekeeping question, you have given interest capitalization figure of 13.3 billion in the quarterly report, I believe it relates to nine months' period?

Akshaya Moondra: Yes, whatever figure would be given would have been given for nine months' period. I do not remember the figure exactly but it would have been given for a nine months' period. I think in the opening remarks I mentioned that the total interest capitalization in this financial year is Rs.17.7 billion, that is for the nine months' period.

Sanjay Chawla: Nine months period total is Rs.17.7 bn?

Akshaya Moondra: Yes, that is right.

Moderator: Thank you. Our next question is from the line of Piyush Choudhary from CIMB. Please go ahead.

Piyush Choudhary: Mr. Kapania, I remember you have mentioned that to boost 3G adoption there were some low commitment packs also which were introduced like Rs.150 for 500 MB or so. Are any signs of success which we are seeing over there which could probably translate into the numbers later on? Secondly, any timeline on the Videocon spectrum trading, have we done the due diligence already and have parties intimidated to DOT. And just lastly on the VLR subs versus the reported subs, that



gap generally used to be 2 million to 4 million in a quarter while this time it has gone to around 10mn, so what is driving that gap and if you can help us understand. Thanks.

Himanshu Kapania: Let me answer in the reverse order. As far as VLR subs is concerned, just like in mobile data reporting, even in voice customer reporting we have tightened our reporting norms. Given that the VLR growth have been far more than what we had budgeted for, we would just want to wait and watch, the customers would continue to be retained on our network and continue to consumer more and more. We are being cautious and we have revised our reporting norms that is why you can see the gap has increased. We have tightened both subscriber reporting norm as well as mobile data subscriber reporting norms.

Piyush Choudhary: Just wanted to understand the difference between a VLR subscriber and a reported subscriber was due to the in-rumors, is there any other reasons for the difference?

Himanshu Kapania: No. The difference is, in our reported subscriber we follow a principle, we eliminate the subscribers who give us very low ARPUs and so we have increased our base level of ARPU and accordingly subscribers, only above the base ARPU, are getting reported. Just because the customer is on a VLR does not mean that it will be reported, it has to be profitable and it has to generate certain level of revenues for us. If somebody were to deliver us 50 paisa or Rs.1 or a Rs.2 revenue we keep eliminating those customers. I will ask Akshaya to give an update on Videocon.

Akshaya Moondra: As far as Videocon is concerned, we have finished with whatever due diligence we have to do, we expect to file the joint intimation with DOT in early February and post that we have to wait for the processing to be completed and the DOT approval coming through. What is entirely within our control that will get completed in the first week of February and then we will see how it goes.

Piyush Choudhary: And I understand that 45 days is required for that before you actually start using that spectrum?

Akshaya Moondra: Actually 45 days is the minimum required but we would need confirmation from DOT. DOT has to do its own process of whatever due diligence they want to do on the deal. And once they confirm to us then we are okay to use the spectrum.

Himanshu Kapania: As regards 3G packs, we continue to introduce multiple packs, we have two objectives, we want to give a lot of trials for consumers who are heavy voice users or heavy roamers



and also have a 3G or a 4G phone but currently not using services. So those trials continue, some of them are free trials, some of them are longer validity trials with lower volumes and more and more effort is happening on them. But as I mentioned earlier, our current focus is to retain more profitable customers.

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

Pranav Kshatriya: I just have a couple of questions. Firstly, Bharti has indicated Rs.600 billion of capex over next three years, which means their capex guidance basically suggests that the capex intensity will stay elevated for next three years. How do you see the capex trajectory for other players like yourself into the future? Do you expect capex trajectory to stay elevated, go up or go down? I am not looking for numbers but any sense of that direction will be helpful. Secondly, you have changed the definition for data subscribers, how much would have been the subscriber addition with the previous definition? That is it from my side.

Himanshu Kapania: We would not like to comment on other operator's strategy, but what we can say is that in the past we were doing Rs. 3,500 crs capex and between 15,000 to 20,000 BTS. We have now increased our volume to 40,000 to 45,000 BTS. We have currently 170,000 BTS over 2G plus 3G and 4G. Our current focus is, there is an X coverage of 3G as well as X coverage of 4G which we want to complete. After that coverage is over we will wait for consumer uptake from these coverage areas and if the consumer uptake is going to be strong than we were going to put incremental capex beyond this. So once we have monetized this capex, the subsequent capex thinking will start. It will be very difficult for us to be able to give you a three-year guidance if I have no visibility of revenue. Our guidance is completely linked to revenue visibility.

Akshaya Moondra: On the number of data subscribers if we had reported on the same basis as in the last quarter it would have been higher by about 2 million.

Moderator: Thank you. Our next question is from the line of Naveen Kulkarni from Philip Capital. Please go ahead.

Naveen Kulkarni: Sir, we seem to be entering a phase of margin declining growth, so while revenues are growing our absolute EBITDA addition is declining and probably we have seen this phase before also. But do you see this phase to be any different form that phase when the voice market was very



competitive but this time the data market is going to be hyper competitive, probably 12 months from now. My second question is, some of the operators are now even looking at VoLTE so do you think that that is a more efficient product for providing voice services? These are my two questions sir.

Himanshu Kapania: You are right that we have not had, like in the past a growth of 25% to 30% EBITDA, in this quarter and in the previous quarter. It is my understanding that there are two big factors which are impacting immediate EBITDA, one is rate decline and more the rate decline is on the voice side than on the mobile data side and because it also has a linkage to IUC. The second is cost pressures primarily on account of higher rollout and very large quantum of subscriber additions. So first and foremost, as I said I am sticking my neck out and making every effort to make sure that the voice decline ends and we can hold the rates at current levels or reverse the trend. And secondly we also want to slowdown the subscriber growth at this point of time so that we can focus more on margin expansion for some time rather than focus only on subscriber market share growth. These are our two attempts we are doing and with this we are very hopeful to be able to cut back to a 25% to 30% EBITDA growth on a year-on-year basis. Data capacities are being built up, as volume of data grows all of this will add to our margins. Data rate topic is more about capacity and the impact on the margin will be much lesser. If you are okay with this answer I will move to the second part?

Naveen Kulkarni: So a bit on data, probably what is different in terms of when we are building for data network is the requirement of spectrum which was probably not there in the given era. So how do you see that impacting the overall capital productivity going ahead?

Himanshu Kapania: We have sufficient spectrum at this point of time to take care of massive projection for mobile data volume for at least three years minimum & most likely for five to six years. We have already acquired a large quantum of spectrum and we are just about rolling out extensively to be able to utilize the current spectrum. We do not have to worry about at this point in time. Do I need more spectrum for capacity? We are currently doing only 81 billion MB and we can do eight to ten times this number with the current spectrum that we hold.

Naveen Kulkarni: On VoLTE sir?

Himanshu Kapania: VoLTE is a Voice technology for operator on 4G who do not have a fall back option on 2G or 3G technology. It is in the early phase of introduction in the developed world. It has been introduced in Korea and it is in the process of getting introduced in United States. When 4G coverage is seamless and rolled out on a nationwide basis it makes sense to introduce VoLTE. Most of the



current 4G handsets that are available in the market do not support VoLTE, but in the longer run VoLTE handsets will also come. It is our belief that once the country is ready to be able to upgrade the existing spectrum on 2G and 3G to run only 4G then VoLTE will become widely prevalent. It is our projection that VoLTE in this country will stabilize somewhere between 2019 to 2022, so we have at least three to four years for us to go for it.

Naveen Kulkarni: Is it significantly more spectrally efficient than the current 2G deployments even on 900 MHz?

Himanshu Kapania: I do not have a clean answer for that. Just to remind you that India has the smallest quantum of spectrum split over 8 to 10 operators and we carry world's second large voice minutes on GSM, 12 billion voice minutes second to China and we are still growing at a double-digit pace. So to say that GSM is not efficient enough, I think we are not realizing the quantum of efficiency and the scale that mobility business is able to deliver from the current technology.

Moderator: Thank you. Our next question is from the line of Kartik Chellappa from Buena Vista Fund. Please go ahead.

Kartik Chellappa: First question is, while your stand on voice pricing is welcome and commendable and we hope to see that reflected in the P&L soon, in the past we have noticed that it has some unintended consequences. For example, if we go back to FY14 where we saw tariff increase by the operators, it has also meant a slower rate of minute growth for us and it has also meant that some challenges may get some short-term relief. So given our stand on voice pricing does it mean that we are now psychologically prepared for a lower level of minutes growth and we will look to push through this pricing increase even if it means some negative elasticity?

Himanshu Kapania: It is important dynamics and we have to always keep that in mind but what has changed from the past to the present is renewal of spectrum and availability of spectrum trading. Let me talk about renewal of spectrum. The top three operators in the 900 MHz renewal have managed to renew all their licenses, the subsequent operators below them due to stress on balance sheet have decided to exit some of their GSM markets. The next renewal is coming up for the operators which are currently lower in the pegging order starting from 2017 and going up to 2021. They have to keep in mind that given a large outflow that is required for renewal, if opportunity does give a chance, it may be a good idea to generate more cash rather than to take a short-term benefit. We would like to remind that even as we speak, while Idea Cellular has ARPM at a level of 44 paisa per minute and a



voice rate anywhere between 31 to 33 paisa per minute, the reported ARPM of operators which are ranked fourth, fifth, sixth is anywhere between 20% to 40% discounted to our ARPMs. We already live in a paradigm where we can take some premium. We believe that the dynamics of the industry have changed as larger outflow is required for spectrum renewal, people have to be lot more careful about rate realisation. But let us see what happens, there is always this pressure point, do we go for minutes growth and subscriber growth or do we focus on profitability, we will try to balance the both as much as possible. But if we have to choose one, we are now going to choose profitability over volume.

Kartik Chellappa: And my second question is on the data volume growth moderation, we are still at the early stages yet but we are already starting to see both volume moderation, in terms of our 3G net adds this quarter at 1.6 million has actually been fairly weak. In fact the kind of ads that we are seeing to our 3G handsets and 3G data services is only a fraction of the handsets. Given that we have been spending a lot on our network improvement as well as customer education, how would you read the flow off take of demand both at a volume level and a data sub recruitment level?

Himanshu Kapania: This is an area of worry, but given the fact that we have been there in the industry for about 20 years we have seen the cycles. We have seen this in past, in the period for voice way back in 2006 to 2009 when the overall demand was slow. We are improving the quality of our network, we have to also remind ourselves that voice as an application is well understood by consumers across all income categories. However, internet as an application naturally comes to the younger generation and it takes longer for the older generation who have the income power but who have to learn or discover the power of internet in their lives. That is the reason why a lot of effort needs to be made not only by telecom service providers but also by the start-ups. Internet economy is projected to be the largest economy not only for India but for the world and a lot of new companies are entering the category and their success is dependent on adoption of internet. So we believe the peer pressure will drive this. I would not read too much into a single quarter result.

Kartik Chellappa: And sir my last question is again on our capex guidance increase, while the network team being able to do much better than our expectation is heartening to hear, we are seeing that in the demand side clearly the volume slowdown is starting to manifest. Given that our 4G rollout is more bottom-up starting from Tier-I, Tier-II cities initially and moving to the metros, and given that we are seeing some sort of volume slowdown and given our ROC focus, would it not have been prudent to keep the guidance as it is, wait for the volume growth to come through before raising it?



Because there are press reports quoting yourself saying that temporarily there is a demand supply mismatch, are we not actually worsening that equation by taking our capex guidance up?

Himanshu Kapania: I can understand what your worry is for a specific guidance change, but I can assure that Idea Cellular is working towards a plan. We identified important cities which we need to protect and we have to retain those consumers and we have to be ahead of the curve. So this is important fortress that we have to create and that will require for us to reach an x number of towns, that is why whether we do it in fourth quarter of FY16 or first quarter of FY17 are not going to make a substantial difference.

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

Vinay Jaising: You have actually addressed most of my questions. I am just going to rephrase them and see if I can get some more inputs, just two of them. Firstly on free cash flows, as you have suggested you have the spectrum to grow, the rest of the spectrum which you will buy will be a function of what you want and not what you need to survive. Using that in mind you have obviously paid only 25%, 30% of that spectrum charge initially, incrementally even the charges come up. Is it fair to assume it is somewhere between 6% to 8% of sales going ahead for the next 10 years after the two years of moratorium? The reason I ask that is I am seeing capex move up, if capex moves up, EBITDA margins I presume even stays at 35%, we have taxation, interest cost and now on a recurring rate we have the overall spectrum payment to be made. What happens to free cash flow? So that is my first question, what happens to free cash flow keeping these three things in mind. My second question, Himanshu spent so much of time explaining to us on data. Just not on the volumes which we will wait for it to take off, but what about ARMBs? Himanshu did mention earlier that we are not interested in the single-digit ARMBs which I think the cable TV operators do suggest, but what if that is a norm, then what happens to the overall data revenue growth which has already slowed down? Thank you sir.

Himanshu Kapania: For the cash flows, Akshaya can explain you more. But just to remind you, when we buy the spectrum the commitment for the debt is accounted for, we get first three years of moratorium and there is no interest payout for it and we get 10 years of equal installments to be paid on an annual basis. Let's assume that out of the 30,000 crores we have to pay 22,500 crores with 25% paid upfront, this 22,500 crores has to be paid over 13 years including the interest component and the first payment starts after the third year. Now given this model, we have done our modeling on capex



requirements, even additional spectrum requirements and repayments and we see ourselves very comfortable of being repay back installments without having to borrow from external market and be able to deleverage very fast. That is the model we have seen. We have no idea what model you are building but we are happy to compare notes with your model vis-à-vis the model that we have seen from our side. All I can assure that while there has been upfront bunching of our investment, it is wrong to, while accounting standard requires us to show this as debt, consider the spectrum deferred payment obligation as debt. If you have to look at a tower deal that there is a commitment on an annual basis or a monthly basis that we do, deferred payment obligation can be like a part of a license fee mechanism. If you were to follow that we can show to you that comfortably we will be able to repay this out from operations and we do not need additional help from external sources to do that. We will be happy to be able to compare models with what you have and what we have. Akshaya, would you like to add something?

Akshaya Moondra: I do not know Vinay, either we can approach it from the point of view of what is our debt today and are we deleveraging or we can address it from the point of view of how we can service the installments of spectrum payment. Now the way we look at it is we are counting it as debt, so as long as we are generating cash profit and all our capex is met entire out of our cash profits which is after tax and interest charge and the balance cash profit is exceeding our capex, so we will continue to deleverage unless we take on more spectrum. As we said that we are at a point today where our future spectrum purchase is totally discretionary, we have adequate spectrum to take care of what we need. Given our current holding of spectrum, current cash generation and even the higher level of capex that we have seen in this year we do not see any problem in meeting our payment requirements, there is a lot of buffer there.

Himanshu Kapania: As regards ARMB, it is a speculative question what happens when rate falls to a single-digit, what happens if the fall is steep? I think we will cross the bridge when we come. We have built multiple models but I can tell you philosophically that it is our belief that in the business there will be some profitable segments and then there will be some unprofitable segments. For example, if somebody were to introduce unlimited plan they can be very unprofitable because their realization maybe low. We will take calls based on what is best for the business and what it earns. It will be unfair for me to be able to make commitments here which I may not be able to keep. But we are a progressive company, adaptable and flexible in our approach and we find innovative answer to this. But all I can assure is that there are lot of fear in the market place of unfounded nature, all companies who are competing in the market are listed companies and have shareholder interest in mind. If Idea Cellular



cannot make return at a particular price point so does industry leading players will also not be able to make returns for a long period of time. Most of the telecom operators enter into the category so that they can deliver shareholder returns, they have not entered for some social obligations. Keeping that in mind we have to review our business models. If you were to see it as a social obligation that somebody is pursuing then there is no way we can have a quality discussion.

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

Srinivas Rao: The first question I just want to take it from Vinay, your spectrum installment which as you said is due three years later, the amount should be, am I correct that it should be somewhere around 5800 crores per annum?

Akshaya Moondra: Srinivas, I do not have the exact numbers right now but let me put it this way, if we need to refinance, we will borrow something. All that we have to see is where directionally our debt going towards. As long as our cash profit is more than the capex, we will continue to deleverage and I think that is all that is relevant. We can have a more detailed discussion on this but I do not see a concern here.

Srinivas Rao: Just so that we are clear, the cash profit when you mentioned it is taking into account the spectrum payments, right, when you say cash profit two year henceforth?

Akshaya Moondra: No, when we say cash profit it is EBITDA minus interest minus tax. I think the only thing which is it is not capturing right now and which it will have to capture going forward is the capitalized interest because we are taking the interest charged to P&L for calculating cash profit. But from the next quarter when the interest amount increases the cash profit amount will reduce proportionately. That is the only thing which is not currently reflected, otherwise this entire cash profit as we are reporting is available both for capex and for repayment of loans.

Srinivas Rao: Sir just bear with me for one second, because you have a moratorium on the spectrum which is the largest part of your debt or practically that will be almost the entire debt, so the interest even if it shows up in your P&L it is actually not cash interest. First, am I correct in interpreting it that way?



Akshaya Moondra: When we are calculating cash profit, whatever is charged to the P&L we are deducting that. That is what I am saying, you have to look at the installments in one way and not mix up the two methodologies. Let us look at it like loan, if interest is payable after three years but if you will look at the loan trajectory, after every one year the accumulated interest gets added to the loan amount and the loan amount is actually increasing on every anniversary date. The way we are reporting cash profit today is that if interest is charged to P&L we are deducting it from the cash profit, although it is not a cash outflow right now.

The only point which I clarified earlier, let me just repeat for the sake of absolute clarity, that the interest which is capitalized but is not charged to P&L right now is not being deducted for the purpose of cash profit. To that extent interest will go up in next quarter and the cash profit will be impacted.

Srinivas Rao: This is helpful. Sir second question is on the debt level, is it fair to say that at least your expectation lead by once the moratorium period ends and then you will have sufficient cash flows to deleverage, your more or less the debt which you will have when your spectrum payments begin will be practically the debt linked to your spectrum bids. Is that something what you are expecting in your business outlook?

Akshaya Moondra: Let us delink the subject of moratorium with the debt level. Moratorium is something else. You see, what we are reporting is net debt. Let's say there is moratorium and in the interim there is no servicing, so what will we do? We will generate cash, we will keep it as investments which will straight away reduce our net debt. I think moratorium and servicing of the spectrum payment are separate subjects. We are basically looking at what is the overall level of debt. A moratorium only enables you to kind of handle the cash flows better.

Himanshu Kapania: The only incremental point I made in the opening remark on the Rs.376 billion of debt, we have Rs.319 billion from deferred payment obligation and we have about Rs.60 billion which is financed from the bank. Whenever and whatever we borrow from the banking or financial institutions has steadily been coming down and the total outflow for the company of our size at this point of time is only 60 billion and this will continue to be repaid back over the next three to four-year period. Though your question of directionally will we have a larger portion of deferred payment obligation, answer would be yes unless we need to borrow something to be able to repay except in installments.



Srinivas Rao: And just two more questions, one on the Videocon deal. So there at least the government seems to be under the view or impression that you may have to pay the AGR or the license fee on the spectrum transfer, so is that your understanding which means you end up paying anywhere between 8% and 10% of the underlying deal value as a fee to the government? Because I believe that is where there is some difference in opinion as of now.

Akshaya Moondra: Yes that is our understanding, that is mentioned in the spectrum trading guidelines and that is payable by the seller, the recipient of income.

Himanshu Kapania: That is paid by Videocon and not by Idea Cellular.

Srinivas Rao: And finally sir one more question on your 4G launches, there was I mean when I kind of walked in to the shops there was an expectation that there will be separate 4G plans which will be made available, this was in initial days. Just wanted to check have you rolled out new 4G plans in the market where you rolled out 4G?

Himanshu Kapania: No, our 4G plan is equal to 3G plans.

Srinivas Rao: So basically everyone on 3G kind of moves to 4G if they have an appropriate handset, right?

Himanshu Kapania: Globally there is normally a common plan for all technologies and the most convenient for customer is to have a single plan for mobile data because given the fact that we have three technology 2G is ubiquitous, 3G coverage is much ahead that of 4G and 4G will be in pockets where demand for mobile data is high, customer will toggle between multiple technologies and if you different plans across these technologies the consumer will be very confused how was he charged. So globally the trend is towards having a single plan for all the three technologies.

Srinivas Rao: And one final question, this is regarding the comment you made about the data ARPU being not kind of moving beyond 200, so I mean is it fair to say that if it is a volume lead is what kind of the outcome you are expecting in India, it would be more prudent to focus on reducing your cost per MB or delivering a network which delivers lower cost per MB so that the same customers can be more profitable rather than finding out marginal customers at this time and not servicing them. I mean at initial stages of a data sector growth is this a fairly prudent strategy?



*Idea Cellular Limited
January 22, 2016*

Himanshu Kapania: You have interpreted it very differently to what I was trying to say. I was trying to say that there are 93 million subscribers in India who are using wireless broadband, we are estimating this number to go to 400 million to 500 million by 2020 and if the growth of mobile data is subscriber lead, the capability of these subscribers who are currently paying around 176 ARPU, both voice and data, the capability to be able to enhance overall ARPU in which data is going to be Rs.200 and then he pays additional Rs.150 for voice plus non-data VAS, we will end up this customer will be paying about Rs.350. Beyond that to expect consumers to give that much ARPU is difficult for us to estimate at this point of time. That was the indication that I was giving.

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

Himanshu Kapania: Thank you so much. We know there have been lot of questions that our analyst friends and investors have. It is not only on the investor call, we are available for analysts and investors to be able to come over to us and we would like to clarify all our strategy. Thank you so much for the inputs that you have given to us and we will work on our strategy based on your inputs. Thank you very much and speak to you next quarter again.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Idea Cellular that concludes this conference call. Thank you for joining us and you may now disconnect your lines.