



“Idea Cellular Limited Earnings Conference”

January 24, 2018



*Idea Cellular Limited
January 24, 2018*

Moderator: Good afternoon, ladies and gentlemen. This is Margreth, 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 – Whole Time Director and Chief Financial Officer of Idea Cellular; along with the other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking out 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 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, Margreth.

On behalf of Idea, I welcome all participants to this Earnings Call. Today, our Board of Directors adopted the Unaudited Results for the third quarter - October to December of the Financial Year 2017-18. Press release on Idea's third quarter results along with company's Quarterly Report has been uploaded on our website and I assume you had a chance to go through the same.

My opening remarks will cover the key long-term structural changes in the mobile sector and how Idea Cellular is gearing itself to operate in the new paradigm, while Mr. Akshaya Moondra – the company CFO will provide details on Idea's financial performance during the third quarter.

First: Quarter impacted by reduction in interconnection usage charge

- Effective 1st October 2017, TRAI amended the domestic interconnection usage charge (IUC) settlement regulation reducing the 'Mobile Termination Charge' from 14 paisa to 6 paisa per minute aggravating the financial stress of the industry.
- The regulation imposed 57% sharp decline in IUC settlement rates negatively impacted Idea's Revenue and EBITDA for this quarter by Rs. 8,200 million and Rs. 2,300 million respectively, when restating Q3FY18 revenue @14 paisa for MTC.



- Further, effective 1st February 2018, 'International Mobile Termination' settlement charges are also revised from 53 paisa to 30 paisa per minute. We estimate this IUC settlement rate cut will negatively impact Idea's Q4FY18 revenue by nearly Rs. 650 million and EBITDA by Rs. 400 million in the two months period, at constant traffic levels.
- Both the domestic and international MTC downward revisions remain a body blow to all operators and reduces investable funds for the critical 'Digital India' Program.
- Additionally, the international IUC rate drop only benefits the foreign operators with no commensurate benefit to Indian consumers, but with significant foreign exchange and revenue loss to the Indian exchequer. We are perplexed by the recent TRAI's decision on international IUC rate reduction.

Second: With proliferation of unlimited voice bundled with data plans, India is moving towards astronomical high-volume low rate mobile market

- Since the introduction of unlimited free voice bundled with data price plans from April 2017, the consumption habits of the Indian mobility users has undergone a seismic shift. As Indian consumers graduate to higher priced bundled plans, the mobile service consumption trends are shifting from 'snacking' to 'buffet' with marked higher per subscriber usage.
- Based on internal estimates, India has now nearly 290 million subscriber base as on Q3FY18 end, who have chosen one of the top 4 telecom operators bundled plans offerings. Just in 9 months, nearly 25% of Indian mobile users have migrated to unlimited bundled voice and data plans. With increasing popularity of these plans among Indian mobile users, we estimate within next 2 years, the penetration could rise to as high as 50%.
- The high consumption of such unlimited plans has significantly increased overall mobile voice and data usage. The adoption of these plans has led to an explosion in voice volumes with Idea's sequential quarterly voice minutes growth @10.8% in Q3FY18 vs 1.7% in Q2FY18, highest in the last 30 quarters. The mobile data volume also witnessed robust sequential growth of 30.2%, on back of sequential quarterly growth of 73.5% in Q2FY18 and 99.1% growth in Q1FY18, as Idea's PAN India data network carried 571 billion megabytes of data volume this quarter, a whopping 5.3x of mobile data volumes compared to 1 year back in Q3FY17.
- However, such unlimited plans continue to erode mobile voice and data realizations as the 'voice realization rate'(including the impact of reduction in IUC rate) sharply declined by 24%



to 16.8 paisa per minute. The 'mobile data realization rate' also fell to world's lowest tariff @2 paisa per megabyte, a sharp decline of 27% vs 2.7 paisa per megabyte in Q2FY18.

- As the initial adopters of this plan were primarily from Idea's high ARPU base, the increasing adoption during the early phase has led to ARPU decline. We are confident that subsequent takers of unlimited plan from existing Idea's consumer base will be value accretive as casual and multi-SIM consumers will begin to commit larger spends to the company on these bundled plans.

Third: Rapid mobile industry consolidation is leading to SIM consolidation

- Significant financial pressure over last 18 months has forced sub-scale operators to exit or combine with other operators. This is leading to faster than expected mobile industry consolidation with market shifting from crowded 9-10 operators market to a more efficient 3-4 operator industry, leading to encouraging long-term prospects for the surviving operators.
- The announced closure of RCom prepaid services from December 2017, planned merger of Tata Teleservices and Telenor with Bharti, and Aircel closing services in 6 circles has led to first phase of market consolidation. Thus, after reporting positive net additions of 16.7 million in Q1FY18, the telecom industry registered 24.4 million subscriber decline between July to November 2017 on the back of loss of 62 million customers by smaller and exiting operators.
- As on 31st December 2017, Idea's overall subscriber VLR base has crossed the coveted 200 million milestone and stands at 203 million. Resultantly, Idea improved its subscriber VLR market share to 19.8% in November 2017.
- Unlimited plans are further paving the way for second phase of SIM consolidation as consumers who earlier used to split the usage on multiple SIMs are now committing all their usage to single SIM after opting for fixed period unlimited plans.
- While the usage is shifting to single SIM, customers are not relinquishing their other SIM due to multiple reasons including wide distribution of their other mobile number, the SIM being linked to bank accounts or just to avail of various promotions like discounts available in future via other SIM.
- This is leading to a phenomena where subscriber/VLR numbers are still healthy, but 'revenue generating' subscribers are falling. Having realized this emerging new trend, Idea has quickly focused its attention from 'VLR led subscriber growth' to 'revenue generating subscriber growth'. Our new internal norm for 'revenue generating subscribers' is to drive Idea's sales, service and marketing teams focus towards at least Rs. 25 ARPU generating customer.



- To achieve the required focus on revenue generating subscribers, Idea's current strategy is:
 - A) Build a company-wide culture of selling unlimited voice and bundled data plans
 - B) Launch of attractive postpaid Nirvana plans to choose against prepaid unlimited plans with feature-rich postpaid portfolio including data rollover up to 500 gigabytes, free Idea phone security, cumulative family member discount, premium services, customized family tunes etc. besides unlimited voice bundled with mobile data
 - C) Targeting low and pure incoming customers who are currently in the non-unlimited category with aim to upgrade to Rs. 25-150 ARPU levels through a series of tariff and product interventions

Fourth: India is evolving as world's largest minute's market

- Increasing adoption of unlimited plans is driving huge consumption in voice minutes. As per TRAI Q2FY18 report, industry voice volumes reached 16.8 billion minutes a day, a staggering growth of 36% YoY, India is now clearly the world's largest consumer of mobile voice minutes.
- Idea's 'usage per subscriber' has increased by nearly 32% YoY in Q3FY18 and now stands at 509 minutes per month. Further migration of subscribers to the unlimited voice plans will continue to drive usage per subscriber leading to continued growth in industry voice traffic.
- The company is moving fast to roll out its own 'Voice over LTE' services for the 58 million strong 4G handset owners and remains on course to introduce Idea's VoLTE services from March 2018 onwards in the main markets. We expect to offer VoLTE services across all Idea's 4G towns in calendar year 2018 itself.

Fifth: New subscriber growth after SIM consolidation

- While existing customers consolidate their multiple SIMs, nearly 300 to 400 million Indians who currently do not use any mobile services are at an inflection point to enter the voice category primarily on 2G network, aided by falling outgoing consumer tariff and availability of 2G feature phones for as low as Rs. 300 to Rs. 500 per handset.
- Idea and Vodafone India combined will have the deepest 2G network presence covering an expanse of over 1.1 billion Indians across 500,000 towns and villages and is best positioned to be the biggest beneficiary of this impending growth.

Sixth: Wireless broadband subscriber growth has just begun



- As per the TRAI Q2FY18 report, India has 306 million mobile broadband users as on 30th September 2017, an impressive addition of 133 million wireless broadband users over last one year.
- As mobile broadband data coverage becomes ubiquitous and 4G services become increasingly affordable for the masses due to steep decline in tariffs from over Rs. 150 a year back to current level of Rs. 20-25 per GB, the country is poised to accelerate and add nearly 500 million wireless broadband users in next 3 to 4 years.
- Idea mobile broadband subscriber addition of 5.2 million this quarter has been its highest wireless broadband customer addition, as company's broadband data user base reached 34.8 million out of total 42.6 million data users.

Seventh: India is amongst the highest per sub consumption society on data as well

- Seeds of Digital Revolution which will permanently transform India into a digital society have been sown.
- Data consumption per subscriber has witnessed a meteoric rise largely on back of unlimited bundled plans. Industry data traffic as per TRAI Q2FY18 report has witnessed a massive explosion as volumes grew by more than 7.5 times in less than one year.
- For Idea, the introduction of unlimited bundled competitively priced data plans has led to –
 - A) A sharp rise in Idea's data subscriber usage per month from 700 megabytes to nearly 4.8 gigabytes in one year, far higher than the global average
 - B) In comparison, mobile broadband data usage by Idea's 'broadband subscribers' has risen to 5.7 gigabytes per month against a meager 971 megabytes usage a year ago in Q3FY17

Eighth: Increasing adoption of 4G smartphones

- Proportion of 4G smartphones being shipped to India on an annual basis has risen to 50% of the total phones in calendar year 2017 from 12% in calendar year 2015. As 4G shipments rise, Idea continues to gain its fair share in 4G device upgrades as the company added 38 million 4G smartphones on its network over past 1 year.
- With usage consolidating to one SIM in the unlimited bundled plans era, the marketplace battle has now shifted for first SIM slot 4G services. Idea has nearly 58 million 4G devices on



its network, which provides a significant revenue opportunity as we encourage our customers to move Idea's SIM to the first slot.

- To achieve this, Idea is working closely in partnership with 4G device manufacturers and its ecosystem –
 - A) Idea has tied up by offering additional data through Ecommerce companies such as Amazon and Flipkart for the new 4G handset models launches from Oppo, Vivo, Xiaomi, etc.
 - B) Rs. 1,500 cash back offer on range of entry level 4G smartphones from Karbonn, iVoomi, etc priced at less than Rs. 5,000, provided customers stay and continuously use Idea's network over 2 to 3 years.

Ninth: Broadband investments to support the exploding data demand

- Over the period of last two years, Idea has aggressively expanded its wireless broadband infrastructure and added 96,020 broadband (3G+4G) sites. Idea has multiplied its mobile broadband sites by 3 times in last two years and the overall wireless broadband sites now stands at 143,565, much higher than its 2G sites. This quarter also the company integrated nearly 10,000 broadband sites including TDD capacity sites on 2300 MHz spectrum band in leadership markets.
- As 4G consumer adoption rate continues to rise supported by affordable smartphones and worlds lowest 'voice and wireless broadband tariff', almost all of Idea's incremental network capital investments is allocated towards 4G expansion, including fiber and capacity.
- The merged Idea and Vodafone India together is capable in future of multiplying existing Idea capacity by 8 to 10 times. Presently, both company's technical teams are planning the future-proof architecture needed to execute aggressive 4G coverage and capacity post-merger.
- Idea's board has decided to revise this year's capex investment guidance upwards from Rs. 6,000 crores to Rs. 7,000 crores for execution till 31st March 2018.
- Also to remind, post completion of Idea-Vodafone India merger, the combined entity will hold amongst the largest spectrum block of 1,850 MHz with 1,429 MHz spectrum earmarked for mobile broadband services, capable of supporting over 163 high speed internet broadband carriers.
- During the pendency phase of merger, Idea and Vodafone India have entered into an Active Infrastructure sharing arrangement to avoid duplication of network spends by both operators and thereby optimize our capex.



- Besides Active Infrastructure sharing in high mobile broadband demand markets, both companies have entered into 4G ICR arrangement and expanded the scope of existing 2G ICR arrangement to offer services across 12,500 new towns and neighboring villages, where one of the two operators previously did not have presence.

Tenth: Idea is transforming from pure play mobile operator into integrated digital services provider

- The upgrade on Idea's digital services adoption include –
 - A) 14 million infotainment app installed till date with 2 million+ minutes of daily video viewing
 - B) News & Magazines services app launched in November 2017
- Idea is also making serious efforts to increase consumer recharge and postpaid bill payment on its 27 million+ Idea's self-service app and interactive website. Nearly 15% of Idea's revenue is now being managed through the digital channel.
- To encourage more customers to shift to digital sales channel and break the current retail habit, Idea offers up to 100% cashback on unlimited plans recharges above Rs. 357. In January 2018, the company also introduced 'Magic Cashback' digital offering with benefits of up to Rs. 3,300 including cashback vouchers over 8 subsequent recharges, wallet specific cashback and shopping coupons on Ecommerce sites for customers recharging through digital channel with Rs. 398 and above value.

Eleventh: Idea in the process of raising up to Rs. 67.5 billion equity to strengthen combined entity's balance sheet

- On 4th January 2018, the board of directors approved issuance of ~326.6 million equity shares at a price of Rs. 99.5 per share on preferential basis to the promoter group entities for a total consideration of Rs. 32.5 billion.
- Idea's board has also constituted a committee of board members to evaluate potential routes for raising additional equity capital of up to Rs. 35 billion including, among others, through further Preferential Issue, Qualified Institution Placement (QIP), or Rights issue, etc.
- The proposed capital raising of up to Rs. 67.5 billion will reduce Idea's net debt and as a result, Vodafone's net debt contribution in the merged entity will also be lower by the same amount.



- This along with recent sale of standalone tower businesses of Idea and Vodafone India for Rs. 78.5 billion and potential monetization of Idea's 11.15% stake in Indus towers, will augment the long-term capital resources of the combined entity.

Twelfth: Preparing for merger within existing regulatory framework

- Idea and Vodafone India have jointly setup a combined integration steering committee which acts as a central decision making body for integration.
- As a part of integration process, 17 different work streams across various functions have been mobilized for review of existing practices and processes and decide subsequent steps for integration. Each work stream is responsible to generate (a) 'Day 0' discretionary and non-discretionary items, (b) recommendation on interim and end state and (c) pre-close actions required to achieve the same.
- The company is happy to share that Idea and Vodafone India merger is progressing at a pace faster than our original estimates as we enter into final stages of regulatory approval.

Thirteenth: Short-term strategy of Idea to operate in the new paradigm

- Presently, company is focusing on five key strategies for revenue and profitability revival -
 1. Early completion of merger, and expedite integration activities and focus on fast-forwarding scheduled opex and capex synergies
 2. Shift company's consumer growth focus to 'revenue generating subscribers' delivering minimum Rs. 25 ARPU instead of VLR led subscriber growth only
 3. Convert higher percentage of existing Idea customers to unlimited bundled plans and feature-rich postpaid Nirvana plans
 4. Target aggressive cost reduction program across all opex line items
 5. Transform Idea into an integrated digital services provider

Idea remains focused on execution of all these market-facing programs and strategies.

I now hand over to Mr. Akshaya Moondra - Idea's CFO, for details on the financial performance for the quarter.

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



During the quarter, we saw continued and increased migration of subscribers to unlimited products, resulting in significant increase in data and voice traffic. The sharp reduction in interconnect charges which became effective from October 1 impacted Idea's Revenue and EBITDA for this quarter by approximately Rs. 8.2 billion and Rs. 2.3 billion respectively. As a result, revenue for the quarter declined by 12.8% to Rs. 65.1 billion, out of which approximately 11% decline is on account of reduction in interconnect rate. The balance 1.8% revenue decline is largely on account of ARPU dilution resulting from migration to unlimited plans. Similarly, EBITDA for the quarter declined by 18.5% to Rs. 12.2 billion compared to Rs. 15 billion in Q2FY18, out of which decline of approximately 15.3% is on account of reduced interconnect rate and balance 3.2% is on account of revenue decline. The EBITDA margin for the quarter stands at 18.8% against 20.1% in Q2FY18.

The 'Depreciation & Amortization' charge and 'Interest & Financing cost' (Net) stood at Rs. 21.4 billion and Rs. 11.5 billion respectively. During the quarter, 2 MHz of 1800 band spectrum in Maharashtra and 10 MHz of 2300 band spectrum each in Maharashtra and Kerala have been deployed. This has resulted in higher spectrum amortization of Rs. 150 million and higher interest charge of Rs. 250 million in this quarter.

The standalone PAT loss is Rs. 13.5 billion in Q3FY18 compared to a PAT loss of Rs. 11.8 billion in Q2FY18.

As regards the sale of ICISL stake, the asset and liability values of ICISL are currently shown as separate line items as 'Assets or Liabilities Held for Sale' respectively on either side of the consolidated balance sheet. The net asset block of ICISL stands frozen effective the date of the stake sale agreement i.e. November 13, 2017. In effect, the depreciation and amortization of ICISL assets beyond the date of agreement does not get aggregated while drawing up the consolidated financials. Such amount for this quarter is Rs. 177 million. The gain from the ICISL stake sale will be reflected when the transaction is finally consummated.

Net debt at the end of Q3FY18 stands at Rs. 557.8 billion against Rs. 540.5 billion in Q2FY18. The proposed capital raising of up to Rs. 67.5 billion will reduce Idea's net debt.

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

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.



Sachin Salgaonkar: I have three questions. First, if you guys could give a bit of clarity on down-trading, is this largely behind us? How should we look at it and any broad direction about number of users using bundled packs would be helpful. Second question, Akshaya, we did see across the board cost line item reduction. Wanted to understand how sustainable this is and if there are any one-offs, please let us know. And third question is on your capex guidance, can you help us understand where the spending is happening. I understand it is 4G, but is it predominantly on fiber or more equipment is being rolled out. I presume it is all premerger, so post-merger how should we look at the overall capex spend? Thanks.

Himanshu Kapania: Thank you, Sachin. You are absolutely right. From the time unlimited bundled plans have been the order of the day, especially for Idea which has started to match mass market plans, our high ARPU customers have tended to downgrade themselves and their ARPU has declined from the earlier higher levels to the present levels. We however did some calculation at the end of the quarter and found out that most of our high ARPU customers have already downgraded. The current round of customers that we are now getting are customers who are upgrading their usage; either they were casual customers and/or most likely they were multi-SIM users who have now started to consolidate their revenue to one operator. As regards total number of users, we have approximately 20% of our overall base who have chosen unlimited plans.

Akshaya Moondra: Sachin, on the cost side, we are focused on cost optimization and also there is a one-off of approximately Rs. 1.1 billion in this quarter under network expenses, being a reversal of an old provision. Other than that, there is no one-off in this quarter.

Sachin Salgaonkar: And Akshaya, you see this current opex levels sustainable going forward?

Akshaya Moondra: Yes, except for the one-off which I just mentioned.

Himanshu Kapania: As regards capex guidance, it is a combination of various factors. You are right, the complete Rs. 1,000 crores incremental expenditure which is going to happen in Q4 is planned on 4G. The capex spend is focused on 1) enhancing our overall capacity, 2) additional radios being installed in most of our leadership markets and 3) fiber. I have to keep reminding you we have already given updates on 4G and 2G ICR arrangement and Active Infrastructure sharing agreement with Vodafone India. There is a great deal of work happening on fiber sharing, which has progressed at a significant level. If we were to look at combined fiber of Idea and Vodafone India, we have over



3,25,000 to 3,40,000 km of fiber, without eliminating the overlapping fiber. Thus, through just installing end equipment and last mile, we will be able to upgrade to large quantum of capacity.

Sachin Salgaonkar: And post-merger, how should we look at that?

Himanshu Kapania: We are a listed company. We gave capex guidance of Rs. 7,000 crores, and Vodafone expenditure is of a similar order. We expect to maintain the current level of combined spend, at the minimum. Along with that, there is a significant portion of capex synergy, the exact quantum of which will be shared post-merger. A very large component of capex synergy comes out of overlapping equipment which will require only a small cost component related to reinstalling the equipment. Thus, if you have to read our capex guidance, it is not only about the total expenditure, but should also include the synergy component from re-deployment of overlapping equipment which needs to be included in the capex.

Sachin Salgaonkar: Sir, just a small follow-up on that. Today, we saw 1.5 GB packs being launched by couple of your competitors. If directionally that is the way market is moving and given the fact that in next few years, a lot more data consumers will be coming, so not only more consumers who are coming, but consumption per usage is also increasing. From that perspective, do you see upside risk to your capex guidance? I understand the capex synergies as well as the spectrum enhanced benefits coming out of it, but is there any general upside risk to your capex or if you could quantify the kind of amount which is needed overall over a period of next few years to ensure that the network is capable of handling a lot of load?

Himanshu Kapania: There are three or four parts. You have to see the answer to this question in individual parts. Part number one is, as we speak, both the companies have deployed anywhere between 400 to 500 MHz of spectrum for broadband. As a consolidated company, we are going to deploy out of the 1,850 MHz of spectrum, 1,429 MHz spectrum towards broadband. Also a large portion of TDD spectrum is yet to be deployed. That is one big benefit which is going to happen, but if you leave the topic of TDD where capex is required, there is an overlapping spectrum which is currently being used for GSM and we are expecting to pull out significant number of GSM carriers and utilize it for broadband. Table of the same has been shared in our investor presentation at the time of merger announcement, which mentions the increase in FDD carriers especially on 1800 MHz and 2100 MHz bands post-merger. This is the part one of the answer.



The second part, besides worrying about capex for building mobile data business, is to remember that the construct of our subscriber base is very different from the construct of the new entrant's subscriber base. Their subscriber base is 100% 4G, while our subscriber base has components of 2G, 3G and 4G. Over a period of time, lot of our subscribers will migrate to 4G, but all of them are not going to migrate to 4G and some will continue to use 2G and 3G services. As I mentioned, we currently have 20% of subscriber base on bundled plans, but that is not equal to our 4G subscriber base. A large portion of the bundled plan users are currently on the 2G and 3G platforms and are happy to remain on them and use the benefit of unlimited plans, predominantly as voice consumers. Thus, to assume that every unlimited plan customer is heavy data user, is a mistake in my opinion.

The third point is, even though Idea has approximately 25-26% of consumer with 4G handsets, our current user base on the 4G platform is much lower. The fourth part is that we have a lot of synergies available as a combined entity. For a very small component of capex, we will be able to unify the two fiber networks that exist across all towns and the unification of this fiber network is going to move our fiber strength from current levels of 150,000 km to a level of at least 250,000-275,000 km. This gives us a huge backhaul capacity. Our capex requirement is predominantly on the radio front and significant portion of fiber benefits will accrue from this merger.

These are some of the factors that are important, but we will continuously review the total capex requirement. Having said that, there is merit to the argument that there is a huge demand for data that is coming in. But, we are not a believer of spending capex much ahead of time and waiting for volumes to come.

Moderator: Thank you. We will move to our next question which is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: My first question is on the pricing environment. Himanshu, you mentioned that a lot of your high ARPU customers have already down-traded and you are seeing some of the current round of consumers upgrading usage. But how do you see that changing with the recent volatility in pricing that we have seen in the last 2 or 3 weeks. Do you think now there would be further down-trading of ARPU in the industry, and what is your strategy for it? Would you continue to match the new operator in terms of pricing and how do you see that going forward? Second, if you can just comment on your balance sheet. I think Net debt to EBITDA is now close to 8 times and while you have announced some deleveraging initiatives, tower sale and capital infusion, by when does the management expect Idea's



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balance sheet to get to more comfortable levels of 3-4x and if you can provide some roadmap to that, that will be great.

Himanshu Kapania: Thank you, Manish. I will try to answer about volatility in the pricing and I am going to ask Akshaya to give details on the balance sheet. You are referring to some of the events which have happened over the last 2-3 weeks. As regards movement of unlimited plans, in the past prices were steadily improving, in comparison to what has happened over the last 2-3 weeks. First and foremost, if you notice, it is a battle between the new entrant and the leader. As far as Idea is concerned, we have stated earlier and we are going to restate this point that we are not a price warrior in the marketplace. Our focus remains long-term rather than over-worrying about the short-term. Our assessment is that the long-term trends of telecom remain extremely positive and it is a minor aberration which in a short period of time should correct itself. We believe that it is only a matter of time that these prices will go back to earlier levels, primarily because the current unlimited price plan that is being announced are far below cost levels.

Now, the second part, as I alluded in my speech, India has approximately 800 million handset users. Out of these 800 million handset users, anywhere from 225 to 250 million of the handset users are on 4G and 65-70% of these users are on the new entrant's network. Any downward revision is predominantly going to hit their revenues. Idea has few options on how to operate till we pass through this volatile phase, which is something that we have done in the past. We in the past, used to run a differentiated strategy between offerings for 4G vs offering for 2G-3G because 2G-3G customers are predominantly looking for better value on the voice network. We will continue to evaluate whether this will be our strategy, as that has not yet been concluded, but this is one of the options that exist to us.

We continue to signal out clearly in the marketplace that we do not want to participate in the current level of price drop, and hoping for possibility of raising prices so that harmony can return in the market. We do not want to constantly bring prices down and prefer to have a stable environment, and reason for that is the industry needs significant investments. There is a very large volume demand for both voice as well as data and it is important that the investments in digital continue. For Idea, the focus remains on the merger. It will continue to focus all its attention on the integration. We want to do the necessary work to expand both coverage and capacity and do not want to be a price warrior. We will maintain reasonable distance.



If you look at the ARPU levels we are getting on unlimited plans vs ARPU level that has been announced by the new entrant, we find that our ARPU levels are anywhere between Rs. 50 to Rs. 75 higher than the ARPU levels that the new entrant is offering. We have maintained in the past much higher price levels and we will continue to signal the same. We remain hopeful that the volatility over the last few weeks will stabilize and both the leader and the new entrant will settle, and the market will go back to its final growth momentum. Market has to correct itself and we are very confident that it is only a matter of time.

Akshaya Moondra: Manish, you are right that net debt to EBITDA ratio is at a fairly high level. There are only two points I would want to make there. One is that the high level of leverage is primarily arising out of decline in EBITDA and not so much because of increase in debt, and in such a situation there is not much that one can do. The recovery of the leverage ratio would largely happen by way of recovery of EBITDA, as the market repairs. Secondly, at this point of time, we have ensured that we are adequately funded to make all the necessary investments and to service the debt obligations. We have thus taken all the steps to make sure that we have adequate funding available for the foreseeable future.

Manish Adukia: Right. Thank you Akshaya. Himanshu, I just had a quick follow-up on your comment. When you say that you are confident that the market will repair itself and it is only a short-term aberration. What gives you that confidence? In your view, what would be the key driving factor for the new entrant and Bharti to stop the price war and raise prices? What do you think will be the key catalyst for them to actually stop the price fall and raise prices?

Himanshu Kapania: We have spent over two decades in the industry. Whenever the price drop happens and the rate falls, the market does not recover and revenue decline will be very steep for everyone and for what gains, because even the current price that is being offered is getting very good demand from the consumer side. Consumer demand itself is very robust, that is part one. Part two, the battle is for 4G and if you look at calendar year 2017 4G shipments which were of an order of 125 million, approximately 10 to 11 million handsets are coming in every month. There is an announcement of incremental handsets that are going to be brought in on the feature phone, but the consumption of handset is at a level of 10 to 11 million handsets. Thus there is only a particular pace at which the growth will happen and the universe on 4G currently remains much smaller. The price drop only hurts both these companies without commensurate gains, because it is not that the 4G handsets are lying anywhere else. It was earlier a battle in the consolidation phase, SIM consolidation,



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when the smaller or sub-scale operators were exiting and their subscribers could be acquired by making aggressive offers. Because there are no more sufficient customers on the 4G front, this battle is not going to give you commensurate gain from the price drop. If the volumes are not going to give you the growth, it will only be depletion of our revenues. That is the reason why I am very hopeful and believe with a fair degree of confidence that it is a passing phase. We have to be patient enough to let this phase pass and we will be back to recovery.

Moderator: Thank you. We will move to our next question which is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Sir, Sorry, but we'll continue the discussion which we just did on pricing. How much premium compared to Jio are you comfortable with? It looks like Jio has cut prices because both Bharti and Idea have got very close to their pricing. While you do not want to be a price warrior, you seem to be having little choice. And if you don't respond, the market share will keep eroding. Jio already has a 65-70% market share in 4G. What will be your 4G market share aspiration? That's question number one. If you can answer that, I'll go to the next question.

Himanshu Kapania: Kunal, last quarter Idea has added over 16 million customers on unlimited bundles and our key strategy has been Rs. 179 plan, which provides unlimited voice and only 1GB of limited data. If you look at volume growth of voice and volume growth of data, it is very evident that we are focusing on customers who are good voice users and also need data. We are not focusing on customers, who are the younger audiences deeply into heavy data consumption. With this approach, Idea had a reasonable success. We will continue to focus most of our energy on unlimited voice with limited data plans. These are the customers from 2G, 3G as well as 4G who do not spend all the time on internet. They will continue to choose network like us because our pricing will remain competitive. While there will be a second battle for the customers who are very heavy users of data but the incremental volume from them does not get you extra ARPU. Our strong belief is that there is a segment of customers who are heavy users of data who consume as much volume as they can, but there is also a much larger mass of customers who need their data services for half an hour or one hour per day. For these users with mid to low end data requirement, we will be able to satisfy their requirement reasonably well.

As far as pricing is concerned, it is very difficult to peg down to a specific number that you are wanting us to do. We want to be competitive, but we do not want to be price warrior. We will continue to



indicate to the new entrant to go back on his old prices and offer him opportunity to go back to previous prices, within the framework of law. We do not want to bring our prices down from that perspective.

Kunal Vora: Second question, you mentioned that you want to focus on customers who are paying more than Rs. 25. So what proportion of your customers are paying less than that? Are they mostly dual SIM customers who are paying someone else and that's why they are not paying you? Or are these really low-end users?

Himanshu Kapadia: We have the numbers, but we do not share that information in the public space. There are both types of customers. There are customers who are happy to use purely incoming, but a larger proportion of these customers are definitely dual SIMs. They have chosen somebody else's unlimited plan, but they continue to have the second SIM with us because that SIM is linked to their bank account number or Aadhaar number or they continue to look for other offers. So there are combination of both those subscribers.

There is also the third category of subscribers who can afford only an X amount of money. There is a significant price differential that currently exists for customers who chooses an unlimited plan vs a customer who does not choose an unlimited plan, and we want to bridge the gap between them. There are consumers whose usage is only 200 minutes and they do not require unlimited plans, their realization is significantly higher and we want to make it comfortable for them to stay on our network and use 200 to 400 minutes, which gives us ARPU improvement. These are the customers that we are targeting, which is the mid to low end customers. We have seen that whenever we do a specific product or tariff intervention, and all of that does not need to be done with unlimited plans, a significant number of them increase their usage on our network.

Kunal Vora: Understood. And one last question, if I can. The network costs have gone down sharply, even if I adjust for the one-off, it's down about 10% YoY. What's driving this decline? Because we haven't seen any meaningful decline in 2G sites. You're adding 4G sites in large numbers, so loading should be increasing and also diesel cost has increased over the last 1 year. What's driving the sharp decline in network cost?

Akshaya Moondra: There is not a single large item which is determining these cost declines. The energy cost has improved on a per site basis. While there is some increase in loading and rental costs with network expansion, our 2G sites have also come down marginally from March 2018 onwards,



which is helping. There is a lot of work being done on optimizing the maintenance cost of equipment. There are some renegotiations which are also happening with the different vendors who are providing services. It is an all-round effort and there is no single item which stands out. Also the head which you see is actually network and IT cost and there is a significant improvement which is also happening on the IT cost.

Kunal Vora: Understood, on rentals there is no change, right?

Himanshu Kapania: No.

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

Srinivas Rao: I have two questions. Can you throw some light on this 'VLR' vs 'RGS' subs, I think someone asked, but it will be helpful if you explain what exactly you are trying to do there, that is number one. Secondly on your cashback, how is the accounting done. Do you take the probable impact in the current ARPU or you take it as and when the cashback will be taken by the customer? And finally one question on the subscribers who have broadband devices, but are not your broadband subscribers, that number based on your disclosure is probably 60-70 million. Are these simply 2G, 3G users on your platform or they probably have a data plan with someone else? Any feedback on that and how do you intend to bring them to Idea would be helpful?

Himanshu Kapania: Srinivas, let's go step by step. What I was trying to tell you between VLR and revenue generating subscribers, is that in the past VLR was a right KPI measure for revenue growth. What has changed over the last 2 quarters is that just getting a customer on VLR may not be sufficient, because you may be adding a customer on VLR, who is on a multi-SIM device predominantly as an incoming user or he has chosen to use that SIM card for getting all his approvals and for regulatory purpose and not using it as a main revenue generating SIM for telecom. After a detailed study, we have found one of the reasons for ARPU fall is increased number of customers who are doing casual usage or only incoming usage. In the past, even incoming customers were fine because they were earlier getting 20 paisa IUC. Now, the IUC contribution has also gone down. We have thus started a companywide program including teams across Idea's sales, marketing and services to identify customers who are predominantly casual/incoming users who continue to be on the VLR but do not generate sufficient revenues. And with these programs, we are seeing a reasonable amount of success. Large quantum of these subscribers were recovered in Q3FY18 and we are running almost a



war focusing on these customers to understand why they are not using our network and making effort to bring them. And it is not so much about 4G, it's more about the voice side of business. If you are fine with this answer, then I will move to second part.

Srinivas Rao: Yes, sir. This is helpful.

Himanshu Kapania: As far as cashback offer is concerned, the offer is very straightforward. The customer who buys, let us assume our previous plan at Rs. 357 and above recharge, he becomes entitled to cashback vouchers. Currently they can avail 8 vouchers of Rs. 50, which are available on recharges through Idea's web and app. When he does a subsequent recharge above a particular value, Rs. 50 is credited and then accounted for. Presently, we are seeing only a small percentage of customers availing the cashback and we will wait to see the trends going forward and how many of them consume all 8 discount vouchers, because only one quarter has passed. But our calculation shows that it is a good retention tool.

Srinivas Rao: Understood. And on the gap between the 4G devices and 4G subscribers?

Himanshu Kapania: As mentioned, we added about 38 million 4G handset users in one year and we now have 58 million 4G handset users. Overall, we have 105 million broadband devices, of which close to 35 million customers use our broadband services, but a large portion of these device owners also use our voice services. We are making significant attempts to convert the non-user of data services to use our network and unlimited plans is definitely one of the strategies that has given us reasonable success in the last quarter. We added 5.2 million broadband customers in the last quarter.

Secondly, our broadband population coverage is currently about 600 million. Efforts are on to expand the broadband coverage as early as possible. The merger is going to help us reach PAN India covering billion population. Coverage expansion is thus an extremely important strategy. Also while unlimited plans remain our strategy, we are not going to become a discount warrior. We will use our persuasive power and communication tools with the customers and try to get them on the digital channel. These are the efforts that are currently on.

Akshaya Moondra: On your question related to accounting of the cashback, the cashback utilized is against a recharge. Whatever be the duration of the recharge, the cashback will be amortized during the same period. Thus there is a matching of revenue and cost being done.



Srinivas Rao: Essentially in the quarter end if someone takes a recharge, the ARPU for that quarter will fall, am I correct?

Himanshu Kapania: Yes.

Akshaya Moondra: In terms of detail, we can discuss offline, but generally the cashback is amortized and it is not an upfront charge.

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

Sanjay Chawla: My first question Himanshu, is on this industry consolidation which is happening right now. We have seen RCOM exiting in November-December and Aircel shutting down in 6 circles. How much of the subscriber or revenue benefit for you is reflecting in the third quarter numbers, and how much more is coming up in 4Q. Also should we build in any meaningful revenue flow from Telenor and Tata Tele customers whenever their merger gets completed with Bharti? That is the first question.

Himanshu Kapania: Sanjay, we had a good subscriber growth in Q3FY18. As we have mentioned in our press release, it is a combination of customers who came in from MNP as well as this is a seasonally better quarter. In Q2, we have larger proportion of rural customers. With the festival season coming in Q3, we get subscriber gains from that. It is a combination of both these factors. Beyond that, we would not be able to share any specific numbers.

Sanjay Chawla: Should we expect more benefit in the fourth quarter or do you think much of the benefit as far as RCOM and Aircel is concerned, it is already there?

Himanshu Kapania: There is consolidation in the industry. There are also 400 million customers who are currently non-mobile users who will enter the category. Combination of both is happening and we are very hopeful that the way we had good subscriber addition in Q3, the same will continue in Q4, but we will have to wait and see.

Sanjay Chawla: My second question is on this whole battle being primarily on the smartphone side to occupy the primary slot, what is your sense in terms of the share of Idea 4G SIM cards that have gone into the primary slot? On an incremental basis, how is this trend looking in the third quarter?

Himanshu Kapania: We are monitoring it, but we do not disclose that specific number.



Sanjay Chawla: Could you talk in that case about the 4G penetration in terms of the attachment rate on 4G device base. On an overall basis you have reported roughly 33% of customers having the smartphone devices, who are also broadband subscribers and this percentage has gone up in the last two quarters compared to first quarter. How has this trend been on 4G alone?

Himanshu Kapania: First and foremost, very large growth is happening on 4G. I have to keep reminding that Idea Cellular has been consistently expanding its 4G coverage. We have added over 33,000-35,000 fresh radios during the last 9 months which allows us to enter newer markets and the benefit of that continues to come to us, and the prices have also become very attractive. Both expansion of coverage and attractive prices have helped lot of our existing customers who were predominantly using only voice from us, to start using mobile broadband.

Sanjay Chawla: Sir I will just squeeze in one more question. You have obviously some anticipation of the data traffic growth which is currently happening. In the context of this anticipated traffic growth in FY19, how critical do you think would be the deployment of TDD 2500 within FY19? Do you think the deployment could be delayed given the merger related benefits with regard to FDD, TDD 2500 deployment can probably wait till FY20, what is your sense?

Himanshu Kapania: We will launch significant number of TDD radios in Q4FY18 as well as next financial year to build our overall capacity.

Sanjay Chawla: 2300 is already being launched, but 2500?

Himanshu Kapania: 2500 MHz deployment has already started to happen and we are getting good traction.

Moderator: Thank you. The next question is from the line of Gaurav Malhotra from Citigroup. Please go ahead.

Gaurav Malhotra: Most of my questions have been answered. Just wanted to get a clarification. You mentioned that you have stopped taking depreciation of the towers which are going to be sold. What about the revenue coming from them or any rentals which you would have to pay for these towers. Is that being taken in or kept out. Or above EBITDA it is business as usual?

Akshaya Moondra: The simple answer to your question is EBITDA is business as usual and in any case if there was any financing cost, it will also be charged. In the books of ICISL, there is no change in



accounting. The only difference is where the consolidation is concerned, since the asset is held for sale, it is not depreciated any further and this is only in the consolidated accounts. Other than that, there is no change at all.

Gaurav Malhotra: On the pricing, I know we have discussed quite a bit of that and Himanshu, you did mention that most of the competition is happening on the 4G front. But given that now there are price plans at Rs. 98 with unlimited voice and some data, and the fact that 4G smartphone prices have also started to come down, is it not a risk that this trend could accelerate the 4G adoption at the bottom end and the 2G subscribers which are currently protected from competitive intensity, they will also get exposed to that?

Himanshu Kapania: I think it is very premature to comment, we will have to wait and see the trends. These plans have just been announced and we are yet to see any big movement. We have to keep reminding ourselves that India has about 300 million users for mobile broadband and we have at least another 500 million device owners who do not use any broadband services. We will wait to see how many of these customers migrate to data and how fast, but having said that we are very much going to participate in the growth of 4G services. Our long-term focus of the company is to expedite merger, expedite integration of two entities so that it can become one unified entity, expedite two networks to become one unified network and to expedite refarming of spectrum so that we can utilize the spectrum to build larger capacity. Both coverage and capacity expansion of 4G with merger remains the paramount focus of Idea and Vodafone India. Significant progress on merger approvals has been made and it is much faster than what we had originally anticipated.

While there may be short term trends over the next month or two on which we have very little to comment, but on long-term the company remains focused to expand its 4G coverage. Yes, there is a new operator who got the first mover advantage both in coverage and capacity, but we plan to reduce both the coverage as well as the capacity gap in as short period as possible.

Moderator: Thank you. We will take the next question from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.

Aishwarya Agarwal: Sir, from the Jio analyst meet, we understand that they will be very aggressive going forward to increase Jiophone penetration in the market. And next is probably the way tariffs are declining and whatever tariff they are offering right on Jiophone now, which is Rs. 153, there should be a meaningful cut in that tariff also. I especially see that the existing 2G users are likely to switch



from the feature phone to the Jiophone. How do you perceive that scenario and how we will be able to manage this trend? What are the things which will work for us?

Himanshu Kapania: Let us go in a systematic manner. Definitely the smartphone prices are falling and the term that we use is 4G feature phone. The old version of 4G feature phone did not get significant response. But the 4G handsets on Android operating system, which were earlier in the range of Rs. 5,000-7,000, are now being launched in the Rs. 3,000-5,000 price range. We are continuously in discussion with handset manufacturers and we are seeing a number of handsets in the pipeline which are going to come in the Rs. 2,000-4,000 price bracket. We are quite confident that while a new entrant is bringing its own handset, the overall industry is witnessing increase in lower priced 4G handsets which is not positive only for one operator, it is positive on an overall basis for the industry.

The industry is focused to make sure that more and more of the existing Indians migrate from being pure voice users to balanced users of both voice and data. To help the handset industry to continue bringing these lower priced handsets, we are entering into a series of cashback deals. We already have tie-ups with two handset manufacturers and we are in a discussion with multiple other handset manufacturers. Currently, we are offering Rs. 1,500 to Rs. 2,000 cashback if the customer wants to stay on our network for a 2 to 3 year time period. From a pricing perspective, while I mentioned that we will not be the discount warrior, our pricing will be very competitive both at the consumer recharge end as well as through support to the handsets suppliers and this will proliferate much more handsets in the system and we will definitely encourage that proliferation.

Aishwarya Agarwal: Sure, this is very helpful. In addition to that, they are also able to offer the handsets at a cheaper rate. Rs. 1,500 is the price with the cashback and for any new user to switch from existing handset to the new handset; they have to pay Rs. 1,500 upfront. Now if they make the deal sweeter and reduce the prices to Rs. 1,000 or less by subsidizing the handsets, how will you be able to overcome that considering Jio's focus on acquiring market share. Presently huge market is there on 2G and they are not able to penetrate it at all.

Himanshu Kapania: Don't worry. What we have seen is feature phones still continue to rule the roost with 125 million feature phone sales in 2017. The cost of material of a 2G feature phone remains very low, in the range of Rs. 50-75 only. That is a very low cost of making the feature phone. The prices of our feature phone are in Rs. 500-750 price range. We are going to support the 2G feature phone market as much as we can do as an operator.



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Moderator: Thank you. We will take the last question from the line of Shivam Saxena from ICICI Bank. Please go ahead.

Shivam Saxena: Just one question, interest costs have declined for this quarter, any specific reason?

Akshaya Moondra: The major benefit is coming from foreign exchange. There is a forex difference which is about Rs. 1.1 billion (delta between previous quarter and this quarter). It is offset by other increases, there was one credit of income tax refund previous quarter which came with interest which is not there in this quarter. There is some increase on account of higher average debt during the quarter. The benefit is thus on account of forex and increase in cost is on account of higher debt and the credit last quarter, which is not there in this quarter.

Shivam Saxena: One more question on the international terminal charges, I missed the first line of yours, what would be the impact on the Revenue and EBITDA from the international terminal charges?

Himanshu Kapania: For the period from 1st February to 31st March, Revenue impact will be Rs. 650 million and EBITDA impact will be Rs. 400 million.

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

Himanshu Kapania: Thank you. We know that we are going through a little volatile time, but this phase will also pass. Idea remains a long-term player and our focus primarily is to build strong network and capture maximum growth. India has significant opportunities in mobile sector and while consumers are having a bonanza, we will see significant market recovery. The work happening on merger will support us to tap these opportunities. Thank you for all your questions and see you in the next quarter.

Moderator: Thank you. On behalf of Idea Cellular Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.