



Idea Cellular Earnings Conference Call

January 25, 2011



Moderator

Good afternoon ladies and gentlemen, this is Rochelle, 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 on the call today, Mr. Sanjeev Aga, Managing Director of Idea Cellular, Mr. Himanshu Kapania, Deputy Managing Director, and Mr. Akshaya Moondra, the Chief Financial Officer, along with other key members of the senior management. I want to thank the 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 they make of use of the senior management's time.

I must remind you that the discussions on today's conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces.

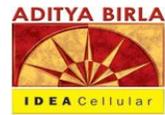
With this I hand the conference over to Mr. Sanjeev Aga, thank you and over to you, sir.

Sanjeev Aga

Thank you. On behalf of Idea, I welcome all participants to this call. Yesterday, our Board of Directors adopted our un-audited results for the quarter ended December 31, 2010. The press release, the quarterly report and the results have all been uploaded on our web site and I guess you had a chance to go through them.

The October-December quarter is expectedly a quarter of cheer for the telecom sector after the seasonally subdued July-September quarter. Our company's revenue growth has also been outpacing the mobile sector growth, quarter-after-after for several years now. Consequently, our standalone revenues were up 8.2% on a sequential quarter basis. The average realized rate dropped by 0.5 paisa from 42.3p to 41.8p, reflecting significant slowdown in the rate of decline. Our margins were roughly unchanged and our profit after tax for the quarter has increased by about 35%.

MNP has been implemented across India just a few days ago and early trends from across India and the longer period trends from Haryana, where it was launched earlier, seem to validate our earlier assessments. One, that MNP overall will not have anything like a game changing impact that has been talked about by some and two, the stronger brands, Idea being one among them, seem to be headed to be net gainers from this exercise.



As you would have read from our press release, we will be launching 3G services in our 11 licensed areas in the next few months. We also expect to tie up arrangements with the select top quality operators for other service areas as well. Overall, Idea subscribers across India will be able to avail of what we believe will be the gold standard for 3G services.

During the last quarter we crossed the landmark of carrying over 1 billion minutes per day. We have made some calculations and it appears that, this places Idea among the top ten national operators, across the globe.

We have been running a quality operation at a realized rate of just 42 paisa per minute, carrying start-up losses of several new circles and are yet, staying profitable. To our mind, there are very, very few operators in India, and if there are very few operators in India, there are consequently (very few) operators across the world that can do so. This is our real strength. The sector circumstances have been wretched for the last two or three years, but they cannot indefinitely remain so. Idea is very strongly positioned for the long run.

I will be stepping down as Chief Executive Officer of Idea on 31st March, although I will maintain some link as a non-Executive Director in the Board. Consequently, this is the last earnings call I will participate in and I thank all of you for your support and for your friendship. I have had an emotionally fulfilling tenure in this wonderful company. The time is now right for the younger leadership to take on the baton. Let me introduce Himanshu Kapania, who is also on this call and who will take over as Managing Director of the company from 1st April.

Himanshu Kapania

Good afternoon, I will use today's occasion to introduce myself. I turned 50 in the month of April and January happens to be the month, when this is going to be the 14th year of running in the wireless industry. Most of my experience (of which) has been with Idea. I would use this occasion to thank Mr. Sanjeev Aja, for the legacy that he leaves behind for Idea Cellular Limited. I am sure all of you will agree that arguably, Idea is one of the few companies in India and consequently in the world, which is running to a top-class mobile service and continues to invest in future even after absorbing the start-up losses of new service area and still able to pull out stable cash flows, at price points, which is among the lowest in the world.

It would be my endeavor to maintain continuity, and as in the past, continue to share our understanding of the telecom business, transparently with all of you. With these few



introductory words, I would now hand it over to our Chief Financial Officer, Mr. Akshaya Moondra to share the financials.

Akshaya Moondra

Thanks very much Himanshu. A very good afternoon to participants from India and a good morning or evening as applicable to overseas participants. First and foremost, I would like to confirm that our basis of reporting on a standalone and consolidated basis remains unchanged and all the comments may be seen in that context.

On a standalone basis, revenue for the quarter registered a quarter-on-quarter growth of 8.2% on the back of a strong volume growth of 10.2%. The overall standalone EBITDA margin remains almost unchanged from last quarter. The new service areas have shown a robust revenue growth of 17% on a quarter-on-quarter basis and their EBITDA losses are also marginally lower than the previous quarter.

Let me explain a few items on the cost side. During the quarter, the customer acquisition & servicing and advertising cost showed significant increase compared to last quarter. This is mainly on account of two reasons. Firstly, the higher subscriber gross additions compared to the previous quarter have resulted in higher acquisition costs. Secondly, as already explained in our last earnings call, the advertising spent in the current quarter has been higher than the previous quarter, which was planned and budgeted.

Moving on to the network expenses, during the quarter they have been lower compared to the last quarter, and this is mainly due to reversal of certain provisions amounting to around Rs. 150 million as also reduction in costs related to third-party lease lines.

Other expenses are higher due to increased costs on enhanced IT services as also one-time project-related charge in this quarter. As a result, the absolute standalone EBITDA has increased by Rs. 596 million, a growth of 7.8% on a quarter-on-quarter basis. Depreciation has increased by Rs. 97 million which is in line with the increase in Capex during the quarter.

Our net interest cost in this quarter has been lower compared to the last quarter and this has been mainly due to a one-off charge of Rs. 110 million which was there in the last quarter.

On the interest relating to 3G spectrum fees we have capitalized interest of Rs. 1,242 million in this quarter. This amount is higher than last quarter because of refinancing of some short-term loans, with long-term loans at the beginning of the quarter. 3G spectrum



fee amount being capitalized along with interest is classified as capital work-in progress in the balance sheet.

Our Capex guidance for the current financial year, excluding 3G spectrum fee and the capitalized interest thereon, now stands revised to Rs. 30 billion. The lower guidance is on account of some spillover into the next quarter and the financial year, as also savings against earlier estimates.

Improved performance in Indus resulted in a pro rata profit share of Rs. 222 million in this quarter compared to Rs. 163 million in the previous quarter.

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

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may please press * followed by 1 on their touchtone telephone.

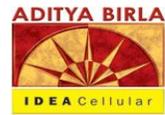
Our first question is from the line of Sachin Gupta of Nomura. Please go ahead.

Sachin Gupta

Thank you very much Sanjeev, Thanks for all your insights and all the best in the future. I have got two questions. One is on Capex, I was wondering how much is the capex spillover and how much is the cost savings? If you can elaborate where this cost saving is coming from, is it driven more from your end or is it more from the equipment supplier perspective, that is one. Secondly, churn rate seems to have picked up a fair bit. I was just wondering is that a concern? Obviously, going in to the MNP, I understand it may not be a game changer, but could that pick up further which could have drive the cost up? Thank you.

Sanjeev Aga:

Sachin, on capex, we would hesitate to give you the breakup with the granularity that you are looking for but let me say that both these factors are significant. It is not as if one is completely insignificant compared to the other. Now, savings are of two kinds. Sometimes, there is elimination of a few items which are no longer necessary and second, of course, is that you got finalized rates, whereas (earlier) estimated prices are always a little conservative. And to an extent, there would be some degree of spillover into the next month which may fall into the next quarter. So, I would be unable to give you exactly how much that is, but our total guidance is Rs. 3,000 crores or 30 billion for the fiscal year which will end in March. This includes 2G and it includes 3G, but does not include interest



on the license fee paid for 3G. As far as churn is concerned, I would request Himanshu to answer.

Himanshu Kapania

Good afternoon Sachin. I would say that normally the Q3, which is a better quarter in terms of demand, even in the last year and previous years, the gross acquisition and number of subscribers wanting to get into our network, has seen exponential growth. This year if you notice, we have had almost 2.2 million incremental net additions that came in. Now, as far as our company is concerned, we follow a very strict process of subscribers reporting and subscribers, who currently do not meet a certain criteria of usage, we would fast pace their churn. So while the pressures on industry regarding over capacity continues to be a challenge, I would not read too much into the churn figure for this specific quarter primarily because this is a quarter when the overall demand picks up and the gross volumes have been higher than what has been in Q2.

Sachin Gupta

Okay. That is fine and thank you.

Moderator

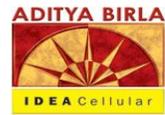
Thank you Mr. Gupta. Our next question is from the line of Shobhit Khare of Motilal Oswal Securities Limited. Please go ahead.

Shobhit Khare

Good afternoon and thanks for the opportunity. First question is on 3G license fee, just wanted to get a sense on timing of how this will be capitalized, will it be one-time or it will be phased over the next two, three quarters? And secondly, on competition, RPM seems to be stabilizing but the churn rate is going up; I just wanted to get your comments on how the competition is actually shaping up?

Sanjeev Aga

Shobhit let me take the second question and Akshaya will answer the first question on 3G capitalization. As far as RPM is concerned, the truthful answer is that no one knows exactly what the future has in store. The reason is that we have got 14 licenses per circle at the moment, and on an average, something like 11 operating licenses. The overwhelming majority of these operators are deep in the red with many of them have no hope of ever coming into the black. Now, if you have an infrastructure sector where you have very high fixed costs, there is always a temptation or a tendency to salvage as much of the variable cost as you could. Sometimes we are also finding in the sector in the last few months, people are operating at such rates, that they actually have negative revenues, because their interconnect cost is greater than the tariff they are charging. So there is no answering for what short run pressures will do to people. But having said that, we believe that the pressure on price has come to a stage and it is becoming unbearable for some of the weaker operators. If you remember our own rate declines used to be 3



paisa, 2 paisa and this quarter it is just 0.5 paisa. Some of the headline rates have not declined at all; the decline maybe more in STD rates or some of the fringe rates. It appears that the worst is over and the bottoming out is happening, but no one can say this with 100% confidence. On capitalization, I will let Akshaya answer.

Akshaya Moondra

Shobhit, as far as 3G spectrum fee is concerned, firstly, what was paid out, it was in any case capitalized as capital work-in progress. The interest being incurred currently is being capitalized quarter-to-quarter. As and when each circle starts getting launched the amortization of both the spectrum fee and the interest capitalized with respect to that circle will start and the spectrum fee will be amortized over the life of the spectrum.

Shobhit Khare

Okay sir got it thanks.

Moderator

Thank you Mr. Khare. Our next question is from the line of Sanjay Chawla of Antique Stock Broking. Please go ahead.

Sanjay Chawla

Hi, good afternoon. Thank you for the call and congratulations on a great set of results. I have three or four questions. One is do you expect the churn rate to decline in the coming quarters since Himanshu mentioned we should not be looking at this quarter's churn rate. I mean if this is unusual or abnormal, do you expect the churn rate to decline going forward, that is one. Second is what is your view on the post paid ARR, post MNP. Can you tell us if the postpaid ARR premium over the prepaid ARR, has already started narrowing from the December quarter itself? And the third question is on Indus, the revenues have been stagnant, what could be the reason for that?

Himanshu Kapania

Hello, Sanjay, I will take the churn rate and the postpaid ARR and I will request Akshaya to give you guidance on Indus. As I mentioned, as far as churn rate is concerned, I will just take forward what Sanjeev is mentioning that the over capacity and hyper competition in the market continues do exist and while it is true that some of the operators are hammering and they do not see light at the end of tunnel, but the fact of the matter is there is a lot of investment on ground, and they continue to be wanting to get gross ads besides being able to reduce not the headline tariff but do segmented offers in the marketplace.

This is the reality of the market. It is not possible to predict as when would churn rate go down completely and the rate per minute stabilizes. We are seeing trends currently, as far as the rate per minute is concerned, there is some degree of sanity which is coming and this is why we are seeing the decline which was steep earlier, is smoother now. As far as the activity level in the marketplace is concerned, it continues to be at its peak and till



some of the operators reduce the activity level in the marketplace, the pressures on churn will exist.

Coming to postpaid tariffs, it is true that with the arrival of MNP, the customers who earlier believed that they would not want to shift their mobile number, which should primarily be HNI, the enterprise and the high-end customers, would want to look at other operators. But has the postpaid rate been falling in the past? the answer is yes. Just like when you see the overall blended rate decline, they were decline in prepaid which was obviously higher, but there has been a continuous decline in the postpaid rate as well. Will that dramatically make a difference on the overall rate? My answer at this point of time is unlikely. Though, it is very difficult to predict the future but it is unlikely that the postpaid ARR will make a dramatic change that will affect the overall ARR.

Sanjay Chawla

Himanshu, my question is more related to the premium that postpaid ARR have over prepaid; I mean, of course, the postpaid ARR has also been declining last few quarters, but I guess the premium over prepaid ARR has widened. My question is have you started seeing any narrowing of the premium in the last quarter itself. What is your outlook for the next one or two quarter post-MNP?

Himanshu Kapania

I give a technical answer. This may not be completely true but the basic design of postpaid has a component of rental and a component of bundle minutes or rates built into it. Because of the design of its pre-committed amount and the postpaid design that attracts only the high-end tariff customers and there is also a huge amount of expenditure that the operators make in billing, collection and delivery of the bills as servicing, it is very unlikely that there will be convergence of rates of postpaid with prepaid. Prepaid which does not have too much fee component will continue to lead the rate and I do not see a convergence happening, but this is a very technical answer. It is very difficult to predict what the rates on postpaid will be in the long run. I will give it to Akshaya for Indus.

Akshaya Moondra

Sanjay, on Indus, the top line that the actual results show, appears flat, but Indus has some element of other income in the previous quarter which is not repeating. So on a normalized basis, they have seen a roughly 2% top line growth if you just look at the service revenue in isolation.

Sanjay Chawla

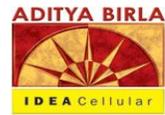
Okay. Thanks. This is quite useful. I just have a small follow-up question. I probably missed that in your commentary. You said there is one-time project related charge appearing in the P&L this quarter. Can you tell us how much is that expense is?

Akshaya Moondra

That is about Rs. 75 million.



- Sanjay Chawla** That is appearing in other admin cost?
- Akshaya Moondra** Yes, other expenses
- Sanjay Chawla** All right. Thank you very much.
- Moderator** Thank you Mr. Chawla. Our next question is from the line of Sachin Salgaonkar of Goldman Sachs. Please go ahead.
- Sachin Salgaonkar** Hi, thank you for the call, I have two questions. Firstly, how should we look at your selling and marketing expenses going forward? Is MNP related advertising going to take this up in the near-term? And my second question is on 3G, in particular, how do you look at the M-Commerce opportunity, a couple of peers of yours have already signed agreements with banks, so just wanted to know your thoughts on the same. Thanks.
- Sanjeev Aga** Sachin, the advertising we are doing for MNP, I think it is more accurate to view this as general brand advertising. Since it is coming at this period, it is riding on the hook of MNP, but it would be inaccurate to say that this entire advertising was executed, created only because of MNP. I do not think that advertising on a year-to-year basis, (there is) going to be any great peak or trough, because of MNP or because MNP is not there.
- On your other question about M-Commerce actually, we are very much in the forefront of this development. This is really mobile money transfer. There are many, many issues with regard to information technology, with regard to a lot of other systems to be enabled both at the level of the bank (we are working with Axis Bank) and at the level of the telecom company. In fact, we were the first company to do international mobile money transfer. We did that between Kerala and I think Dubai or Abu Dhabi about two or three years ago. In next few weeks we will be mimicking money transfer within India, from Dharavi to some district in either eastern UP or Bihar. I just want you to know that this will not take off until the whole ecosystem is ready. The ecosystem includes the settlement agencies, people like MasterCard, VISA, the Reserve Bank, the regulations, money laundering, Know Your Customer, etc. So this is preliminary work, it has a big future. Idea is one of the companies which are right upfront in developing this along with other companies that you mentioned. You may not have read about it or it may not have appeared in the papers, but it is really advanced. But this is nothing which is going to help commercial significance in the next one, two, three quarters.
- Sachin Salgaonkar** Okay. Thanks, Mr. Aga. Just to follow-up on this, I mean, we have seen M-commerce being talked about operators all across the world, but I guess there are only two countries



probably in the world, one is Kenya, second is Philippines, where this actually has taken up. I take your point on the ecosystem development it will take time and perhaps it might take two, three quarters, but beyond two, three quarters, is there a huge potential in India or we may not perhaps go the way, Kenya or Philippines is going.

Sanjeev Aga

Maybe this is not appropriate for an earnings call, because this goes more into predicting which way the future will go, but it is my belief that over the next ten years – or let me rephrase that. Let me start by saying is that if banking did not have a legacy of hundreds of years, today, bankers would have been carrying, running their systems on the kind of technology we (mobile operators) have, because this is the quickest, safest, real-time, encrypted and cheapest technology. But banking has evolved, there are a lot of systems, there are a lot of regulations, and so at the moment, the Government of India is looking at putting together the banks, the mobile companies and certain other initiatives like the Unique Identification Program to bring financial inclusion to the unbanked. But long-term, this technology has the potential of actually displacing existing methods of banking technology. However, (whether) that will happen, not happen, whether it will take five years, 10 years, 20 years, the answer is not with a telecom company, it is a larger economic development which is impossible to anticipate with accuracy.

Sachin Salgaonkar

Okay. Thank you.

Moderator

Thank you Mr. Salgaonkar. Our next question is from the line of Malvika Gupta of JP Morgan. Please go ahead.

Malvika Gupta

Great, thank you for taking my question. Most of them have been answered. I just have a couple more pending. One is on network Opex. If I remember quickly from the comments there was a reversal of provisions by about Rs 150 million. I was just wondering that going forward if you look at the cost on a per base station level, should we think that it is sustainable more at 48,000 or closer to the 50,000 levels that it has been tracking. And then my second question is more on the regulatory front. I was wondering if any provisions have been taken for any potential expenses that may need to be paid given the uncertainty in the environment. Thank you very much.

Akshaya Moondra

Okay, on the network Opex, I would say that if you can take an average of this quarter and the previous quarter, the average would be fairly representative of what the network cost should be. On the regulatory expenses, no, we have not taken any specific provisions.

Malvika Gupta

My question was more relating to any potential excess charges that may need to be, are there any charges that need to be paid by any excess spectrum?



Sanjeev Aga

How should I say? There is no excess spectrum. Excess is a very, it is a concocted term. But no, we have not taken any provisions for that. By the way, when we had this multidisciplinary committee, which the DoT has set up a year and half ago, they had talked of charge for spectrum beyond 6.2, which was part of a package of bringing AGR rates to be common across all providers and across all amounts of spectrum band. That was more a reform related change. and therefore, you got to take one possible charge against the benefits which you come over a period of time in terms of reduced rates and that also was optional. There is no charge we have taken because we do not think anything is really making sense.

Malvika Gupta

Okay. Thank you very much.

Moderator

Thank you Ms. Gupta. Our next question is from the line of Rahul Singh of Standard Chartered. Please go ahead.

Rahul Singh

Good afternoon, I had two questions, firstly, on the capex if I look at your capex to sales ratio this year is actually very close to the largest operator, Bharti and given the mix of 900 & 1800, and your stage of rollout versus Bharti, I was just curious what does it mean for FY12 going forward, are we seeing absolutely static kind of scenario in the new circle where you are becoming more cautious than what you already were. And the second related question is would we free the cash flow positive in FY12?

Sanjeev Aga

Rahul, if 3G had not happened, then arguably, by the fag end of this year or next year we would have spent a little more on 2G capex than what we are actually going to do, because some of the amount will move on to 3G Node-B and therefore it is difficult to make a comparison of these two years because the assumptions are not similar. But if I were to normalize, it would be fair to say that our sales would increase, but our 2G capex would not have increased, because the 2G capex peak spending was when we had the new circles roll-out. Of course, ours is a very fast growing company, we mentioned that we were doing a billion minutes a day and there is also data now, but if you just look at minutes in the first nine months of the year, we went 63% over the last year which is an enormous increase. In spite of all that I would think that sales would have grown faster than capex. Of course, now you are going to have 3G capex and that capacity will not be filled up on day one, so because of 3G, you would find that that ratio will be disturbed, but if it had been only 2G, then your assessment was correct.

Akshaya Moondra

Rahul, on your question of free cash flows, basically, if we look at this year, we would roughly be in that range if we exclude the 3G spectrum fee related payment. Now, it is



very difficult to project accurately what our capex next year would be, but it would be right to say that broadly the cash flow from operations and the capex should not be very different in the coming year.

Rahul Singh

Okay, thanks. One follow-up question on 3G capex. From what I understand, you view 3G capex as, 3G capex minus the savings which that 3G capex gives you on the 2G side. So of your total Rs. 30 billion capex, 3G capex minus the 2G savings, how much would that be like, 10% or 20%, is there any ballpark number we should have in mind?

Sanjeev Aga

Rahul, the way it works is different. Actually I could not understand your math and that is not the way we do it. When we said it is going to be Rs. 3,000 crores, it just means what our books are going to show. The way this really happens is that every area has planned peak hour capacity utilization. This is dynamic and this need not be the same across the country. When we find that peak hour capacity utilization is getting a threshold, then it comes up for review for capacity enhancement. Now, at this point of time, if you have got plans to go in for 3G, then you have a choice whether to put extra TRXs or extra BTSs of the 2G variety or to put the 3G Node-Bs which will absorb some of the extra load, so that is how it happens. I do not think, it is not that we do not want to answer, we do not have an answer to a question you have.

Rahul Singh

Okay. Thank you, Mr. Aga.

Moderator

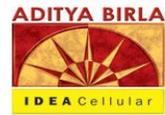
Thank you Mr. Singh. Our next question is from the line of Reena Verma of Merrill Lynch. Please go ahead.

Reena Verma

Hi, thank you very much for the call, just a few questions please. Firstly, I just want to understand the doubling in your subscriber acquisition momentum over the last quarter. What really drives this, because it is not accompanied by any dilution in minutes, so what is it that you are doing suddenly from November-December onwards and what was the difficulty with following that strategy earlier on, in a sense what really has changed there? My second question is on your subscriber acquisition cost. Both Mr. Aga and Mr. Himanshu talked about over capacity pressures, but it looks like your cost for gross addition has been falling quite nicely, where do you see it going in hard rupee terms? And my final question is, can you offer any comment on the data usage characteristics of customers currently on your network? Thank you.

Sanjeev Aga

Reena, actually Himanshu knows the answer better but I am tempted to answer you, because you said what you are doing in October-November which you were not doing. I was telling you that there is greater seasonality in rural India, even in urban India there is



greater seasonality among the lower income groups in terms of their consumer behavior. So, this is more a seasonal trend. I am pretty sure it maybe similar for other operators also, It may not be to the same extent.

Your other question of cost per acquisition falling is again part of a secular trend. If you remember when we had this life time, many years ago, it was 1,000 bucks. Now, it is coming down at the customer level and for many of the newer operators to a negative. Fortunately, it is negative but the amounts are chicken feed and that is why people have a tendency to pick up cards and discard cards at will. That is the unfortunate thing, because we have a huge amount of churn in our sector. In India, in general, the only redeeming feature is that unlike other countries where a churn is extremely expensive because the cost of acquisition is very high, comparatively speaking the cost of an individual acquisition is not so high and that is why conventional matrices of spreadsheets of looking at churns and ARPU's, we ourselves found do not lead us very far. As a company where we will look now at, what are our revenue and what the margin is and what is our profit or cash flow. Although we try to manage churn, but this is a feature of our sector.

Reena Verma

I am sorry, may I just please interrupt you. Just returning to the first two questions, Mr. Aga, I am sorry, I am not sure if I follow what you imply in terms of seasonality of rural and urban customers because the industry methods do not seem to display that kind of seasonality, so Idea must be unique in its exposure to certain markets. My question is more in terms of how come a doubling in your net adds does not lead to any change in your MoU per sub? Are you only getting high quality customers, are your existing customers showing elasticity? Not sure what is happening in terms of minutes. So, I will appreciate if you can elaborate on your answer please.

Himanshu Kapania

First and foremost, for our existing customers, which have a lot of dominance from the rural customers, typically in the Q2, these customers have the tendency to call less and in the Q3, which is the festival quarter, these customers have the tendency to call more. So, this is one part of the answer.

The second part of the answer is that we have increased from 5.4 million to 7.6 million (net ads). I do not know how you got double, but we are about 2.2 million approximately additional net ads and if you were to look at previous year Q3, we also have done better than Q2, we had done 6.2 million (net ads). So as spread of our network happens and we have larger presence in the hinterland net ads increases and the rural customers also come back buying more during this period. There is a combination of elasticity of demand



because of the seasonal factor and in general, number of customers joining in, it is a combination of both the elements.

Reena Verma

The new customers who are joining in are they as good in quality in terms of minutes as your existing one?

Himanshu Kapania

The only area where Idea has been different is that our reporting norms are extremely tight. That is why Mr. Aga keeps reminding everybody that while you are trying to compare different companies, these parameters are not relevant because of how individual companies decide on their reporting norm. For us it is very critical that only usage subscribers are reported. That is the reason you would see generally a higher churn for us and a tighter reporting. That is the way we are. We do not carry on our books subscribers who may have joined recently, but are not giving usage, so that is the only difference that you have to keep in your mind.

Reena Verma

Thank you for that, on the second question about, subscriber acquisition cost I am looking at your cost per gross ads and although you are talking about over capacity pressure, if revenue per minute is not falling and your cost per gross add is falling, where is the pressure of over capacity?

Himanshu Kapania

Okay, I do not know which number you are looking at, but to our understanding as predominantly acquisitions is on the prepaid side and there is on an average about Rs. 100 is the cost per gross add and there has not been very much change over a period of time. Yes, there has been slight fall, that fall as Mr. Aga was explaining, was because the entry cost itself has undergone a change. There was a time about three or three and a half years back where the lifetime card was Rs. 1,000 and then Rs. 500, now as entry costs have gone down so as the cost of the acquisition relatively gone down.

Akshaya Moondra

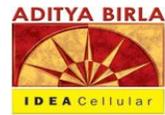
Reena, if I may add, the trend is still the same in this quarter, the realized rate has still gone down although the decline is much smaller and the cost per subscriber acquisition has remained flat, so the reversal of trend that you are talking about is still far from happening.

Reena Verma

Okay, thank you and my third question on data usage characteristics, of your current sub-base?

Himanshu Kapania

While it is a long way off, but more and more customers have starting using 2G data and are experiencing 2G data. It is a combination of availability of handsets; it is a combination of ease of customer to the content which was not earlier available as well as a



combination of better prices on data. So with all these combinations, we are seeing a very significant uptake on data.

Reena Verma Sir, is it possible to quantify in terms of megabytes, what kind of data traffic you see on your network?

Sanjeev Aga Reena, not to be put in the public domain, but the increase is not (just significant) on year-on-year or quarter-on-quarter basis, but it is significant on a month-on-month basis.

Reena Verma Okay, sir thank you very much for the call

Moderator Thank you, Ms. Verma. Our next question is from the line of Rajiv Sharma of HSBC, please go ahead

Rajiv Sharma Thanks very much for the opportunity I have just one question which is regarding the growth in the minutes of usage this quarter. Sir, last quarter we saw a 4.8% sequential decline in MOUs and this quarter we have seen 1.5% growth in MOUs but still we are around March levels after this improvement and if I see the pick up which happened in December 2009 it was about 3.7% after that dull seasonal September 2009, so even though rates per minute decline is moderating, do we see more elasticity in these minutes of usage or we believe they will now start flattening out and declining moving forward?

Akshaya Moondra You are talking about MOUs per sub, is that right? **And** not the total MOUs?

Rajesh Sharma Yes, I was talking about MOUs per sub.

Himanshu Kapania I think there is just a short answer to that Rajiv. As we are acquiring a very large number of customers on the base, it is going to be difficult to be able to hold MOU per sub, so comparing over last year same time may not be the right characteristics. And as we have continuously maintained Q2 is a weak quarter, and it has come back to Q1 levels so that is a correct way to look at. But looking over last year, when we acquired a very large number of subscribers (during this quarter), it may not be the right way to look at it.

Rajiv Sharma Okay, my second question was, MNP has been there in Haryana for about two months now and Pan-India MNP launch has been there for about three to four days, I just wanted to understand if the kind of trade practices and the various other things which have gone into Haryana, if this can be extrapolated? Yesterday, it was mentioned that MNP is not going to be a meaningful or anything significant or game changing, but do you believe this would result in one or two quarters of margin pressures for Idea and the industry?



- Sanjeev Aga** I would like to share but I do not remember, the number of people who put in a request for port-in or port-out in the two months that Haryana has had MNP, but as a percentage of the total subscriber population is not large, it is very small, and therefore even though they take up a lot of management time and it is not going to have a big impact because by itself this proportion is very small.
- Rajiv Sharma** My last question, if possible, any color on FY12 Capex guidance?
- Sanjeev Aga** We will share this to you in the next call, because that is when we finalize our budgets. At this point of time we would hesitate to give you, but as Akshaya said in very, very broad terms, assuming, our cash profits from next year behave predictably compared to this year, which means that they are slightly higher; we do not expect that capex will be dramatically out of tune with our cash profits. so it is going to be in that order of magnitude. Whether it is going to be less or more would depend on how we perform next year and how much we spend next year. We do not have the answer to either of those two questions.
- Rajesh Sharma** Thank you, Sanjeev, thanks a ton and all the very best.
- Moderator** Thank you Mr. Sharma. Our next question is from the line of Srinivas Rao of Deutsche Bank, please go ahead
- Srinivas Rao** Thank you so much sir. Just have two questions, one is on your SG&A costs. I think you made a comment as to why it has gone up this quarter. Is it purely because of the increase in the additions or is there something else? That is the first question. Secondly, just want to ask you on the issue of mobile commerce and mobile payments; what is your thought, you are not present in Delhi and have a reasonably weaker position in Mumbai, these two markets which attract a lot of migrant population, so do you think you are as well placed as some of the incumbent operators, so those are the two questions?
- Sanjeev Aga** Srinivas, I am tempted to jump in because we have a higher share in the migrant population in Bombay and Delhi than you could imagine. If you are going to Dharavi you will find a lot of guys with Idea connection.
- Srinivas Rao** Fair enough.
- Sanjeev Aga** So we surface at the right time at the right place.



Akshaya Moondra

On the SG&A, I explained there are two reasons, one is the higher level of gross ads which results in higher acquisition cost. Also included there is advertisement expense which in this quarter has been higher than the previous quarter which was also projected and budgeted.

Srinivas Rao

Sir, just one question, related issue on the 3G Capex, which you mentioned. I would also extrapolate, but going forward that when you, as you said, substitute 2G Capex o 3G Capex, your cost of servicing an incremental mode of traffic be it voice in this case will be dramatically lower?

Sanjeev Aga

Srinivas, 3G Capex you will have to probably come and understand a little separately, let me tell you why. The real bulk of capex in 3G goes in building up the backbone that is where the pressure comes. So relatively speaking, compared to that cost and compared to revenue, the electronics is much lower. And now the backbone is triggered by 3G but it is not only for 3G, it also strengthens the company as a whole. So it would be unfair to give you a facile answer; this subject has to be understood in a little greater depth.

Srinivas Rao

Sir just to add, in the backbone capex, I mean this in case, if the towers are with Indus, will Indus were part of the capex or they do not?

Sanjeev Aga

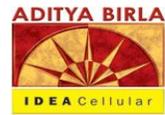
No, backbone I mean optic fiber and so on, which is intra-city, inter-city, inter-circle. These are capacities which are for the next 30-40 years. So relatively speaking the electronics as the front end today, they were very expensive five years ago, ten years ago, but today, they are relatively much cheaper, if you ignore the backbone. Actually, the right way to understand 3G would have been, if it was possible, to treat it as a whole new line of business. Unfortunately because it is an overlay, it is impossible to separate either the cost or the revenue. Therefore in the business case the P&L gets all mixed up but at least conceptually one has to understand that the license fee you are paying is for 20 years, the optic fiber you are going to put in is going to be for the next 40, 50, 60 years and electronics will also be there for at least 10, 15, 20 years. This is the beginning, god knows what kind of revenues and traffic we will have 5, 10 years later, so this is the difficulty.

Srinivas Rao

Thank you sir, just one factuality. You said you are working with Axis Bank, have you taken a business correspondent kind of relationship with them, and is that what it is?

Sanjeev Aga

I do not remember the details, but we are working. Whether we have a business correspondent, all these details have to be worked out; there is a whole food chain. There is value to be added by various people and so what is that you will do, what is that others will do, who is more equipped to do, what is something which the whole sector is going to,



at this point of time we are in the development stage, we are not trying to fight with each other or negotiate with each other, we are developing the concept.

Srinivas Rao

Thank you, sir this is helpful sir.

Moderator

Thank you Mr. Rao. Our next question is from the line of Sameer Naringrekar of BNP Paribas, please go ahead

Sameer Naringrekar

Good afternoon sir. After this revelations related to the 2G spectrum allocation, the government is looking at reworking the National Telecom Policy, so just wanted to know if you have been consulted in terms of inputs for this new NTP policy. What have been your inputs to them, if you are at the liberty of sharing, what the government is thinking about in terms of introducing into this new NTP, and what is your wish list, in terms of, what would you get into this policy? And good luck to you Mr. Aga. Thanks

Sanjeev Aga

Thank you, Sameer. Well, there has not been a structured process of taking our inputs on record, although I think the Minister did allude in a 100 days program that he would do it transparently so that he is able to obtain inputs and course corrections, from all concerned, all stakeholders. I hope that will happen. But in general, the direction we have favored for the government, not just because of the new policy, but even under the old policy, has been very much in sympathy with what was, a DoT multi-disciplinary committee, about a year and a half ago mentioned. It really made two or three points.

The first point it made was that any policy must bring efficiency at a national level of capital expenditure and operating expenditure, because at the end of the day while these are private sector companies, but these are national assets, serving the national good. And therefore it came that any policy should be to raise national productivity. So spectrum efficiency and use of other infrastructure, like optic fiber, broadband and so on are important elements of that.

Number two, we have lived in full competition, but competition does not really enhance when you go from 6 to 16, it is a charade of competition, there are methods of measuring the competitive nature of a market. I forget the exact name, but there is Hirschman Index and those are certain techniques by which you will find out, if the sector has got full competition or does not have full competition.

Number three, as the sector evolves, it should move increasingly from command and control to market base mechanisms. And finally, we believe long term that institutions like the specialist tribunal and the specialist regulatory authority should play the role that they



were envisaged to be playing, but which they have been prevented from playing over the last 10 to 15 years and therefore the role of the government would retreat eventually after they make the policy in to playing a sovereign role. Telecom is not a sector which can be governed by media or by parliamentarians, it requires specialists or the specialist institutions have to be built up, which has not happened, so I think there is a big role for the government for rewriting the new policy. But having laid out the policy, the government should retreat over the next one or two years and let the specialist institutions, which could be different from what they are right now, in terms of, how they are funded, how they are constituted, how they are staffed to take over, so this is our broad thinking.

Sameer Naringrekar

Thank you very much.

Moderator

Thank you Mr. Naringrekar. Our next question is from the line of Rishi Bothra of JM Financial, please go ahead

Rishi Bothra

Hi, thanks for the call, I was just looking at the network related cost and I remember Akshaya mentioning Rs 150 million reversals on network opex and another item on some third-party lease line, I did not get that one, so that is one part of the question. And the second part was, if I really look at the number of subscribers on a cell site basis they seem to have picked up very nicely in this quarter, but I am not able to see on the established circle side, improvement in the margin on that front. In fact most of the margin improvements actually have happened in the new circle. So would it be fair to assume that at some point in time investment in the newer circle in terms of building out network coverage has been calibrated and would need to go up?

Akshaya Moondra

On your question of network cost, on your second point, what I mentioned was that our costs on renting third-party lease lines has reduced because as we have built out more and more of OFC network, we tend to surrender some lease lines so that cost has gone down.

Rishi Bothra

So this is sustainable?

Akshaya Moondra

Yes, this is sustainable, sure. On the number of subscriber's maybe Himanshu will answer..

Himanshu Kapania

Rishi, this is Himanshu. On the number of subscribers per cell site, you are right, that the number of active subscriber per cell site is going up, but on your commentary on the margin for established circles and improvement in margin for new circles, let me just take up new circles. Even though there has been a revenue growth and the overall EBITDA in absolute term is more or less similar whether EBITDA loss is Rs 1429 million or Rs 1384



million, these numbers per se are significant themselves. From a strategic point of view, unless we see a significant drop in the EBITDA loss in absolute terms, it does not make any sense for the company to change its strategy of remaining a calibrated launch in these areas. So to us rather than looking at some percentage, decline in absolute number is more critical. The fact of the matter is Rs 1384 million continues to be lost from the new circles.

Regarding the EBITDA from established circles, you must again see not only the margins. In absolute terms, there has been a smart improvement of over 550 million in terms of absolute EBITDA and in initially it is an high 25% plus EBITDA margin, and it continues to be high. So in our belief we do not need to be very worried on the established circles; and in our belief that we continue to strengthen our position in the established circles and we will now like to change course on the strategy of that.

Rishi Bothra

Okay. If I were to just follow up on this, would it be fair to look at how would you like to look at network expenses, would you like to look at as a percentage of revenue or, like to look at as cost on a minute basis or cost on a cell site basis. What in your opinion is the right way to look at it? And what is sustainable way of tracking that, as to where network related efficiencies will come into play?

Akshaya Moondra

Okay, generally speaking, it is very difficult to say that what would be the best measure. It is a mix of factors, but I would say that looking at it on a per site basis seems to be a most realistic way, if there was a single method used for projecting. Having said that I think telecom companies all have made significant investments in terms of rolling out. There is probably a room for better asset utilization. So the general expectation is that going forward, network expenses as a percentage of revenue should actually come down. I would just qualify that statement by saying that in a 3G environment with significant amount of capacities coming at one-time, that equation may change in the interim. But if we were to just look at continuing in a 2G environment, network expense as a percentage of revenue should have continually come down. If you will see historically, even when we were at much lower capacity utilization levels, the network expenses used to be much lower. Now, of course, we have seen a price decline which of course we believe is not there permanently, but more importantly if prices improve even marginally and with improved asset utilization in terms of capacity which has been invested in for the last three, four years, once that starts happening, the network expenses should come down as a percentage of revenue.



Rishi Bothra

Sure, I take your point in terms of the intensity of price decline impacting network cost being construed as a percentage of revenues. So clearly price declines will have an important bearing, maybe looking at network as a percentage of revenue, this is not the best way, but it would reasonably be okay to look at a cost per cell site basis. Another clarification, the last one if you allow me to put it, is a little bit of clarity on how do we look at the tax part of it, because I have not been able to look a current and differed component being split into any of the releases which are there so, is this actually give out that number separately or will it continue to be a little volatile?

Akshaya Moondra

Okay, I think the deferred charge just keeps moving a little bit, but I think essentially if you look at it, it is a non-cash charge; if we look at in terms of a cash outflow, the way things stand today, we have a significant amount of tax loss which is carried forward so I guess at least for the next one to two years we would continue to be on MAT. Our deferred charge is largely an accounting calculation which is not cash flow, so it does vary, but I think it is not as significant. It is the MAT which is the cash outflow.

Rishi Bothra

Okay, thanks, that answers my question.

Moderator

Thank you Mr. Bothra. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Sanjeev Aga for his closing remarks.

Sanjeev Aga

Thank you all of you for joining us on this call and I should have said in the beginning very happy new year to all of you and thank you from my side for having been such good listeners as I went on and on over the years. Thank you so much.

Moderator

Thank you Mr. Aga and members of the management team. Ladies and gentlemen on behalf of Idea Cellular that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.