Idea Cellular Limited Earnings Conference Call

October 21, 2011

Moderator: Ladies and gentlemen, good day and welcome to the Idea Cellular conference. For the duration of this presentation all participants' lines will be in the listen-only mode and 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. Akshay Moondra -- Chief Financial Officer of Idea Cellular, 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 we make good use of the senior management's time.

I must remind you that 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 call over to Mr. Himanshu Kapania. Thank you and over to you, sir.

Himanshu Kapania: Thank you, Melissa and good day to all the listeners. On behalf of Idea, I welcome all participants to this earning call. Today morning our Board of Directors adopted the unaudited results for the second quarter, of financial year FY12, ending 30th September 2011. The press release, the quarterly report and the results have all been uploaded on our web site and I assume you had a chance to go through the same. We believe in the *age old adage of Victor Hugo "An invasion of armies can be resisted, but not an idea whose time has come."*

The company is pleased to announce that today we have more than 100 million satisfied consumers, a big thank you to the real "*Idea Sirji*". We are delighted to join exclusive global club of operators with 100 million subscribers. This large consumer base gives us a platform for future growth not only in voice but also in wireless data services and evolving related wireless telecom services in the fields of health, education, commerce, banking, machine-to-machine and cloud, etc.

The company strives itself on the quality of the subscriber base as it maintains unblemished record of highest active subscriber ratio measured in VLR terms across the industry and today have over 91% of this 100 million base on VLR.

Let me start with the important developments on the regulatory and legal front. Firstly, the Draft New Telecom Policy 2011 is now in the public domain. This broad vision document will have, in the long run, significant impact on the sector, especially policies relating to licensing, Spectrum, value-added services, security, equipment, financing, taxation and others. Idea will participate in the process and actively contribute as a key stakeholder to the NTP 2011 document.

Secondly, another related event is the recent list of queries the DoT has forwarded to the TRAI against the regulators earlier recommendations in May 2010 and February 2011 on license policy and fees, Spectrum and its pricing, merger and acquisition guidelines and license renewal terms. We will closely monitor the response from TRAI to the DoT and its impact on the sector.

Thirdly, I am sure that the analyst community will also have tracked the recent Hon'ble Supreme Court judgment dated 11th October 2011 setting aside TDSAT order of July 2006 and August 2007 on definition of 'Income' i.e. Adjusted Gross Revenue (AGR) derived by Indian telecom operators from non-licensed activities. We are studying the order to understand the financial impact on Idea and intend seeking necessary legal views, wherever applicable.

Fourthly, as regards Idea-Spice merger dispute, there is no change in status on our appeal before the Appellate Division Bench of Hon'ble High Court of Delhi challenging the Single Judge Bench order on 4th July 2011.

Finally, the other details of significant litigation matters have been separately covered under notes to the accounts as per Clause 41 of the Listing Agreement. As all these litigation matters are in the courts and sub-judice and as a matter of abundant caution Idea management team will not be able to take any further questions beyond the disclosure given at this stage.

Now, moving on to the business performance for the second quarter of financial year 2011-12. Traditionally, Q2 has been a weak quarter for the sector and with the increasing proportion of rural subscribers the market weakness in this quarter has been even more pronounced.

The performance of the company on five critical parameters which we internally monitor with reference to this quarter is as follows:

Point No. 1 – Gross revenues. After high growth of 6.7% and 7% during the preceding quarters of Q1 of this year and Q4 of the last financial year respectively, this quarter revenue is growing only at a sequential growth of 2.2%. However, on a YoY basis we have grown revenue by 26.2% from Rs. 36,891 million last year Q2 to Rs. 46,554 million of current quarter. This is almost at double the rate of industry annual growth of approximately 13% as per the last TRAI gross revenue report.

The revenue for this quarter includes 3G roaming revenue in provider circles. The 3G intra-circle roaming impact can be seen in our numbers on revenues, roaming pass-through charges and in the realized rate. The redeeming factor for this quarter is the quantum jump in the Average Realized Rate per minute at a healthy 4.2% level. This quarter ARR is 42.7 paisa per minute against 41 paisa per minute of the last quarter. The factor supporting improvement in ARR include a) VAS contribution up from 12.1% in the last quarter to 13.2%. The 3G data revenue is reported part of the VAS. b) higher roaming revenues and c) small impact due to revision of promotional tariffs for some existing and new customers across few service areas. We are closely monitoring the uptake of the non-voice revenue and are hopeful that VAS contribution to the total revenue will continue its upward trajectory.

Point No. 2 -- Cash Profit and EBITDA Margin. Due to upfront investment in 3G auctions and continued investment in 2G and 3G network company had bunched large investment of over Rs. 100,000 million during the last one year, nearly 38% of the total gross block. This large investment primarily financed through debt has obviously had a significant impact on company's profit after tax due to net interest and finance cost of Rs. 2,538 million against only Rs. 665 million in Q2 of the last financial year. The EBITDA this quarter at Rs. 10,436 million has grown by 37% when compared to Q2 performance of only Rs. 7,618 million of last year. Similar trends are reflected in EBIT growth of 57.7% measured on a YoY basis.

Further, what is heartening is that in spite of large investments Idea's 13 established service areas has maintained an EBITDA margin of 29.4% this quarter. These established circles have improved EBITDA margin by 2.4% when compared with last year EBITDA level of 27% in Q2FY11.

While cash profit has declined to Rs. 7,884 million primarily due to higher interest cost and forex losses of Rs. 313 million, we are comforted that improved absolute generation of EBITDA from operations will help sustain our investment needs of future, without increasing leverage.

Point No. 3 – Active Subscribers. While we command only 11.4% of subscriber market share based on industry reported end of period customers as on 31st August 2011, we continue our improvement journey on subscriber market share based on VLR at 14.9% as per TRAI report, a clear lead of 3.5% over reported EoP numbers. We maintain the view that VLR market share is a more accurate measure of company's competitive standing as VLR share is also in line with the revenue market share which stands at 13.9% for Q1FY12. The TRAI release, clearly establishes Idea as the "Third Largest Indian Mobile Operator" in terms of revenues. We strive hard to sustain our position as the fastest growing large Indian telecom operator.

In terms of 3G customer, we have offered to over 2.5 million of our existing users an opportunity to experience a high speed broadband service but we find just over 750,000 of these customers in the month of September have seriously used our data services. Hence from future, instead of sharing the count of subscriber offered 3G services, we are moving to a stringent definition of 3G data usage subscribers for subsequent quarters.

Point No. 4 – Minutes of Usage. The market weakness in the second quarter has resulted for the first time contraction in the total Minutes of Use. MoUs' declined by 2.2% on a sequential quarter basis to a daily average usage of 1.15 billion minutes. We are optimistic that the voice minutes will be back to its growth trajectory in the next three quarters. Incidentally, on a YoY basis, minutes of usage in this quarter has grown by 25% over the last year same quarter.

Point No. 5 – Mobile Number Portability. In spite of stiff competition, Idea has extended its mobile number portability leadership with net gain of 1.3 million subscribers as on 16th October from other existing operators and maintain the lowest port-out ratio of customers of 61 against every 100 customers ported in.

Nearly, 3.3 million customers have ported to Idea services exhibiting our strength in network, customer service, growing brand power, giving our employee a huge confidence to march ahead.

Now, moving on to 3G business. The pervasiveness of the internet has resulted over a 2 billion users worldwide actively adopting the new digital lifestyle. In India the process of internet being a part of Indian population daily life has just begun with only 50 million active users. In contrast, India surprised the world and emerged as the fastest growing mobile market with globally second largest mobile user base. It is inevitable that these 860 million mobile phones, primarily voice and text devices, will ultimately be replaced with a new Smartphone. The interesting study on the pace of 2G mobile adoptions suggests India lacks behind global trends by 4-6 years but finally converges and falls in line with the world order. Similar pattern will follow for internet adoption. The initial process of adoption will be a trickle and will only turn into a Tsunami only when these devices become affordable for the mass market as well as relevance of internet access through these Smartphone.

To accelerate this adoption Idea in a small way has decided to participate in the journey. After successful distribution of Idea branded 3G Dongles, Idea is gearing itself to launch Idea branded high quality Android operating system, full featured Smartphone at affordable price levels to help accelerate the transition of customers from voice and text phones to exciting world of internet and computing power, thereby help the society migrate from current offline lifestyle to always online way of life.

We believe India is at the cusp of arrival to the new age digital lifestyle and our 3G high speed wireless broadband services for mobile phone users will help accentuate the change. With passage of time our 3G network coverage has been strengthened in existing cities and we continue on our promise of extensive coverage. As of now, Idea offers 3G in 20 out of the 22 service areas including bilateral roaming arrangement and high speed broadband services in more than 1600 towns and over 10,000 villages across India. We also continue our effort to reduce the divergence of data price between 2G and 3G services thereby helping customers to transition from a low grade data experience on 2G network to a high quality broadband experience on 3G platform.

To summarize, while Q2 was seasonally a weak quarter, the consumer traction for 2G services remain strong. There are emerging high growth opportunities in wireless broadband and Idea with a 100 million subscriber base, Pan India presence, digging deep in the 13 established circles, growing brand power, healthy generation of cash profits and strong balance sheet is ideally positioned to benefit from the long-term opportunities, once the hyper competition phase draws to its inevitable close and the pricing power return back to the incumbent operators. I now request Akshaya to give you more details on the financials.

Akshaya Moondra: Thanks very much, Himanshu. A very good afternoon to participants from India and good morning or evening as applicable to our overseas participants. First of all we confirm that our basis of reporting on standalone and consolidated basis for our quarterly report and media release remains unchanged.

Moving on to the financial results for the quarter, this is the first quarter where the 3G roaming arrangements have been in operation and hence both the revenues and the roaming and access charges are inclusive of the respective billings. On the revenue front the standalone revenue grew by 2.2% compared to last quarter. The 2.2% QoQ decline in MoUs was compensated by the increase in ARR by 4.2%.

On the cost side, manpower cost increased by 0.6% compared to the last quarter due to annual compensation revision in July. Additionally, the network expenses increased as per planned expansion. As a result, the standalone EBITDA margin reduced by around 1% compared to last quarter and stands at 22.4% for the quarter. EBITDA loss for new circles increased from Rs. 1.4 billion to Rs. 1.78 billion in this quarter. The increase is primarily due to the impact of 3G roaming related costs as in most of these circles we offer 3G services through roaming arrangements.

During the quarter Rupee has depreciated against the US Dollar from Rs. 44.72 to Rs. 48.93. This has resulted in a mark-to-market loss of Rs. 2.77 billion on un-hedged foreign currency loans which has been capitalized. As a result the net debt and the capex amounts are higher by Rs. 2.77 billion each. With this the net debt stands at Rs. 112 billion and the net debt to EBITDA ratio for the quarter is at 2.68. Additionally, there is a forex loss of Rs. 313 million on capex payables compared to a similar loss of Rs. 13 million in Q1 which is included in the financing costs.

Cash profit for the quarter stands at Rs. 7.88 billion in comparison to Rs. 8.61 billion in the last quarter. Contribution from Indus to net profit increased to Rs. 265 million compared to Rs. 232 million in last quarter, resulting in a consolidated net profit of Rs. 1,058 million against Rs. 1,773 million in the last quarter.

Total capex during the first half of FY12 stands at Rs. 21 million and the capex guidance for FY12 remains at Rs. 40 billion. With this I hand over the call back to Melissa and open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Sachin Salgaonkar from Goldman Sachs. Please go ahead.

Sachin Salgaonkar: Hi, thank you for the call. I have three questions; firstly, following up on Mr. Himanshu's comment wherein you saw overall MoU decline sequentially, I thought this is the first time ever Idea showed this. So I was wondering is this because of more pronounced seasonality given that now your higher rural subscribers or is it something else which is impacting it?

Himanshu Kapania: In our belief it is primarily on account of seasonality.

Sachin Salgaonkar: So this trend might reverse going forward also? Because I will tell you where my question comes, we have seen the seasonality every time during 2Q and this is the first time ever on a sequential basis overall minutes have declined.

Himanshu Kapania: But you have to remember as I mentioned, that on a YoY basis our minutes still continue to grow by over 25%.

Sachin Salgaonkar: Secondly, it has been almost three months since we have seen some tariff hikes. So any signs of negative elasticity you guys are witnessing?

Himanshu Kapania: I think Q2 is not a right quarter to be able to comment on it. First and foremost there was the 'Change in Promotional Tariff' in some of our circles from mid of August which was primarily applicable for new acquisitions and as I mentioned earlier that existing customers had enjoyed 6-12 months of old tariffs and the migration to newer promotional tariff is a slow drawn process. So its impact will be seen in subsequent quarters.

Sachin Salgaonkar: And last question is for the last couple of months your monthly net adds have been very strong as compared to your peers. I know senior management does not look too much at the net adds but any color on what you guys are doing differently versus competition, something different in terms of commission structure, etc. would be very helpful? Thank you.

Himanshu Kapania: I think we are not doing anything differently. We are not aware how the other operators are reporting but we continue on our journey of subscriber additions. In fact, if you notice the VLR addition in this quarter is slightly lower than the VLR addition of the last quarter and so is our net adds slightly lower than last quarter. But our overall journey remains same, our focus remains, we need to have higher percentage of active subscribers and we continue to monitor the VLR ratio of active subscribers. And based on that, our reporting continues. So we are following a pattern and that pattern has not undergone any change.

Moderator: Thank you. The next question is from the line of Shobhit Khare from Motilal Oswal. Please go ahead.

Shobhit Khare: I have two questions; one is there is an increase in roaming and access charges from 6.7 paisa to 7.4 paisa and there is around 1.7 paisa increase in the overall reported RPM. So just wanted to check with you, that tariff hikes is only around 0.5 paisa impact QoQ? That is the first question. And second is, if you look at net adds this quarter is around 5 million but if I look at the churn which has again moved up during the quarter so gross adds is around 34 million or so. What is the actual on the ground addition for Idea if you could give any color? Is it a number between these two numbers or how we should look at it?

Himanshu Kapania: Let me take on first the question. In my mind your first question has two parts; the question that you are asking is how is the 1.7 paisa increase in the ARR and what are the factors that affecting that. As I mentioned in my speech and I repeat there are three factors which are affecting the change in the ARR. One factor is VAS percentage, last quarter our VAS percentage was 12.1 and it has now improved by 1.1% to 13.2%. The second is obviously roaming charges which include both 2G roaming and 3G roaming. And the third factor is improvement of the voice tariff on account of revision of our tariffs for new acquisition and some customers who have been migrated in the month of August and September. So, these are three factors which contribute to the change. We do not have a split of this 1.7 paisa but these are the three factors that are making a significant growth of ARR by 4.2%.

Shobhit Khare: Sir, if one assume that all the increase in roaming and excess charges on a per minute basis which has increased from 6.7 paisa to 7.4 paisa would be reflected in the top-line also, is it a good assumption?

Himanshu Kapania: I would say that there is an improvement in roaming charges both on 2G and 3G. I do not have clear numbers available to give you a firm answer. We need to do some calculations to give you the split, but at this point of time what we are declaring is an overall 1.7 paisa improvement.

Let me move to a second part which is net adds. We have always held and we have always seen that the growth in terms of VLR slows down in Q2 and because the VLR slows down in Q2, it has an impact on MOUs. We have also seen that these customers, especially the rural customers, normally come back in the Q3 and Q4, which we are waiting to see how it actually pans out. So, on an overall basis whatever churn that we reported is actually a churn, because we have almost maintained our overall VLR percentage which has been steady between 91% to 92%.

Shobhit Khare: Sir, my question was more about what percentage of subscribers which are coming back to the network, existing subscribers which actually you are not acquiring but which are just coming back. I just want to understand the difference between gross adds which is somewhere close to 34 or 35 million and the net adds which is 5 million. So what is the actual addition of new acquisitions which we are doing?

Himanshu Kapania: I do not have a split available of reported net adds of over a 5 million, how much has come because of new customers and how much has come for customers who have churned in previous quarters and come back.

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

Suresh Mahadevan: A couple of questions from me. One is looking at the forex loss of around 313 million or 31 crores, I just want to get a sense of what forex component in your debt is and what some of the sensitivities are, so that if the rupee continues to weaken at least we have a good sense of how to go about that?. The second question is related to your intra circle roaming arrangements on 3G. I think there were some news reports which suggested that Idea or whether it is Bharti or Vodafone, have signed the 3G pact and given you do not have 3G spectrum in Mumbai and Delhi, you should not be allowed to sell fresh cards. I just want to hear your view on what the stand of the company is and what the potential action is on that front going forward? Thank you.

Himanshu Kapania: I will ask Akshaya to respond on the forex loss and I will handle intra circle roaming arrangement that we currently have. First of all, let me clarify that intra circle roaming arrangement is not only among a few of us but it is beyond three of us, there are other operators who also have intra circle 3G roaming arrangement. Number two, as per our understanding and legal opinion that we have, we are completely compliant on all the license conditions regarding 3G ICR arrangements. It is not only that we are compliant, it is very specifically on the NIA document, which was a document that was released before 3G auction, specifically clarified that for operators who finally do not win 3G spectrum their customers can roam under arrangements of both Inter circle roaming and intra circle roaming. So as per our understanding there is a complete clarity, both from a license end as well as from the NIA end. I would also like to mention the specific point of yours on whether if an operator does not have a spectrum what is his status. It has been very clearly articulated in the NIA document that the 3G auction was for spectrum and it does not anyway modify the license condition of the operator. The license of ours very clearly specify that it is technology agnostic and we can choose any technology to be able to use spectrum. It is in the NIA document and in the license document, very clearly specified that we need not be a holder of spectrum to be able to operate a particular technology. So our views are clear and we have gone ahead with the arrangement with a clear understanding that this is allowed as per the law of the land and as per our license conditions. I will move it on to Akshay to talk on forex.

Akshaya Moondra: Suresh, if I may just add on what Himanshu was saying about 3G. It would be best that anybody who has this query can refer specifically to Query No. 48 under the Question-and-Answer document and clarifications given by DoT before the auction and this point is specifically covered there, so that is for the benefit of all.

On the forex loss you are talking about two things; firstly, our forex loss of 31 crores during the quarter is on accounts payable, it has nothing to do with the long-term loans that we have. As far as the long-term loans are concerned, as I mentioned in my opening remarks that we have mark-to-market loss of Rs. 2.77 billion which is basically capitalized to fixed assets as per the Ministry of Company Affairs notification and on the liability side that increases our overall debt. So that is the impact on the long-term loan.

Suresh Mahadevan: Thanks a lot. I want to follow-up is on the 3G roaming. Is there anything going on between TRAI and you or DoT and you at this point, or it is just the newspaper report that is speculative?

Himanshu Kapania: We do not comment on speculative newspaper report.

Moderator: Thank you. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Hi, thank you. Two questions I had; firstly, on the 31 crores forex loss is it cash or non-cash because earlier in the comments Himanshu mentioned that the cash profits were down also because of a forex loss, so just wanted to clarify on that.

Akshaya Moondra: Part of it is realized loss and part of it is unrealized. As I said this is on accounts payable to the extent of balance outstanding as on 30th September it is unrealized and to the extent of old accounts payables or new accounts payables which have come during the quarter and which have been repaid during the quarter it is a realized loss. So, it is a mix of both.

Sunil Tirumalai: Got it. And secondly, just following on an earlier question on the 3G roaming arrangements, can we assume that the arrangements between you and your partners would be EBITDA neutral or what can we take as the margins that you could make on such arrangements?

Himanshu Kapania: We have not done our accounts separating out our revenues for roaming and for our normal business. So we would not be able to comment specifically on that.

Moderator: Thank you. The next question is from the line of Rajeev Sharma from HSBC. Please go ahead.

Rajeev Sharma: I have a couple of questions; first is if you can give us a sense of your 3G BTS which you are looking at a steady state maybe 3-4 quarters from now, given your 3G strategy what kind of number of 3G BTS you look at? And second, how is the 3G roaming charges being accounted for? Any clarity will help. And third is you mentioned some Idea branded handsets, I guess I missed something there. So if you can help us with some color there as to what are the plans relating to get Idea branded handsets? Thank you.

Himanshu Kapania: If you notice in the statement that we have uploaded on our web site, we have given the total number of 3G NodeB and we have crossed 9,700. We started the 3G services on 28th of March and last quarter we have had little less than 7,000 numbers and we are now at 9,700. The final numbers, going forward, I think very premature to talk about because we are closely watching the situation. Our whole approach is that the towns that we cover we want to make sure that the consumer experience in these towns is at par excellence and consumer gets both high quality voice services as well as high speed data services.

As regards to Idea branded handset you got it right, we believe that for 3G services to be able to make move to a next level of growth there is a need for us to be able to accelerate existing customers who are currently users of 2G handsets, basically voice and text handsets, to be able to shift to 3G handsets and for a dramatic change of volumes that we are expecting to happen, Smartphone prices needs to be brought down. We believe that we have a role to play in that; that is why Idea is in the process of launching the Idea branded Smartphone which would be on Android operating system. It will be a full feature phone and which will have all relevant software built in to it. We believe getting our handsets will help the market to bring down the prices of Smartphone in the country and make it affordable for the customers to accelerate the process from replacing their 2G handsets with the 3G handsets.

Akshaya Moondra: Rajeev, on your question of 3G roaming accounting, it is accounted as any other roaming arrangements are accounted, so I am not clear what your question is.

Rajeev Sharma: Basically like for Delhi, Mumbai you do not have your Spectrum there. So what is the arrangement, is it some kind of fixed fee per BTS and how has that been accounted? Net of the revenue coming from these sites or the revenue separate and the opex separate?

Akshaya Moondra: The revenue comes from customers where we are providing services to our customers that would go to revenue. Where we have got spectrum and we are providing roaming services that would come into our revenues as roaming revenues. If we are a seeker in a particular circle where we do not have spectrum, we would be incurring costs and what we pay would be charged as 'roaming and excess charges' and that would come as 'costs.' So that is how it is happening.

Rajeev Sharma: Himanshu, just a small follow-up. This Idea branded handset strategy would this lead to any kind of implied handset subsidy or some kind of subsidies just to lower the cost of Smartphone as to indulge people into 3G, is that a possibility and could that mean that this could have a drag on your margin, is this a 3-6 months type of single strategy or you want to place Idea branded 3G handset as a permanent feature in the market, this is just to stimulate 3G usage?

Himanshu Kapania: First and foremost, we have stated before and repeating again that, we have paid a very large sum of money for 3G auction. We are in the investment mode for improving our coverage, so we have no desire to be able to subsidize handset and bring the costs down to subsidy route. Having said that, we believe that, it is possible to source handset at price points, which are far lower than the current price points in the marketplace. While we do not see handset as a means to be able to increase profits but we see this means to be able to improve overall 3G uptake in the country, so you can be rest assured that we have no intention to subsidize handsets and take in some costs on account of that. As on the period we will continue to promote Idea handsets, I think for us we need to stimulate the market. I am not sure if you are aware in the period of 2000-2003 when the overall 2G handset price was far beyond the reach of the common man, we as an operator had participated with handset marketing through reverse bundling route of selling handsets ourselves. We had helped to bring down the overall handset affordability in the market and get the volumes and scale which will make the overall handset manufacturing costs lower. It is a similar attempt that we are making.

Moderator: Thank you. The next question is from the line of Malvika Gupta from JP Morgan. Please go ahead.

Malvika Gupta: I will just start with the ARPM impact. Is it fair to think that the tariff hike impact would probably start coming in the quarters to come and so far we have seen only a limited impact. Also on the relationship between ARPM and MoUs, do you still maintain that if you do see a negative impact of elasticity you would be reversing the tariff hikes here? My second question is on the margins in the new circles, I just want to clarify that. There is some impact of the roaming agreements there, if you can tell us what you expect or what the trajectory can be there going forward. And my third one is a clarification on the capex of 11 billion, whether that includes the 2.77 billion mark-to-market loss? Thank you.

Himanshu Kapania: I will take the first two questions. On the ARPM I had mentioned in the last investor call and I am repeating that while there has been a change in the promotional tariff that we have offered to our customers, the largest base where the impact will be seen over a period of one year and it will be very, very steady. While there has been only one leg for which tariff has been modified, we believe the impact on an overall basis over a one year period is only 4-5%. Some of it has started coming in this quarter and if we are able to hold on to the current prices, we will see a steady improvement in every quarter going forward for the next three quarters. To comment whether we will maintain our original stand, if the MoUs do not go up because of the change in the promotional tariff, we continue to believe the same thing. In our assessment having seen Q2 whether rate changes having a depression in the minutes, we believe it is very premature to be able to look at this and we are already seeing in the month of October the MoUs to be back. So I do not think there would need to be able to reverse the decision that we have taken.

Coming down to your second question on margins for the new circle as Akshay has clarified that new circles earlier were only selling 2G, now we have an arrangement for 3G and because of the arrangement for 3G there is some incremental losses.

Akshaya Moondra: I think what you are also asking is what the expectation is going forward on these new circles. While it is difficult to give you any kind of specific guidance but I think this is related to the extent of areas in which 3G services are being offered. I guess this should not go up very much from this point of time and as we start getting more revenues then this should also offset incremental costs. So I think all in all, one should look at this as a steep shift because of the 3G roaming arrangements and going forward it would only be marginal and it is likely to stay within this range. In terms of your question on capex, yes the capex amount and the loan amount include the capitalized loss of Rs. 2.8 billion.

Malvika Gupta: Right and keeping that in mind the guidance is still 40 billion?

Akshaya Moondra: Let us say we have not made any adjustments because of the exchange loss because this has been a steep movement in a short period of time. There are predictions that Rupee at the end of March may not be at this level. Since this is not reflecting the cost of the equipment but only mark-to-market adjustment, we have not really factored it into account in terms of revising any capex guidance. We believe we should still be in the ballpark of Rs. 40 billion.

Malvika Gupta: Okay great, thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Singh from Standard Chartered. Please go ahead.

Rahul Singh: Yeah, hi good afternoon. I will again come back to these 3G question. You mentioned that the EBITDA losses in the new circles have widened because of 3G offering. If I see the loss amount, it has gone up by about 40 crores quarter-on-quarter whereas the revenues have grown much lesser than that and the pace of 2G rollout has also been same as previous quarter, so if you can just throw a light on, are there any fixed kind of minimum payments which we are witnessing here in terms of the 3G roaming agreements, because it does seem like that?

Himanshu Kapania: Let me try to address this question. First and foremost while we would not like to have a discussion in public forum on the commercial arrangements, but you have to understand the overall strategy the company is following. We have always said that for the 13 established circles, we will follow a principle of **dig** deep and calibrated approach in the remaining 9 circles. But given the fact that we have been generating very healthy EBITDA margins and we have grown our EBITDA over the last one year almost by 37%, this incremental EBITDA we have started to deploy back by employing more 2G sites into the new circles as we would like to close our coverage gap which exists with the incumbent operators. Also the current loss that you see is a combination of losses from the 2G investments as well as from the 3G investments. Our assessment is, given that this is a weak quarter the revenue growth has not commensurate with the investment that has gone in, which is most likely to be back in the remaining three quarters and this would be the peak of losses that is our assessment.

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

Sanjay Chawla: I have three questions sir. First is what proportion roughly is going into the new circles, out of the 2076 2G cell site added during the quarter? Second is in this quarter again we have seen some adverse movement in the working capital. If you can provide some color on the moving part which have contributed to the increase in net current assets this time around. And third is a clarification on forex impact on capex , which is capex is inflated by roughly 2.77 or 2.8 billion this quarter, going up to 11 billion for the entire quarter. Is it fair to presume that this inflation in capex credits the actual payment made to vendors for imported equipment because what remains unpaid would be actually occurring in your P&L?

Himanshu Kapania: I will ask Akshay to address the second and third question of yours. You are right; we have in the last quarter we put up around 5000 sites, 2000 sites on 2G and 3000 sites on 3G. And if you may recall the same has been the situation in the Q1 that we had done similar 2000 sites on 2G and almost 7000 sites on 3G. So these are the two large investments that have happened. Obviously out of the 4000 sites we are following a particular ratio. We have a very extensive coverage on our 13 established circles and little more now allocation is going into the new circles where we believe we are getting traction. Out of the 9 circles there are circles like Mumbai, there are circles like Bihar and some good tractions can be seen in Bengal and Kolkata. We have increased our throughput in Chennai and we want to be able to make a little more mark. So while there continues to be nine overall circles, in these large markets where we believe we are getting some traction, we are making a little extra investment in these. You do not have to see it only from a one quarter point of view because these very significant investments are over the last two quarters some of the impacts can be seen in the new circle in this quarter because the revenue growth has been slower than what is normally in the past. I think I can give you color on this only, I would not have exact numbers to be able to give a split. I will give it to Akshay to answer the remaining two questions.

Akshaya Moondra: Sanjay, as far as the working capital is concerned, significant part is again because of reduction of capex creditors. This has happened in the previous quarter and also in this quarter, since there was concentrated rollout of 3G, there was high level of capex creditors and as the roll out is returning to more normal levels, the capex creditors are coming down, so that is the main impact.

On the forex actually this 2.77 billion that we are talking about it has nothing to do with payables. It is the loan outstanding as on 30th September on which this M-to-M loss is capitalized. Let us say hypothetically if the Rupee were to come back to a 45 level this loss would become zero, so that is where it stands. It has nothing to do with the payouts which are happening right now and if this information is any helpful, out of this total outstanding what is actually due from a cash flow perspective in the next 18 months is only about 10% of this total amount. From a cash flow perspective the amount is very small.

Sanjay Chawla: Akshaya, so basically without this forex change your capex would have been Rs. 11 billion minus Rs. 2.8 billion for the quarter?

Akshaya Moondra: That is right.

Sanjay Chawla: Just a follow up on the capex creditors which you have said are actually winding down. What is the payment cycle now to your capex vendors on an average, is it 60 days, 90 days or is it more than that?

Akshaya Moondra: Okay let us say it would be in that ballpark, but I would not be able to give you exact details.

Sanjay Chawla: Okay, fair enough, thank you.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Just want to understand if all the 3G roaming arrangements were applicable for the whole of the quarter or we will see some part of the impact coming into next quarter?

Himanshu Kapania: 3G roaming as well as our 3G investment, we are still in an investment phase and all the operators continue to make investment in sites in increasing their coverage. As I explained, we are currently in 1600 towns and we intend to reach 3,000 towns by the end of this year. Obviously what we have seen is there is only an X amount of traffic, which is currently built and as we have clarified our strategy, we are making all efforts to be able to increase overall traffic by launching more handsets as well as improving our coverage and increasing our advertising spends, so as the traffic goes up you will see its impact on roaming arrangement as well.

Moderator: Thank you. The next question is from the line of Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma: Thank you very much for the call, I just have a few questions; firstly on interconnect and roaming costs, can you just please throw some more light on what has led to the cost increases? Is it entirely due to roaming or have you seen a shift on-net of the traffic as well post the on-net tariff hike? And in that context maybe you can also please share some insights on whether you think the off-net tariffs are now ready for an increase. My second question is on the subscriber growth outlook. Going forward do you think that slowing subscriber growth as we have seen in your case for the last few quarters is something that will slow down your revenue outlook 12 months with a lag? And finally on the NTP 2011 draft statements that they will abolish roaming charges, have you had any discussions with the government in terms of timeline what are your own expectations please? Thank you.

Himanshu Kapania: Reena let me take it on the reverse order; let me start with NTP 2011. There are multiple interesting policy thoughts which have been set in the NTP 2011. Some of them are the 'One India- One License', No Roaming and National Portability. While conceptually it is a very strong statement, but if you recall our current licensing arrangement is at a circle level and all the licenses that have been issued to existing operators is not on a nationwide basis but at a circle level. All our interconnect arrangements are also at the circle level, so we believe that from that model moving on to a nationwide model, it will take a very long discussion and make major changes on the license regime. Just to implement roaming charges or reduction of roaming charges or having a common roaming charge across India, we are of a firm opinion that it will not be possible because currently tariff in India is not a single tariff. There are multiple countries; where there is a practice of having uniform nationwide single tariff, however. we follow a strategy of differential tariff across the circle, and if the roaming rates are going to follow a process by which the tariff of a particular circle becomes applicable to the roaming base there will be a huge arbitrage and the whole thought of having independent tariffs across individual circles will loose its relevance. So I think there are multiple related topics and it is not a simple question of pure reduction in roaming charges and independently to be able to change the roaming tariffs

Moving onto the second topic of subscriber growth, last year we had a 25 million addition in terms of VLR , which you can see from our TRAI statement, and as per the current trends we do not see that the VLR growth this year is going to be any different from what we achieved in the last year. So I am not sure from where you picked up that the growth is slowing down and it will have impact on our revenues. So if the tariff is going up and the VLR growth expected to be, in absolute numbers, on a similar basis, however, because of the base having improved the percentage may fall, we are confident that we will translate the same into revenues.

Coming to the third component you are talking about roaming charges and interconnect, you are saying that you see the outgoing calling pattern undergoing a change between on-net and off-net between incoming and outgoing. I don't think we have done very deep analysis on that to be able to come to any conclusion which we would like to share in the public space. Broadly, we can say, yes the overall interconnect charges on voice have also gone up but there is a largest component of impact on account of roaming expenses. Akshaya, do you want to add anything?

Akshaya Moondra: I mean the major impact is on account of the 3G roaming charges which have come in.

Reena Verma: Thank you very much for sharing these thoughts. Just a couple of questions I had, one is on your subscriber growth. I am looking at the percentage growth rate, so maybe that is the difference between how and you and me are looking at things and I am just wondering whether all this noise about your having under reported subscriber historically might impact the connection between traffic and subscriber growth, that was one issue where I needed some help from you please. And on the roaming abolition when you say that there is an arbitrage that will come into play if roaming is abolished, are you talking of regulatory arbitrage? Because if it is tariff arbitrage at the operator level, do you expect the government to bother?

Himanshu Kapania: Yes and no. This is very, very important that there are obviously by definition or the historical regime that existed which has defined licenses as the metro circle and A Circle, B Circle, and C Circle. They have been classified into these categories primarily because of the economic strength of these circles and their ability to be able to absorb tariffs and there have been traditionally different tariffs that follow in each of these circles. If the government were to go to a premise then government will have to be fine with a situation that the hill zones, northeastern zone, the Assam zone or Orissa all of them will be paying the same tariff as will be the metros of Delhi and Mumbai. It is an important discussion, I think it is a start of a discussion and this discussion will go forward and we will see how it evolves.

Coming to the second component on the subscriber growth, I do not know from where you say that we are underreporting our subscribers, we have followed a definition of subscribers and we have been consistent. Our definition of subscribers is user subscriber base. Different companies follow different definition and there is not a uniform definition that is available. We follow a user subscriber base it has reflected in the highest VLR ratio on a consistent basis and we have maintained that as a definition for our subscriber base reporting. You will not see any change in our pattern; we will continue to be able to report on the same definition.

Reena Verma: Thank you very much. I have no further questions, but I just want to clarify that on the underreporting I was referring to the DoT's reply to TDSAT on the underreporting case, so those are not my thoughts, I was just looking at the news flow. Thank you.

Moderator: Thank you. The next question is from the line of GV Giri from IIFL. Please go ahead.

GV Giri: Thank you very much. One, what proportion of your value-added services increase is because of 3G. Would it be right to assume that even if 3G had not been there you would raise the VAS component? Number two, your depreciation has gone up quite a bit. What explains that? And number three, you have raised cell count in this quarter by almost 5,000 base stations of which most of them are 3G, is that something which explains the jump in network opex at a time when your traffic has fallen sequentially?

Himanshu Kapania: The third question on the cell count of 5,000, 3,000 in 3G and 2,000 in 2G, resulting in network expenses going up, is a correct statement. But I think the way we have to see it that, we build up a large capacity and this capacity will help our future as we make sincere sales & marking efforts to monetize it.

Coming to the VAS question, in the VAS component which improved by 1.1% there is a growth in all the three components. These three components in VAS are VAS on account of voice, VAS on account of text, VAS on account of data, all the three components have grown and we do not have a split or we are not sharing a split between how much component of growth on account of data and other related components. While on the depreciation question, I am going to give it to Akshaya.

Akshaya Moondra: Giri, you said that depreciation has increased by about 34.8 crores for Idea standalone. Of course in this quarter, there is a day extra which makes some difference and then it is in line with the total capex addition that is happening. Also because the amortization in the last quarter for some of the circles where commercial launch was somewhere in the middle of April, there the amortization would have been for a lesser number of days, and then this quarter it would have been higher. Generally the overall depreciation and amortization should be more or less in line with the capex addition, there is no specific reason for any variation.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead sir.

Himanshu Kapania: Thank you so much. It is always a great learning exercise to be able to exercise our mind and respond to the incisive queries that come out from the analyst community. Thank you so much for patient hearing and all the very best and Happy Diwali.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Idea Cellular that conclude this conference call. Thank you for joining us.