Vodafone Idea Limited Conference Call

January 24, 2022

Moderator: Good afternoon ladies and gentlemen. This is Margreth the Moderator for your conference call. Welcome to the Vodafone Idea Limited 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. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Ravinder Takkar - MD & CEO of Vodafone Idea Limited and Mr. Akshaya Moondra - CFO of Vodafone Idea Limited along with other key members of the Senior Management on this call.

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

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

With this I now hand the conference call over to Mr. Ravinder Takkar. Thank you and over to you sir.

Ravinder Takkar: A warm welcome to all participants to this earnings call. On 21st January, our Board of Directors adopted the unaudited results for the quarter ending December 31, 2021. All the results related documents are available on the website and I hope you had a chance to go through the same.

As usual, I will start with a briefing on all our strategic initiatives and key highlights for the quarter. I will also elaborate on some of the points related to equity conversion of interest related to spectrum and AGR dues. Post this, I will handover to Akshaya to share details on the Company's financial performance.

<u>The first focus area for us remains focused network investments</u>

We continue to follow a focused approach to investments, biased towards our 17 priority circles which contribute over 98% of our revenue. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas.

We continue to rapidly upgrade our 3G network to 4G. We closed around 5,700 3G sites during the quarter, while we added around 4,000 4G FDD sites mainly through re-farming of 2G & 3G spectrum. Resultantly, our broadband site count was marginally lower QoQ at 450,303 vs 450,481 last quarter. During the quarter, we also invested in upgrading our core and transmission network. The re-farming of 3G spectrum to 4G on majority of sites in various cities has substantially enhanced the GIGAnet 4G capacity in those cities. Our data capacity is now over 2.8x compared to September 2018, just after the merger. Vi's 4G coverage had already crossed the benchmark of 1 billion Indians last year which continues to expand.

It remains our constant endeavour to be the best 4G network in the country. It gives me great pleasure to announce that we continue to lead the league tables on both data and voice for several months now. We continue to have top rankings on 4G download speeds in independent external reports. We also have the highest rated voice quality in the country as per TRAI's "MyCall" app data for 12 out of 14 months between November 2020 and December 2021.

We continue to future proof our network. We have the advantage of having latest 4G equipment and technologies which are capable of upgrade to 5G. We have the largest edge cloud deployment as well as the largest massive MIMO deployment in the country.

Our focus on leveraging new technologies and partnerships for a better tomorrow for Vi users, has led us to showcase a wide range of 5G use cases for enabling smart cities, smart infrastructure, smart auto, smart sports training, remote healthcare, connected schools, drone based surveillance, gaming and many others, during our 5G trials in Pune and Gandhinagar, to make our enterprises and citizens smarter.

<u>Moving on to market initiatives</u>

We have taken several tariff interventions in the last couple of months such as increasing the entry level price for non UL prepaid plans to Rs. 79 from Rs. 49 as well as rolled out hikes on some of our postpaid plans in a phased manner during Q2. Effective November 25, 2021, we increased the prepaid tariffs across all price points including unlimited plans as well as combo vouchers, moving the entry level prepaid plan to Rs. 99. All these initiatives are ARPU accretive, benefits of which have flown in this quarter and likely to accrue into next quarter as well.

We also continue to focus on increasing 4G/UL penetration to help improve ARPU through various incentives and handset financing tie-ups. We are running multiple campaigns to incentivize our 2G handset customers upgrading to 4G Devices by offering Rs.100 cashback on monthly recharges of Rs. 299+ for next 24 months to experience our 4G network, 0% Interest EMI Schemes on Device Financing and attractive offers on refurbished devices.

On Business services –

This will always remain a strength area for us owing to our long standing relationships with our enterprise customers as well our relationship with Vodafone group. In line with our stated strategy of transformation from telco to techco, we are offering services beyond connectivity and becoming a preferred choice of partner for our customers in their digital journey. We are thus having incremental focus on new revenue streams and strengthening our proposition on IoT and cloud services.

In the ongoing 5G trials, we have showcased in a first-of-its-kind manner in India, a wide range of real-world enterprise use cases which could enable a better tomorrow for businesses. The use cases demonstrated include Industry 4.0, Public Safety in Smart Cities, Smart healthcare, smart construction, emergency response using drones, improving sports coaching for high performance, and OTT in car and Driver Safety Monitoring in connected vehicles.

The next strategic initiative is driving partnerships and digital revenue streams

One of our key focus areas is to grow our digital footprint through strategic digital and content partnerships. We have a very strong pipeline which will start unfolding over next few months.

In a recent initiative, we integrated Vi Movies & TV app content with Vi app to allow easier access without having to download multiple apps. With this integration, Vi users can watch movies, web series, over 400 Live TV channels on Vi app.

In line with our focus to offer the best of entertainment services to our customers, we also recently launched Music service on Vi app for our entire base. The service has been launched in partnership with Hungama Music. With this, Vi now offers 6 months of free premium ad-free music experience with unlimited downloads. Customers can choose from ~30 million songs across 20 different languages and a rich library of podcasts as well. One of the key differentiating feature of this service is Weekly Music

Concerts that customers can tune into on Vi app, which is going to be rolled out soon. Hungama Music is also integrated with Vi app to offer easy access to our customers.

We also have some very exciting propositions lined up in other categories like gaming, education, skilling & health, which will be available on the Vi app as part of an integrated access. All these propositions should help us build our digital community increasing customer stickiness. We also have a pipeline of projects to enable the monetization of this digital traffic.

We have seen considerable growth in our Monthly Average Users (MAUs) on our digital app over last few months and we should see this further accelerate in coming quarters on the back of the strong pipeline of digital propositions that we have.

And lastly, on our cost optimization exercise, we have achieved ~90% of the targeted annualised cost savings of Rs. 40 billion. With this, we have achieved the desired cost optimisation in line with our operating model.

Moving on to other highlights for the quarter

Revenue for the quarter was Rs. 97.2 billion, a QoQ improvement of 3.3%, aided by several tariff hikes since July 2021. ARPU improved to Rs. 115, up 5.2% QoQ vs Rs. 109 in Q2FY22. The subscriber base declined to 247.2 million vs 253.0 million in Q2FY22, because of these tariff interventions. However, the 4G subscriber base continued to grow and with 0.8 million customers added in Q3, 4G base now stands at 117.0 million.

Data volumes were down 5% QoQ primarily due to roll back of promotional offers such as double data offering on certain packs. In addition, due to price changes, there was some drop in usage that we had seen in December.

Lastly, let me talk about the **reform package announced by the government and the recent announcement by us on equity conversion**

The comprehensive telecom relief package announced by the Government of India, was ground breaking in many ways. Several of the financial, structural and procedural reforms have started to lead to significant positive developments on-ground. The reforms include deferral of AGR and spectrum dues by 4 years, clarity on AGR definition, reduction in bank guarantees, removal of penalty and reduction of interest for delay in payment of LF and SUC. All these reforms are expected to provide long term benefit to all the operators. The reforms package and the implementation has been welcomed by all the stakeholders including the banks and investors.

We had opted for 4 years of deferment for both Spectrum and AGR dues in October 2021. This will provide us liquidity support and direct the cash flow generation towards capex investment and business growth. DoT had also provided a one-time opportunity to exercise the option for upfront equity conversion of interest arising from deferment of spectrum instalments and AGR dues. Our Board of Directors, on 10th January 2022, approved the conversion of the full amount of interest related to spectrum auction instalments and AGR Dues, into equity upfront. The conversion of this DoT debt to equity will reduce the overall debt of the Company.

The Net Present Value (NPV) of this interest is around Rs.16,000 crores as per the company's best estimate. The detailed workings of the NPV of interest on Spectrum and AGR dues have been shared with the DoT and is subject to change, basis the conclusion of our discussions and final confirmation by the DoT.

The equity shares will be issued to the Government on a preferential basis. The relevant date of pricing is 14th August 2021, as communicated by the DoT. Following conversion, the Government will likely hold around 35.8% stake while both the Promoters will jointly hold 46.3%.

The equity shares will be issued post confirmation of the final amount as well as some procedural clarifications by DoT. We believe the entire exercise will be completed in the coming months, post which the shares will be allotted through the statutory undertaking of the Unit Trust of India (SUUTI) on behalf of the Government of India.

In light of the conversion of interest into equity, the Promoters have mutually agreed to amend the existing Shareholder agreement for reducing the minimum Qualifying Threshold from 21% to 13%, for the purpose of retaining their existing governing rights e.g. appointment of directors, appointment of certain key officials etc. This amendment to the Articles of Association shall be subject to the approval of shareholders in general meeting.

All these reforms are seen very positively by the investors as these announcements have provided clarity on government's intent to maintain a healthy market structure. These announcements and the subsequent actions for actual implementation have brought the much needed certainty to the way the government is looking at the telecom industry's revival. Government has also clarified that post conversion of the interest into equity, these companies will continue to run as professionally run private companies.

We believe, all these developments will be helpful in our on-going discussion of funding. We have seen renewed interest from investors. We will make suitable disclosures on the fund raising as appropriate and we target to conclude this exercise during this fiscal year.

With that, I handover to Akshaya who will share the financial highlights for the quarter.

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

As Ravinder mentioned, Revenue for the quarter improved by 3.3% compared to last quarter aided by tariff interventions over the last few months. Adjusted for Ind AS 1116 impact, EBITDA of Rs. 16.2 billion for the quarter was higher by Rs. 2.1 billion compared to Q2 EBITDA of Rs. 14.1 billion, adjusted for one-off of Rs. 1.5 billion, on account of higher revenue and incremental cost optimization, which was partially offset by higher marketing spends during the quarter.

Capex spend was Rs. 10.5 billion in this quarter. With these, nine months FY22 CAPEX stands at Rs. 32.8 billion.

The gross debt as of December 31, 2021, was Rs. 1,989.8 billion comprising of deferred spectrum payment obligations of Rs. 1,113.0 billion, AGR liability of Rs. 646.2 billion that are due to the Government, and debt from banks and financial institutions of Rs. 230.6 billion. The cash and cash equivalents were at Rs. 15.0 billion. As a result, net debt at the end of the quarter stood at Rs. 1,974.8 billion.

As covered by Ravinder in his opening remarks, the Government reforms package has been a significant positive development. We have opted for the deferment of Spectrum and AGR dues payable over the next four years, as well as for conversion of the interest arising from such deferment into equity. The Net Present Value (NPV) of the interest is around Rs. 160 billion as per company's best estimate. Post conversion of interest into equity, the net debt will go down to the extent of the interest converted into equity. The accounting treatment of this will be done once the shares are issued to the Government.

We therefore have no Government dues payable over the next four years towards Spectrum and AGR except for Spectrum installments pertaining to March 2021 auctions, which will start in FY24. We continue to repay our other debts to banks and financial institutions as they fall due.

The deferment of Government dues provides the needed liquidity to enable us to make further capex investments. Additionally, we are in discussion with banks and investors for debt and equity funding for further investments.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: The first question is on the recent tariff hike; do you see any meaningful change in consumer behavior like accelerated consolidation or down trading as consumers are also facing high inflation across multiple categories. If you can talk about the initial response which you have seen to the recent tariff hike?

Ravinder Takkar: As mentioned earlier, we have slowly been taking tariff hikes throughout the second part of Q2 as well as obviously the significant hike that took place in Q3. The biggest one of them being on November 25, when we announced the 20%-25% increase in prices for prepaid, both non-unlimited as well as unlimited plans. As we normally expect in any price increase, two to three things happen; one, which is the recharges, people wait to see what other announcements potentially will happen or is this going to be an industry wide increase or whether it will be related only to one particular operator and as you saw that the increase took place across the industry. Generally, what we see is recharges slow down a little bit for a few days and then they start to pick up again; we saw that part taking place.

We also see a phenomenon of SIM consolidation. This usually takes place in low end subscriber base, mostly non-UL subscriber base. Sometimes you see in other categories as well, that those consolidations start to take place, which basically means that people who have multiple SIMs either decide now it is too expensive to continue to recharge multiple SIMs and they make a choice, or they hold off on their recharges for a period of time, and certainly we saw some of that as well. As I mentioned, some of our subscriber losses can be attributed to this price increase.

Generally speaking, on the consolidation, as you said about tariffs or actually of the usage, we don't see any particular big impact on that predominantly, because I think the prices are still quite affordable compared to their share of wallet. Every now and then on certain price plans, you see some sensitivities where a customer may downgrade from 2GB plan to 1.5GB per day plan or something like that, but those are very few and most of the usage continues. Any consolidation is usually taking place on dual SIM low end type of subscribers.

Kunal Vora: Just continuing on that question, what is the extent of revenue increase you expect from the recent tariff hike and should we expect the entire amount to come in 4th Quarter and do we see a possibility of another prepaid tariff hike in this year 2022?

Ravinder Takkar: This tariff hike has pretty much only had one month impact, which is the month of December. If you think about how the recharge cycle works, in reality, it's even less than a month because anybody who had recharged a month before, they will come up for renewal only in the middle of the month, and so on. So, it's not even had a full month of impact and a significant amount of impact will also come hopefully in the next quarter as well. We will see that rollover taking place.

Now, in regards to specifically your question around whether we will see the full amount realization, only time will tell, and we will have to observe and see how that goes. But generally, the price increase if it takes place across industry, which it has and at the same time takes place across all price plans, which it has, we tend to see that most of it will eventually end up flowing through the entire base. As I said, we expect that to take place in Q4, although for longer validity plans you can imagine maybe there will be some impact in potentially Q1 of next year as well, but we certainly expect this to flow mostly through in the Q4 timeframe.

On your question about future price increases, these price increases have quite a significant impact not only for the industry, but for consumers as well. So, to some extent, those have to be done in an appropriate manner, because it creates a lot of movement in the industry for the retailers as well as for consumers. It's possible that there could be another price hike in 2022 at some point. The last hike that took place was almost two years later, which I believe is a bit too long and certainly would expect less than two years. In 2022, we will have to wait and see how quickly these prices get embedded, potentially it could be in 2023 as well.

Kunal Vora: Last question is if you can share your thoughts on 4G subscriber addition for the industry and Vodafone Idea. Would the higher tariff become a barrier for remaining 2G customers to upgrade to 4G?

Ravinder Takkar: No, I think what we are seeing is, while the price increases have taken place, 4G base continues to grow. When a customer acquires a 4G phone, a smartphone, depending on the price points could be somewhere around Rs. 8000 - Rs. 10,000 and the prices can continue to go up. I think an incremental payment of Rs. 100 for service, or in some cases, even less is not necessarily the biggest barrier for the customer, that they won't want 4G service even though they have acquired a handset.

Kunal, as you may be aware, we have several plans where we even make the handset upgrade part a lot easier for customers, whether it is through the EMI options that we offer on several handsets, both new as well as used. At the same time, we also offer now Rs. 100 discount on any price plans above Rs. 299 for 24 months, where a customer can get discount on their recharges when they upgrade from a 2G to a 4G device. We are also trying to help them in any way we can, in moving up the value chain.

Akshaya Moondra: Kunal, if I may just add, my personal belief is that the affordability of 4G services is not really an issue. It will basically boil down to the proliferation of digital services that happens in the country, which for a large segment of the population has happened, and this continues to increase. If people find these services useful, then they would want to consume this service. I don't think Rs. 100 additional spend for consuming the services is going to be an issue, given the utility it brings. The issue is not around affordability, it is more an issue around relevance. As we are seeing over a period of time, relevance is bound to increase.

Kunal Vora: The point here is that customer who was typically paying Rs. 50 six months back, we are now expecting him to pay Rs. 250. Even if you are giving a discount of Rs. 100 on Rs. 299, yet we are still talking about Rs. 200 for a customer who was paying Rs. 50 or Rs. 70 earlier. Do you believe that you can still continue at the same pace of upgrade that you have seen in the past?

Ravinder Takkar: No, Kunal, we don’t see a Rs. 50 customer who is a non-UL voice only customer, when they move to 4G, they don't necessarily first of all go for the high-end plans. They start off with maybe starting packs for 4G. At the same time, I think the share of wallet for telecom service is so small compared to some of the other things, that we don't see that as an issue, especially because they're upgrading for the reason of using digital services, those are considered small quantity of spend on a monthly basis compared to some of the other things that people spend their money on, so, we don't see that as a big issue.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: The first question is continuation of what we have discussed earlier. First, talking on the 2G base pack affordability, the entry pack has gone up to Rs. 99 from Rs. 5, while its marginal increase for higher end and premium customer who also have ability to pay and are enjoying abundance of data and voice. That looks quite an anomaly, also perhaps in the ability of telco to monetize. The people who can pay, we are keeping it affordable, while for people who have challenges to pay, we are making them expensive. Do you think we are in a stage today where we need to relook the entire pricing structure afresh?

Ravinder Takkar: Sanjesh, on increasing the overall pricing creating a situation where somehow affordability of telecom services is in question, I don't think that is the case at all. We have talked about this before. If you go back five years ago, the ARPUs in the country were north of Rs. 200 and we are looking at not even adjusting for inflation or time value of money, we are looking at ARPUs in the industry which is today less than Rs. 150. In that sense people are paying significantly lower than what they used to just a few years ago.

During this period of time, if you think of share of telecom spend from the wallet, it has reduced significantly. We don't believe that for a very critical and important essential service like connectivity for voice, to be able to connect and be able to receive phone calls and so on, I don’t think Rs. 99 charges are prohibitive. We don't see a situation where people are walking away from the category at all. What we do see, of course, is people make choices to say that there is some consolidation to be done, that will continue to happen and we see that as a trend, especially as we expect the prices in the future, to hopefully go up further.

In regards to the bundles and allowances for high-end plans, I think we have mentioned in the prior time that yes, the pricing tables are setup today in a way that as the usage and consumption goes up on a particular price plan, amount of headroom that you have is quite significant. So, you can increase your usage quite a bit without necessarily having to jump into a new price plan, unless there is a very significant increase.

The normal packages that work in other countries where you pay more for more are not necessarily easily achieved through this. I think from this perspective quantum of increase in price plans, as we have done in this space, will have to continue to compensate for overall ARPUs and we expect that to continue, unless the industry pricing structure changes. These price increase steps that we are seeing are the only way in which ARPU increase can take place and through migration of customers from 2G to 4G, which we believe will continue to happen as well.

Sanjesh Jain: Just to add a point there, I think looking at average really doesn’t give the right picture. As I said, we have been discounting the people who can pay as Rs. 1,000 plus today hardly exist and we had a significant number earlier. I think averaging is something I don't think I am really looking at. From affordability perspective, it really is not giving me the picture. For the bottom 100 to 200 million people, have the costs for them gone up and my answer, at least prima facie look yes, it has gone up significantly.

As a percentage of GDP, it makes sense when I start looking at in terms of single category. I think that's what is missing today in Indian Telecom, we are heavily discounting on the premium side for whatever reason. That's why I was not really looking at average as a parameter to look where we were five years back and where are we today. But point taken, let's see how the doubling of the tariffs affects us because on the lower end, we have went from Rs. 49 to Rs. 99.

Moderator: We will move to the next question, which is from the line of Peter Milliken from Deutsche Bank. Please go ahead.

Peter Milliken: My question is just a simple one and that is only on interest that you will save from the AGR and Spectrum dues. Can you tell me what the annual interest payments is that you will now have?

Akshaya Moondra: You are talking about the conversion of interest to equity. If the amount of debt which is getting converted to equity is about Rs. 16,000 crores, which is the best estimate we have today, the reduction in interest will be about Rs. 1,600 crores per year. That's a very rough figure. Generally, these DoT payments have been converted to equal annual installments, so you will not see a difference in interest and principal, as they are not segregated. The way to look at it is that it will have an impact on the annual installment, which will apply after the moratorium period. However, from a P&L perspective, the interest charged to P&L should reduce by about Rs. 1,600 crores per year.

Moderator: Thank you. The next question is from the line of Vivekanand S. from Ambit. Please go ahead.

Vivekanand S.: I had two questions. One of them, now that our quality of service is improving, given the additional capacity that we have created due to re-farming of 2G spectrum, why is it that our 4G additions are still somewhat anemic? Is it something to do with the market itself? Or are we not investing enough in branding? What is the missing link? I am just not able to relate the opening comments that you made there, your network quality is still improving due to additional capacity being made available and the 4G subscriber additions. That's question one.

The second question is with respect to the rationalization of bank guarantees against license fees and other levies. This reduction in bank guarantees, has the Government returned the bank guarantees to you? If so, how much is the return of bank guarantee that has happened, and how much money can you borrow in lieu of these bank guarantees that have been returned?

Ravinder Takkar: Vivek, on the quality-of-service part, absolutely, the quality of service is improving, it's continued to be good and our customers continue to enjoy a very good quality of service. I think on the 4G part, as we have mentioned before, we have taken significant pricing increases throughout later part of Q2 as well as in Q3. That has an impact on the SIM consolidation and subscriber losses and we saw some of that in 4G, but also bulk of it is obviously is in non-UL plans. As a result, we were still able to grow our 4G base.

We expect the 4G base to continue to grow and certainly I would not call the 4G base growth as anemic. Overall, we have managed to grow the base even in a challenging price increase environment in this quarter. You saw for the Q2 numbers, we had 3-4 million net additions on the 4G base. Probably part of the difference in our case is coming as we have a coverage gap on 4G vs our competitors. This coverage difference, it is our intent as part of our capital and fundraising exercise, to close that gap in coverage, which I think will also give us a boost there. Within the geographies and the areas that we are present, we see a robust improvement in the 4G subscriber base.

Akshaya Moondra: Vivek, the total bank guarantees which we expect to receive from the Government is about Rs. 170 billion. Out of this, about Rs. 20 billion are coming from the License Fee related bank guarantees. These have started getting returned and a large chunk of this amount has already been received by us and this process is going on. It is distributed across 22 circles, so it is taking a bit of processing time, but I would say more than 50% of these bank guarantees have already been returned.

As far as the spectrum related bank guarantees are concerned, these will also be returned in due course, that is what is assured by the Government. These bank guarantees have certain process to be completed within the Government and that process is currently being followed up by the DoT.

In terms of how this helps us in funding, as we had alluded earlier also, based on this bank guarantee reduction, the exposures of the banks is going down, and to this extent we should be able to substitute it by new facilities - a mix of funded facilities, and also some non-funded facilities, in the form of LCs, which will enable us to get vendor finance, which then effectively becomes a funded facility. So, we are expecting that the entire return of bank guarantees should become available to us in the form of new bank funding.

Vivekanand S.: Akshaya, did you mention the quantum of spectrum bank guarantees that will be returned? I am sorry I may have missed that.

Akshaya Moondra: The total is about Rs. 170 billion, out of which ~ Rs. 20 billion is license related and a little less than Rs. 150 billion is related to Spectrum.

Vivekanand S.: Ravinder, just one small follow-up, you said that the operating environment was challenging due to the price hikes. Are you saying that the 4G smartphone addition was muted for the industry on the whole as well because of this pricing?

Ravinder Takkar: I can't say specifically for industry figures because for Q3, some of those are not quite out yet. Generally, I would imagine that given any time that there is price increases, SIM consolidation takes place. As we said, SIM consolidation takes place not only on low-end devices, which of course are in predominant cases, but in some cases also takes place on 4G devices. If you have 4G devices, which have multiple SIMs or using multiple connections, then sometimes those get consolidated as well, so there would be some impact, I would imagine on the industry as well.

There has partly been slightly slower growth in 4G devices anyway, because of the chip shortage, and prices are going up as well. But generally speaking, I would say that this has been because of the price increase that took place and some amount of SIM consolidation as a result of that price increase.

Vivekanand S.: Effectively you are ruling out the impact of the cash back and the handset financing offers that your competition came out with during the current quarter, right. Is that interpretation correct, that it was not a major factor in 4G addition this quarter?

Ravinder Takkar: No, we see no impact of that at all.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Ravinder continuing on your observation, on average blended tariff being lower. My whole point is that I think average doesn't represent the lower-end of the customer where we are talking about affordability. Have you seen any sign now that it's been two months and we have doubled the pricing, while on the 4G the pricing is still much more benign. Do you think a risk could exist where we can see some exit permanently, because of affordability on 2G side? Are we seeing any sign over there like that?

Ravinder Takkar: You are right to some extent, I think averaging sometimes oversimplifies. I was just explaining that on that basis, that's how in a bigger trend if you look at the industry, you get a view of the overall affordability. I can tell you that I don't see the tele density in India reducing as a result of the fact that prices have gone up. I don't see that at all. What you see is that people who have multiple SIMs, some consolidation take place. As I mentioned to you, I don't see a situation in which the essential service that somebody gets for let's say Rs. 99 in this country today, that people are saying it is not affordable enough where I will exit the category. We don't see that at all and I don't expect that to happen.

If you are talking about very high-end price plans, where somebody who is using an excessive amount of data there could be consolidation, there could be a reduction in consumption. But on the essential service of voice, I don't see any sign where a customer basically leaves the category. I think that's the question that you are asking, and I don't see that from an affordability perspective.

Akshaya Moondra: Ravinder, if I may add something to the point you made earlier, Rs. 99 has to be compared with what are the other things on which you are spending Rs. 99, and what is the utility of this service to our consumer. As we see, the share of wallet on what services one is spending on, it is very clear that the utility which this service offers today is very high.

I think the other point, Sanjesh, it is right that ultimately we want to move to an industry situation which existed before, where people pay for higher usage. Probably, the industry would evolve in that direction but it will take some time, and it will not happen in a very short period of time. We will see a mix of tariff increase in the current structure, but we will also see that higher usage will result in higher payment, because that's the right principle to be followed over a longer period of time for any industry.

Sanjesh Jain: My second question, though we have tried answering that, the 4G subscriber addition looks slower. Now, again, here, are people again going from Rs. 99 to higher plans. Have you seen any challenge because this is five, six months of a trend where the subscriber addition for the industry has been low? Do you think the premiumization we used to see, say two years back that has materially come down?

Ravinder Takkar: Sanjesh, we had an earlier question from Vivek on the same topic but let me just quickly reiterate. If a person has acquired a 4G handset, and has spent that money, we don't see the the subscription service part to be the barrier of entry for paying or not being able to operate. Maybe there is some consolidation, but we don't see that as an issue at all, especially because again, the utility that it provides and the reason why you go and connect to digital services is much more compared to the pricing that you have in the market today. We thus believe the pricing is actually quite low.

What you do see in this quarter, is that that when you see consolidation of SIMs, bulk of the consolidation happens on non UL plans, but sometimes it happens on 4G devices as well on 4G subscriptions and we saw some of that as well. Even with that, we were able to see a growth in 4G subscriber base. As in earlier months in Q2, we had 3-4 million subscriber additions on 4G, which is again a positive strength. Overall, we don't see a demand of 4G going down, going forward as well. I think due to price increase, you see a little bit of a hiccup in the quarter, but we don't see overall demand in 4G slowing down as a result of price increase.

Sanjesh Jain: We are in a quarter where we had the highest handset sales in India. If I dissect the handset sale, majority of them are coming at Rs. 7,500 plus, I think that people who are sitting at a fence probably, most of them are today on the 4G. My concern is that I was anticipating lower-end smartphone to accelerate, that's where the entry level feature for the smartphone would be happening. I think that trend is not picking up. That lower-end entry level smartphone acceleration is actually not happening and most of the smartphone sales in India is US$100 plus. That's a data point that concerns me that the entry level smartphone sales being slower tells that the transition from 2G to 4G whether it's affordability on the handset side or affordability from the services side, clearly doesn't look so affordable to the next 200 million whom we are now targeting to shift to 4G.

Ravinder Takkar: Sanjesh you said it itself, the number of handset sales have gone up. So, clearly the challenge is not on acquisition of handset. The price points itself, you are right, the average selling point is going up by a little bit. But again, I don't think that in the demand side is creating a big problem.

Sanjesh Jain: The other point on the customer engagement, on the voice side we have been declining consistently. It looks like it's not stabilizing both on the total minutes and minutes per customers. So, engagement clearly is not something we are encouraged with. And on the data again, it concerns me a lot. It's just not Vodafone Idea who has seen decline, I think Jio also had a sudden deceleration in the data consumption and we are talking in a quarter where IPL was there and everybody tried to push the IPL packs along with the total packs. Do you think we are hitting a saturation in the data consumed per user in the industry?

Ravinder Takkar: Sanjesh, let me answer that question in multiple facets, it's a very important question, so let me answer it in detail. First of all, I think we have to start off with the fact that the consumption of data in India is actually very high compared to any country across the globe, it's a significant amount. In some ways, the Indian consumers are consuming a lot of data. At some point, you cannot assume that breakneck increase will just continue because there are only 24 hours in a day, people can consume only so much data. I think that's the first part by itself, we are starting off with a number that is quite large.

The second part on data you talked about is just overall engagement, where you said that you are not excited about, and you are not seeing good results. Actually, we see the opposite of that. We see quite a significant engagement that is taking place. Data volumes in this quarter are down but I explained in my opening part that they are down primarily because we have stopped promotional offers such as double data and so on. In the context of a price increase and other tariffs interventions that we were doing, it made sense for us to withdraw that and we saw a result directly of that, where the data consumption went down. We didn't see any other decrease otherwise, within the consumers. Also, we had a significant growth in the past, Q2 was a very large on a year-on-year basis, we saw very strong increase in data consumption. I don't see that engagement from the customer is dropping at all.

On the voice minute parts, there is of course, a drop there as well. Some of it is going, you know if you have a situation where you are seeing SIM consolidation starting to take place in the industry. As we said most of the SIM consolidation, while some of it takes place on 4G, a lot of it takes place on voice customers as well, and as a result there is some shrinkage that we see. Also, of course, there is an industry trend of migration to OTT for voice minutes, and so on, which is a smaller trend, but it does contribute to some of that.

I would thus say that the engagement is actually quite strong. The last part of engagement, which is also very important is we are seeing a huge engagement increase starting to take place on the digital side, as strong monthly active user increases are starting to take place. 50% of our recharges are now taking place digitally, people are spending more and more time on our digital assets and properties. Maybe in the future, we will talk a little bit more about that as the trend picks up. We don't see an engagement reduction at all. In fact, what we see is more and more engagement to this essential service and overall a positive behavior by the consumers.

Sanjesh Jain: Data, I got your point, I picked up earlier when you said that you have cut-off some of the allowances. But I am telling you even the competition is seeing slowdown and for me that also means that why are everybody so much rushing towards deploying the 5G from the B2C perspective. I cannot imagine today any other use case for B2C category, for the mobile users but for a higher and better speed and with decongestion of the 4G network. Why the rush for 5G in assuming that we saturated the data usage at the level we are today.

Ravinder Takkar: Sanjesh, obviously can't comment on what happens on my competitor's network, I don't have any insight into that. I can only comment about what we saw. On the 5G side, you are saying there is rush for that, but I don't see any rush. Every time the auction has taken place, nobody has participated, so I am not seeing the rush that you are suggesting. I agree with you that the use cases for 5G still have to emerge. We have showcased several use cases from the test frequencies that we have got. There are several use cases that are possible, but of course will take time to develop and for consumers to adopt.

Today, the use case for 5G across the globe, for the most part for consumers is really around building more capacity. There is of course, a little bit of speed involved as well. But really, it is more for adding capacity when you have congestion on the 4G side, which is not as much of a challenge in India today, so, I would tend to agree with you. But I am not sure that the rush that you are talking about for 5G, actually exists as you have stated.

Sanjesh Jain: Because we have not seen any C-Band Auction, anyway just it looks like at least Government is trying to push the 5G adoption in India. Just one last bit from my side, we have done multiple trials now on 5G. What is your initial thought on 5G? How well can it get integrated with your existing network and the requirement of fiber, do you really see that as a big game changer in the 5G rollout?

Ravinder Takkar: First of all, in terms of upgrading the network to 5G, we don't see that as a challenge at all. As I mentioned before, our network has the latest 4G technology and most of the time when we put the latest 4G technologies, many of those come already ready to be upgraded to 5G. So, they are the easy upgrades that take place and most of them are just software upgrades that are needed. Also, we have deployed several of the 5G technologies within our network. Massive MIMO is a very good example of key 5G radio technology, which we have already deployed at a massive scale within India. From that perspective, we find ourselves much more ready potentially compared to other players.

Now, in terms of the use cases itself, as I said, we have showcased several use cases to the various Government officials from the trials on test frequencies that we have done. I think those use cases are eminently possible. The question is really where demand will come in for those and of course, how that rollout takes place.

On the fiber side, we also expect the E-band and V-band frequencies to be auctioned off. I think in India, clearly, as the backhauling will be done with a mix of fiber as well as the E-band and V-band spectrums that will be handed out. I think it will be a combination of both of those things. I don't think that fiber will come in as quickly to every site, every location in a same manner, so some of those frequencies would be quite critical as well, which are certainly a part of the discussions and the consultation that TRAI is doing; those are within scope and we expect those to be considered bundled into the 5G spectrum.

Sanjesh Jain: If I understand on the fiber side, you are telling if E-band and V-band are allocated along with the 5G, you don't see fiber to be a big advantage for anybody or not having fiber as a big disadvantage to anybody.

Ravinder Takkar: I think in the current premises, the E-band, V-band actions which may take place along with the 5G spectrum, I think should be a reasonable enough place to start. In any case, if 5G starts off from inside to outside meaning it starts from denser areas and it goes outside, there is already sufficient fiber in the industry anyway in those areas, so I don't see that as a big immediate challenge.

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

Piyush Choudhary: Most of my questions are answered, just a couple of them. Firstly, in your 17 priority circles, could you talk a little bit more about your network coverage objectives and how's the discussion with vendors proceeding to enhance your network investment.

And secondly, as promoter group stake is going down, are you witnessing any concern from vendor partners or potentially increasing churn among employees? What steps are taken to address those concerns, and retain talent within the company?

Ravinder Takkar: Piyush, on the priority circles, I don't see any reason for concern from any of the vendors; our vendors have been very supportive. They continue to provide best-in-class service, given the fact that we have talked, that our network quality is by far the best. We are seeing great experiences that has been validated by all the third-party reports that come out, including TRAI call Data, and so on. The vendors have done a phenomenal job given the complicated integration exercise that we went through earlier. As a result, I think we are seeing actually the work done by vendors to be fantastic, they continue to be very supportive and I don't see any challenge, I am not sure what you were referring to there.

In regards to the promoter group stake, the reduction has had no impact on our ability to retain talent or to attract talent. The promoters have made it very clear that while their stake is getting diluted as a result of this debt reduction, which I think is considered a very positive step. They have chosen to strengthen the balance sheet of the company at the cost of reducing their stake and that is seen as a positive sign.

As I mentioned in my opening remarks, they have further confirmed that they will continue to provide support and governance and control the company even at a reduced shareholding structure compared to before. I think it gives further confidence to the company from the promoters and so far there is no reason for either employee or vendor or anybody to feel that there is any lack of engagement from the promoters. In fact, the promoters are very much engaged in the daily aspects of the business.

Piyush Choudhary: My question was more on the capex side in the 17 circles. Basically, for the last probably 10 quarters, if I am seeing the data correctly, your average capex is around Rs. 10 billion. What would trigger a higher level of investments, would it be only post some funding or you have head room post additional price hikes to increase capex?

Ravinder Takkar: On the capex side, yes, there are both the events that you mentioned, first of all, the moratorium from the Government allows for any cash that has been generated, because we don't have to make the payments to the Government, to come back into the company in the form of investments in capex, so that part helps. Tariff increases as it results in improved cash flow situation, extra cash can also come in for capex as well. The other part is further bank support and funding process that we are going through, all of those will further increase our ability to deploy capex in those circles, so all of those three things will be contributing to increased capex.

Piyush Choudhary: The third thing is still not known, but the first two things are known already. Based on the first two things, are you looking to increase the capex? Is the company looking to materially increase the capex investments? And if so, what's the target for next year?

Ravinder Takkar: I will let Akshaya answer the quantum part. I don't think we will disclose that but if there's any insight that he can provide. Generally speaking, as part of our fundraising exercise and other two reasons, we will be able to increase the capex spent in those 17 circles. Akshaya, I don't know if you have anything more to add.

Akshaya Moondra: No, at this point of time, we cannot provide a guidance. We are also in the process of our annual budgeting exercise, so probably by the time we have the next quarterly results, we will be in a better position to provide a guidance. It is in our plan, that with this relief package being available from the Government, and also the additional funding that we are doing, our primary focus will be to increase the 4G coverage to match our 2G coverage. As we said, in terms of capacity we are fine, as our network experience today is already the best or amongst the best in the country. Capacity investments have not been a challenge, the challenge has been around 4G coverage which would be a priority once we get back to a higher capex.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to Mr. Ravinder Takkar for closing comments.

Ravinder Takkar: Following the announcement of the government reform package, we believe the industry is on its path to recovery. The recent tariff hikes will go a long way in alleviating the sector woes and improve overall profitability. The significant liquidity provided by the Government reforms package and the recent tariff hikes will enable VIL to make network investments and compete effectively to improve its competitive position. Thank you very much for joining this call. Have a good evening.

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