



“Idea Cellular Limited Q1FY16 Earnings Conference  
Call”

**July 22, 2015**



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**Moderator:** Good Afternoon, Ladies and Gentlemen. This is Inba, the moderator for your conference call. Welcome to the Idea Cellular Conference. For the duration of this presentation all participant lines will be in the listen-only mode. After the presentation a question-and-answer session will be conducted. We have with us today Mr. Himanshu Kapania – Managing Director of Idea Cellular and Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular, along with other key members of the senior management on this call. I want to thank management team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time. I must remind you that the discussions on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this, I hand the conference call over to Mr. Himanshu Kapania. Thank you and over to you, sir.

**Himanshu Kapania:** Thank you Inba. On behalf of Idea, I welcome all participants to this Earnings Call. Yesterday, our Board of Directors adopted the audited results for the first quarter of the new financial year 2015-16. The detailed Press Release, Quarterly Report and Company Results have been uploaded on our website and I assume you had a chance to go through the same.

Due to changes in the TRAI Interconnect (IUC) regulations effective 1<sup>st</sup> March, 2015, primarily reducing mobile incoming Interconnect charges from 20 paisa to 14 paisa /minute, the revenue figures for this quarter are not comparable to earlier quarters. The gross revenue for Q1 FY16 is negatively impacted by Rs.3,170 million when compared to Q1 FY15 due to IUC charge reduction. Additionally, implementation of TRAI New Roaming Tariff Order effective from 1st May, 2015, reducing the upper cap for national roaming voice call charges and SMS charges between 20 to 75% and increase in Service Tax rate effective 1st June, 2015 from 12.36% to 14% has also impacted the financial results for this quarter.

In spite of the above, Idea, the fastest growing large Mobile Operator, starts the new financial year with 16.4% YoY growth in gross revenue of Q1 FY16 at Rs.87,965 million. If we normalize the IUC & Roaming Rate changes for Q1 FY16 v/s Actual of Q1 FY15, the normalized growth this quarter on YoY basis is above 21%.



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On 1<sup>st</sup> July, 2015, our Prime Minister, Shri Narendra Modi ji, unveiled the 'Digital India' Vision, the program to transform India into a digitally empowered society and knowledge economy. India's role in the emerging global order cannot be emphasized enough. The tremendous economic energy being unleashed by India today has placed us amongst the fastest growing economies globally. With 68% of the Indians under the age of 35 years and speaking 22 different languages, India's young, vibrant and diverse population is fast becoming the largest target market for 'Information, Communication and Technology', in short ICT. In emerging markets like India with a high demographic dividend, our Prime Minister has correctly identified 'Digital India' as a Key impetus not only for doubling country's GDP over the next decade but also a bridge for unifying and empowering India's masses especially in Bharat. India on the power of Mobile Broadband Internet infrastructure and all pervasive digital technologies is ripe to leap frog from current analog life style and transform itself into an empowered society.

The 'Digital India' Vision is built on three pillars. Firstly, building Digital Infrastructure to meet massive Internet Capacity needs of 1 billion citizens of India. Secondly, transition from current bureaucracy led, paper pushing society to more online including all Financial Subsidy disbursements, digitization of Central & State Government Governance transaction with citizen, and provide all information and support services digital using the power of new Mobile Broadband platforms. The vision also envisages the cash economy would transition at a brisk pace to more electronic, cashless way of life primarily using Digital Wallet. Thirdly, Digital Vision enunciates Universal Digital literacy program to upgrade knowledge and skill of 1.25 billion Indians in the new digital world order.

As we are all aware, the current India internet penetration is at a nascent stage with only 20% of Indian population accessing internet for digital services and Indian Consumers remains amongst the lowest average Internet usage per month within South East Asia. This is all slated to change at a speed much faster than all of us can envisage today. You will agree, over the last 10 years, the Indian Wireless Industry has helped transform Indian society and provide impetus to economy by building a dense and widespread Mobile Voice Network connecting over 500,000 towns and villages rural interiors & deep hinterland delivering high quality voice services to nearly one billion Indian consumers. Over the next decade from 2016 to 2025, we estimate the Indian Mobile industry would work at breakneck speed to expand Mobile Broadband Services infrastructure to cover nearly a billion Indians. To set the context, Idea on its own 3G Spectrum currently offers high speed Internet Services to 275 million Indians built over last 4 years against GSM Services coverage offering to 950 million Indians in 364,000



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villages and towns for Voice Services. This gap between Mobile Broadband and Mobile Voice infrastructure would reduce over the next 8 to 10 years.

For success of Digital India program, a high percentage of the existing industry's 450,000 GSM Mobile Base Stations need to be upgraded to latest 3G and 4G Wireless High Speed Data Services, and the mobile sector has to build 15 to 20 times Mobile Broadband Data Capacity to meet surge in demand from projected 1 billion Indian internet users thereby translating the government digital vision into a reality.

As the Mobile Broadband Coverage improves, 3G & 4G devices become more affordable and with the onslaught of host of new digital services using Indianised Applications with local & regional Content, it is inevitable the demand for Mobile Internet will grow at 'triple digit rate' and explode over the next 5 years.

Idea, steadily in the last 4 Spectrum Auctions and with commitment of Rs. 483.6 billion has improved its spectrum portfolio from 101.8 MHz in March 2010, to 270.7 MHz. The company since 2011 has launched its 3G Services in 12 Service Areas and is now slated to launch Kolkata 3G Services by end of this year. The company has also acquired 55 MHz of contiguous 5MHz 1,800 MHz spectrum band in 10 Service Areas in 2014 and 2015 Auctions for launch of 4G Services on LTE platform in Telecom circles of Kerala, Maharashtra & Goa, Andhra Pradesh, Karnataka, Madhya Pradesh & Chhattisgarh, Punjab, Haryana, Tamil Nadu, Orissa & North East. Since 2014, when we won contiguous 1,800 MHz spectrum, Idea has been carefully studying the global mega trends in adoption of 4G Services on LTE technology in various Emerging & Developed large economies and the evolving competitive scenario within India.

Initially, exercising caution, we deferred 4G launch as equipment and smart phones prices were not competitive to 3G technology. However, the last 18 months, the high speed broadband technology has matured and has been adopted across 170+ operators in the world. With scale and adoption of 4G global services by over 500 million consumers, the gap of Network equipment prices between 3G & 4G reduced. We are also positively surprised at the speed of availability of wide range of affordable 4G smart phones and devices with inbuilt fall back to 3G & 2G Network. The unexpected 4G device revolution is primarily driven to meet massive China, USA, Europe and South East Asia consumer demand. Therefore, post careful analysis of LTE technology maturity and consumer demand surge across markets like China, Indonesia and other similar markets, Idea has decided to initiate necessary



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steps culminating into launch of Idea's own 4G Services on LTE platform from Calendar Year 2016 in a phased manner. Initially, we intend to focus Idea 4G Services in four Telecom Circles where Idea does not own 3G Services including Karnataka & Tamil Nadu as well as markets where we are experiencing excellent 3G services demand as well as town categories where latent Broadband demand outstrips supply of Mobile Broadband Services. In the meantime, we will continue Idea's journey to expand 3G Broadband Services and make it ubiquitous as we connect mid-size and small towns as well as rich rural markets to high speed Mobile Internet Network.

Infrastructure alone will not guarantee Digital Idea success. This hardware needs to be complemented by software in form of bouquet of localized and regional digital services and applications. We are already witnessing a new breed of digital entrepreneurs, the mushrooming young startups, enter diverse categories such as e-tail, entertainment, travel, fashion, information and payment services and offer newer digital services to Indian consumers. Idea is also in the process of reviewing, its existing 'Value Added Services' offering and expand the services portfolio.

The company has taken, in principle, decision to introduce its own range of 'Digital Services' either through in-house development or in partnership across various categories like entertainment, information, communication, utilities, etc., from the next financial year. The company is also working to monetize its Key Network & Customer Assets using Application Program Interface (API) platform partnering with young startups and Digital entrepreneurs and offering them an opportunity to market their internet services to our 165 million strong consumer base. The company also intends to expand its Digital Payment Services using the RBI PPI license company acquired in 2013, while we wait for the final outcome on the Payment Bank application of our Promoter Company.

In summary, Idea is gearing itself to build large Mobile Broadband capacity handling internet infrastructure and participate in the exciting Internet Economy with its range of Digital Services bouquet. Given, the company decision to introduce 4G Services from Calendar Year 2016 in a phased manner, Idea is revising its existing Capex guidance for 2015-16 to Rs.60 – 65 billion, an incremental spend of Rs.10 billion to our earlier guidance in April 2015.

We regularly debate and believe Idea's last 5-year success can be attributed to a transformed mindset. We could have gone around like a timid bit player, but the company held its head high and had the courage and conviction to act like a leader. In our journey, Idea has imbibed a number of powerful attributes. We have learnt to think big, act fast but with honesty, integrity and transparency. We



imbibed culture of meritocracy, nurtured an army of leaders and scale the company with legendary operational discipline. We keep challenging ourselves to reinvent continuously to meet the transforming Indian society evolving needs as well as keep pace with our employees and partners aspiration.

### **Moving on to Business Performance Update**

Based on latest TRAI gross revenue release for the period 'January to March 2015', Idea has improved its 'Revenue Market Share' (RMS) to 18.2% in Q4 FY14, an improvement of 160 basis points over the same quarter last year. During the financial year April 2014 to March 2015, the Mobile industry has grown to Rs. 1,832 billion, double digit growth of 10.8% between FY14 and FY15 and contributing 1.6% to GDP of the country. In comparison, Idea has grown by 19.8% in the financial year 2014-15, nearly 1.8 times the rate of industry growth. The company 'Revenue Market Share' (RMS) has risen in FY15 to 17.5% against last year FY14 RMS at 16.2%. Idea incremental RMS between FY15 and FY14 is 29.8% against overall revenue share of 17.5%, indicating the competitive standing for the brand Idea would continue to improve.

The performance of Idea on five standard parameters for the period April to June 2015 is as follows:

1. **Gross Revenue:** The 4.5% sequential quarterly revenue growth in Q1 FY16 when normalizing for IUC rate reduction effective 1<sup>st</sup> March 2015 rises to 6.9%. This strong quarter revenue growth on back of 6.3% sequential normalized revenue growth in Q4 FY15 is driven by balanced growth in Voice Minutes & Mobile Data traffic and 4.4 million Net Subscriber Additions. During the quarter, the company carried 195.8 billion minutes on its network, registering 10.7 billion minutes increase @ 5.8% QoQ growth. Similarly, the company carried 62.7 billion megabytes of Mobile Internet Data on its 2G & 3G Data platform, QoQ growth of 8.2 billion Megabytes @ 15%, reaffirming strong consumer demand for brand Idea.

But, the 'Average Realised Rate Per Minute' fell on sequential quarter basis by 0.3 paise /minute to 44.5 paise /minute led by fall both in Voice Rate and Mobile Data Realised Rate per Megabyte. The voice realization fell by 1.0 paise /minute primarily due to full quarter impact of new IUC settlement rate. Most importantly, after adjusting for IUC & Roaming impact, actual voice rate downward spiral in the financial year 2014-15 has been reversed in this first quarter of 2015-16.



The Value Added Services contribution improved for this quarter to 26.1% against 17.8% in Q1 FY15, a robust YoY improvement of 8.3%.

- Cash Profit & EBITDA:** The standalone EBITDA at Rs. 29,613 million grew by 31.1% on YoY basis primarily driven by scale benefit, better cost management and robust voice and data volume expansion, inspite of 1.3% decline in 'Average Realisation per Minute'. The standalone EBITDA margin has improved on YoY basis by 3.8% to 33.7%.

56.6% of incremental annual gross revenue of Rs.12.4 billion between Q1 FY16 & 15 has translated into EBITDA incremental growth of Rs.7.0 billion, indicating the EBITDA margin growth journey will continue. In Idea's 15 Established Service Areas, with ever improving blended RMS now at 21.3%, Idea standalone EBITDA margin for the quarter has risen to 37.9%, a steady improvement of 3.9% over the same quarter last year. However, the losses in the 7 New Circles, where the company is in expansionary mode stands at almost earlier levels of Rs.1,697 million, pulling down overall EBITDA margin to 33.7%.

On consolidated basis, including 16% contribution from Indus, Idea EBITDA has grown to Rs. 32,284 million at margin of 36.7% with YoY growth in absolute consolidated EBITDA by 28.9% and margin improvement by 3.6%. The Q1 FY16, standalone Cash Profit is Rs. 25.5 billion, a YoY growth of 26% provides company sufficient headroom to meet the company's Debt servicing obligation and enhanced Capex aspiration.

- Active Subscribers :** Idea clocked 24.9 million Net VLR annual addition between July 2014 to June 2015, against 18.6 million additions in the same period previous year. The company is now servicing 165.8 million quality consumers in India. Competitively, Idea continues to improve its market standing with Customer Market Share on VLR @ 18.9% in May 2015 against 17.7% in May 2014. The industry during the period June 2014 to May 2015 has delivered robust subscriber incremental Net Addition of 78.1 million against only 62.6 million in the same period last year. Nearly 'One out of every three' Indians buying new Sim Cards during the last one year joined Idea on its Network, Idea clocked highest incremental VLR share at 31%.

Despite, the large subscriber addition, the quality of Idea overall consumer base has been steady with ARPU at Rs.182 in Q1 FY16 v/s Rs. 181 in Q1 FY15.



4. **Minutes of Use:** While the Urban Markets offers excellent future opportunity for Mobile Broadband, Rural markets in India, traditionally laggard, presents good potential for rural voice telephony. TRAI in their recent April 2015 report announced the key milestone of 1 billion Telecom Subscription in India with 970 million Mobile Subscriptions and 30 million Fixed line connections.

On study of the Urban Rural split, the Urban SIM cards penetration peaked to 149.1% of the population, while still Rural India SIM penetration is 48% of its population of 850 million. Additionally, eliminating multiple SIM owned by existing Users, it is evident that over 500 million Rural population in the target demographic bracket has still not acquired Mobile Subscription. As competition recedes in Rural Voice and Idea covers additional Rural population, the company remain optimist to maintain current Subscriber & Voice Minutes growth.

Voice Minutes grew on YoY basis by 18.5% from 165.2 billion to 195.7 billion minutes, strong growth of 30.5 billion minutes between Q1 FY15 to Q1 FY16. Similarly, inspite of 23.1 million subscriber addition to Idea reported customer base at 162.1 @17%, the Minutes of Usage per subscriber in Q1 FY16 grew by 7 minutes per user from 401 minutes in Q1 FY15 to 408 minutes in Q1 FY16.

On GSM Network investment, Idea integrated 3,208 sites during period April to June 2015, expanding the company GSM BTS footprint to 115,575 sites covering 7,513 census towns and 363,500 rural villages pan India. Idea with its consistent 2G investment now cover nearly 80% of India with the brand choice available to over 950 million Indian population and with ongoing investment in the Idea's identified weak Emerging and New Telecom Circles of India, we should reach a coveted Network coverage ability to service one billion Indian population early in the near future. Similarly, the Optical Fibre backbone spread is fast being densified and by end June 2015, the company Fibre has spread to 95,100 km and 5,280 OFC POPs. Over 11,000 km of Optical Fibre has been added to our high capacity Backbone Network during period July 2014 to June 2015.

5. **Mobile Number Portability:** On 3<sup>rd</sup> July, 2015, Idea in line with the government directives has introduced 'National MNP' for customers who transfer from one Telecom Circle to another State and wish to carry their existing Mobile Number to the new Telecom Circle. Initial results on National MNP indicate, just like in local MNP market, Idea leads in the National MNP space. The overall trends emerging from MNP clearly distinguishes the consumer preference for Idea brand and its quality of services. As of May 31<sup>st</sup>, 2015, Idea lead over other Telecom Operators has been





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extended to 13.9 million customers. Over last 54 months, Idea has maintained its leadership MNP Net Addition position with one out of every four existing mobile customers who decides to port out in India from their existing Mobile operator prefers Idea.

**Moving on to Wireless Data Business:** The Mobile Data contribution to overall Service Revenue has steadily risen to 17.7% in this quarter, an increase of 0.8% QoQ and 6.2% YoY. The overall VAS contribution has jumped to 26.1% this quarter, QoQ increase of 1.6% and sharp improvement of 8.3% from 17.8% in Q1 FY15.

In line with the emerging Digital Services global connectivity trends, Mobile Internet Data Volume grew to 62.7 billion Megabytes, a sequential quarterly growth of 15% of 8.2 billion Mb and YoY Data traffic growth of 92.8%. But due to falling Data realized rates, the Mobile Data Revenue for the quarter Q1 FY16 was Rs. 15.4 billion, a sequential quarterly growth @ 10.1% and YoY growth of 80.2%.

The blended data 'Average Realisation per Mb' (ARMB) has fallen sharply YoY by 6.5% from 26.3 paise in Q1 FY15 to 24.6 paise /Mb in Q1 FY16. But, the higher mobile data usage per data customer @ nearly 600 Mb/sub against 409 Mb /user in Q1 FY15 helped improve the blended Mobile Data ARPU (2G+3G) to Rs.147. The Data ARPU has steadily been rising from Rs.108 levels in Q1 FY15 due to definition change for Mobile Data Customers and increased Usage per internet consumer.

The net Mobile Data Consumers base has risen this quarter by 3.7 million to 37.2 million with Data User penetration reaching 22.9% of overall Idea Consumer base accessing Mobile Internet either on 2G or 3G platform. Over the period July 2014 to June 2015, only 9.3 million Net Data Subscribers addition against 24.8 million New Subscriber addition, points to gap in Digital education and major effort needs to be undertaken by Mobile Operators and Internet economy players to accelerate Mobile Internet adoption across various geographical locations and demographic segments in India.

**Moving on to 3G business** : Idea's Mobile Broadband subscriber base has grown by 90% over last one year, with an addition of 7.9 million new 3G Broadband customers and now serving overall 16.7 million 3G Mobile Data Users. In comparison, the pace of existing Idea customers upgrading their devices to 3G smart phone has positively surprised us. With wider availability of smart phones and entry prices of 3G phones falling below Rs.5,000, in the last one year during the period July 2014 to June 2015, 20 million existing Idea subscribers upgraded their feature phones to new 3G smart phones.



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As on 30<sup>th</sup> June, 2015, 41.5 million Idea subscribers own a 3G device, penetration @ 25.6% of the base. However, the worrying part is only 51% of these 3G device owners use Idea 3G platform services for Mobile Internet Access and /or 3G Voice Services. While availability of 3G phones with existing Users provides us the platform to transition these consumers to Idea high speed Broadband services, massive company drive is needed in terms of coverage expansion, introduction of localized relevant and persuasive digital services, customized and regional exciting content and multiple trial packs. Additionally, consumer digital education, skill and knowledge programs is needed to reduce the gap between device ownership and usage of Idea Mobile Broadband 3G platform.

The good story is, once a user understands the power of Mobile Broadband, his volume usage is high and ARPU Value accretive. The 3G Data Volume contribution to the overall Wireless Data traffic is steadily rising from Q1 FY15 levels of 48% to 57% in this quarter. During the last one year, 3G Data volume has exploded by nearly 2.3 times from 15.7 billion megabytes in Q1 FY15 to 36 billion megabytes in Q1 FY16. This has helped the 3G Usage per 3G Data Subscribers improve from earlier levels of 666 Mb in Q1 FY15 to 778 Mb/user in Q1 FY16. Thereby linked 3G Data User ARPU has improved from Rs. 177 to Rs.203 during the same period.

Early this month, the company received necessary allocation of 2,100 MHz Spectrum won in March 2015 Auction for the Kolkata Metro. The services in Kolkata is scheduled to be launched by the end of the year. During the Q1 FY16, the company has integrated 3,330 additional 3G sites. Idea now covers over 275 million Indian population from the 33,621 3G sites launched in 12 Service Areas on our own Spectrum band. Additionally, the company has a firm 20-year 3G ICR contract for 10 Service Areas where Idea does not own its 3G spectrum.

The revenue per 3G Node B including Mobile Data & Voice Services is steadily rising and has now reached Rs.141,000 per month of the owned 3G sites and usage per 3G sites at 13.4 Gigabytes per site per day. As a part of accelerating Idea Mobile Broadband presence, the company is targeting to upgrade 60 to 70% of its existing GSM sites in the 13 Telecom Circles during the next 2 to 3 years from existing levels of 30 - 40% to 3G Broadband Services.

To conclude, as the Mobility Services expand, Indian telecom business offers exciting growth opportunity in Mobile broadband and rural voice telephony. Brand Idea with increasing consumer affinity, strong cash flows, pan India GSM presence, expanding 3G Network footprint and planned 4G network launch reaffirms Idea's ability to deliver consistent, competitive, responsible and profitable



growth. The company is gearing itself to capture Mobile Broadband Data boom first by strengthening its presence to the unconnected geographies, second by introducing Indianised and regional relevant digital services to meet the aspiration and needs of the consumers across various socio economic pyramids; third by ensuring availability of affordable smart phones and focus our brand communication towards universal digital literacy program and fourthly, by building future ready digital savvy talent and provide an agile and inclusive work culture. Our vision is to remain on course of Idea mission to steadily improve the market competitive standing not only in Mobile Voice but also in Mobile Broadband business while capturing the emerging telecom and internet economy growth opportunities in the country.

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

**Akshaya Moondra:** Thanks, Himanshu. A very Good Afternoon to participants from India and Good Morning or Evening as applicable to overseas participants.

The revenue for this quarter was impacted by full quarter impact of IUC rate change. Hence while the reported revenue growth is 4.5% on quarter-on-quarter basis, the same stands at 6.9% post normalization for changes in IUC rate. The growth in revenue was driven by volume growth of 5.8% in voice minutes and 15% in data usage. The voice realization remained almost flat on normalized basis. The data realization declined by 4.2% compared to previous quarter.

The standalone EBITDA margin of 33.7% improved by 0.6% over last quarter margin of 33.1%. However, post normalization for changes in IUC rate, the EBITDA margin shows a marginal decline of 0.2%. The absolute EBITDA of Rs.29.61 billion registered a quarter-on-quarter growth of 6.4%. On a year-on-year basis after normalizing for change in IUC rate, the EBITDA margin improved by 2.6%.

3G services in the Delhi service area were launched at the end of March '15 on 900 MHz spectrum won in Feb'14 auction. Accordingly, the full quarter amortization impact of Delhi's 900 MHz spectrum was considered in this quarter as compared to a few days charge in Q4FY15. This incremental amortization charge over last quarter was Rs.462 million. This increase and the increase in depreciation charge on account of additions to tangible fixed assets during the quarter had been offset by discontinuation of depreciation on assets which have reached their full depreciable life during the last quarter including the effects taken in the last quarter due to the revision in the estimated useful life resulting in accelerated depreciation. The depreciation and amortization charge for this quarter



has therefore shown a net increase of Rs.291 million. The interest charge for the quarter stands at Rs.2,559 million compared to Rs.816 million in Q4 FY15. The key reasons for increase are that in the last quarter interest related to deferred payment obligation for Delhi 3G spectrum till the date of commercial launch in March '15 being Rs.639 million was capitalized with no capitalization in this quarter and balance increase is mainly on account of increase in net debt due to upfront payment related to spectrum acquired in March '15 auction.

Standalone net profit for the quarter stands at Rs.8.4 billion which is almost flat compared to PAT of Rs.8.5 billion excluding Indus dividend in Q4FY15. The cash profit for the quarter is Rs.25.5 billion. In consolidated financials contribution from Indus to net profit stands at Rs.907 million in this quarter as against Rs.943 million in previous quarter. The normal operational performance at Indus has continued to improve in this quarter and the decline in PAT contribution is mainly because of the seasonality impact under the fixed energy model.

Capex for the quarter stands at Rs.13.7 billion. Our capex guidance for FY16 is revised upwards to a range of Rs.60 to Rs.65 billion from Rs. 50 billion to Rs.55 billion given earlier mainly due to planned launch of LTE services starting from calendar year 2016.

Let me also explain the treatment relating to spectrum won in February 2014 and March 2015 auctions for the sake of clarity. Firstly, all spectrum won in February 2014 auction has been allotted to us. Subsequently all the spectrum from February 2014 auction except 1800 MHz spectrum earmarked for LTE is being amortized. The value of spectrum earmarked for LTE appears in capital work in progress and interest on the same has been capitalized. The amortization of the spectrum will happen when LTE services are launched.

As regard spectrum won in March 2015 auction, we have received all LOIs during this quarter. Subsequently the spectrum allotment letter has been received for the service areas of Kolkata, Tamil Nadu, Orissa, Northeast and Himachal Pradesh. The effective date of spectrum allotment is May 27, 2015. Accordingly the deferred payment obligation liability of Rs. 14.96 billion was recognized for these service areas, and the total value of spectrum of Rs. 22.33 billion is included in capital work-in-progress. For the remaining nine service areas, as the spectrum is yet to be allotted and the effective date of spectrum allotment as per LOI is either in December 2015 or in April 2016, the upfront payment related to these service areas of Rs. 69.97 billion is currently reflected in capital advances. The interest on the deferred payment obligation related to these service areas of Rs. 4.89 billion is also included in



capital advances. These amounts for each service area will form part of capital work-in-progress, once the spectrum allotment letter is received and thereafter form part of intangible assets from the effective date of spectrum usage.

The net debt for the quarter stands at Rs. 176.4 billion. The net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at 1.49.

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

**Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Sachin Salgaonkar of Bank of America. Please go ahead.

**Sachin Salgaonkar:** Thank you for the opportunity. I have three questions. First question Himanshu, just wanted to understand the change in view for LTE, has it primarily being led by improvement in the handset ecosystem or any other factors which led idea to deploy LTE at slightly earlier than expected time line? A related to is, would LTE be a differentiator in the market, do companies having LTE be having some kind of a competitive advantage over companies who do not really have LTE?

Second question is on capex, just wanted to check the entire increase in capex close to 10 billion, has it completely linked to only LTE investments or any other investments are going. And second a slightly longer term question is Himanshu, you did mention a lot of initiatives which Idea intends to take, clearly a decent amount of capex investments would be needed for that, so how on a big picture view we should look at capex beyond FY16?

And lastly, what we have witnessed on a voice and data tariffs for last few quarters is that the tariffs are slightly going down or stable and the entire ARPU growth is actually coming from higher consumption or a higher usage by consumers. Is this a trend we could or we should expect to witness even in the future? Thank you.

**Himanshu Kapania:** Thank you Sachin. Your first question is why is there a change of view on LTE? We have maintained that in the long-term LTE is the technology for supporting a very large volume of data needs required by every increasing subscribers who access internet from their mobile. The issue for us was primarily what should be the launch timing of LTE? That is why the company conducted a massive exercise not just only on the device front, device is obvious and information needs included range of handsets and their affordability, but more importantly also on the technology front. Our big



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worry when we started to evaluate launch of LTE in 2014, the equipment prices were far in excess to the equipment prices for 3G. Number two, the technology itself was on mostly in testing phase in various markets and not sufficient customers had joined in. From that period in 2014 to the period now in 2015, approximately 250 million to 300 million consumers have joined LTE march with over 100 million consumers alone being reported by a single operator. The consumer experience has been very good on LTE and now our study shows just in last 12-18 months LTE technology has completely matured and given the pace of adoption with almost 170 operators launching LTE services, equipment prices have now come down and standing closer to existing 3G prices. So when we see sum total on devices front, equipment maturing as well as consumer acceptance we felt there is no point delaying our LTE launch to 2017. We have decided to preponed our 4G launch by one year to calendar year 2016 in a phased manner. If you are fine with this I may continue with the other parts of your question?

**Sachin Salgaonkar:** Yes sir, very clear. Thank you.

**Himanshu Kapania:** As regards second part, will LTE be a differentiator on overall basis? Let me address this question into two parts. We are looking at mobile broadband capacity engine, the choice of mobile broadband technology is 3G or 4G. The applications that currently runs on mobile broadband from a consumer end side is primarily video and both 3G and 4G technology can provide video services with no significant differentiation from a consumer experience point of view. The difference being 3G or 4G primarily is on account of the overall capacity each technology delivers on the same quantum of spectrum. There are also certain applications which require much higher speeds, the applications primarily fall in the domain of IoT (Internet of Things) and we have not considered in our business plan the domain of IoT, as a part of a major contribution to our business plans.

Idea being a consumer-oriented company we see 3G and 4G technology will coexist for a long period of time and from a consumer point of view all that matter is, will he get reasonable speed coverage and capacity, whether he uses 3G or 4G mobile broadband services. That is the reason why we went around explaining wherever there is a heavy user we need pursue hot-spot strategy and improve Idea broadband capacity by introducing LTE services in the markets. Where there is a balance between voice and data, like the rural market, we would continue to expand through 3G route. If you are fine with this part of the answer I can move to the next part?

**Sachin Salgaonkar:** Yes sir, clear.



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**Himanshu Kapania:** As far as additional 10 billion additional capex guidance, primarily the increase is for LTE services implementation and LTE related services which includes fiber and other core enhancement for 4G. Is that fine?

**Sachin Salgaonkar:** Okay sir. And on a slightly longer-term basis actually?

**Himanshu Kapania:** On longer-term basis we have talked about two parts of businesses, one is to expand our mobile broadband infrastructure. Currently Idea covers 275 million subscribers and our intention is close the coverage gap with our existing GSM space where Idea currently cover about 950 million population of India. Our intention is to expand 3G & 4G broadband services and find value of capex we are going to invest will depend on; as we open up new population centers, what kind of demand we experience from newer small towns and rural market. Currently our view is the urban markets, the metros, large towns and mid-sized towns and some rich rural belts would qualify for mobile broadband infrastructure but it will be still some time for the low per capita income rural markets to be able to broadband infrastructure investment, but we will wait and see how market evolves.

As regard digital services, that is more manpower intensive and more partnership led and it is a very asset light model so there is not much capital investment required for a launch of bouquet of digital services that I alluded to in my opening speech.

Come to the third part of the question which is, voice and data traffic. You are absolutely right, the consumption in India continues to grow and we have always maintained that Idea is a company with growth the key theme is we see growth from subscriber additions, growth from volume led consumption and the growth wherever possible from realisation rate improvement. As the first two factors are fairly satisfying at this point of time, we do not see a major dynamic change over next two or three quarters, it is very difficult to project beyond that. But having said that I will make a very generic comment - it is my belief that competition in voice will be on the decline and there are large rural markets which offer good opportunity for few operators to be able to expand their business. The competition in mobile data is obviously on the increase as the demand in the mobile data business or mobile broadband business is going to be of a much higher order and new players enter the market while existing players expand their footprint.





**Moderator:** Thank you. Our next question is from Shobhit Khare of Motilal Oswal Securitas. Please go ahead.

**Shobhit Khare:** My first question is a follow-up on the capex guidance, so thank you for the explanation but just one specific question is you have not given any FY17 guidance, but this increase in the guidance is it a pre-ponement or this is sort of a structural increase and we should expect this kind of spend from FY17 onwards and this is based on the new market dynamics on 4G investment etc, so that is the first question. My second question is on the voice RPM. It appears flat quarter-over-quarter, you did talk about the change in roaming, service tax impact, and also in the earlier calls you have talked about the mix change with emerging circles having a higher volume share. So in that context what steps have been taken to ensure that voice RPM remains flat and should we not expect therefore an increase going forward?

**Himanshu Kapania:** Thank you Shobhit. It is difficult to be able to give capex guidance beyond current year, but let me state the following. We have said it before; Idea Cellular remains a much focused company as far as the return on investments is concerned. We felt that there is a sufficient opportunity available that is why we have increased our guidance for capex from Rs. 50 - 55 billion to Rs. 60 - 65 billion. We are rolling out a large mobile broadband network both in 3G and now on 4G. 4G is a very small component of the work that will happen this year and there will be overflow on to the next year. But after having launched a certain number of sites we will wait to see what kind of response we receive from the market, we are extremely hopeful that market is hungry for high quality broadband services. So depending on market reaction and our ability to sustain the level of 30% EBITDA margins, we will decide how much capital we will deploy over next few years.

All I can say for comfort of yours that earlier levels of Rs. 35-40 billion capex is past and given that our footprint has increased, earlier we were primarily rolling out in 22 GSM circles and 10 3G circles, and now we have to cover a larger market and we have to expand footprint for at least for 23 markets for 3G & 4G services as well as complete network footprint for 2G services in our emerging and new circles. There will be at least a similar level of capex investments that we expected in next year. Are you fine with this one?

**Shobhit Khara:** Yes sir, very helpful.





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**Himanshu Kapania:** Now as far as voice RPM is concerned, as I was mentioning to Sachin that we are experiencing decline in competition in voice market, we are very hopeful that while the competition in voice market remains intense in urban areas the competition in rural markets will recede and after a period of one year decline in voice rates which has been a free fall, this is the first quarter we have been able to reverse the trend and we remain hopeful to be able to sustain that level going forward, but is very difficult to give a guidance Our hope is that voice RPM will be flat from here and the worst is over and it should only improve from here.

**Moderator:** Thank you. Our next question is from Aditya Soman of Goldman Sachs. Please go ahead.

**Aditya Soman:** I had a couple of questions. Firstly you mentioned your new businesses, so if you compare with a couple of years ago I think the losses in the new businesses have increased by about 30% on the EBITDA level whereas the top-line has grown about 60% for these, these are just the seven circles. So is there any specific reason why these EBITDA losses are widening? And secondly on the new BTSs that you are adding, you added about 3000 plus 2G BTS in this quarter. Is this equipment now sort of common equipment where you can use the same radios for your 1800 LTE network as well?

**Himanshu Kapania:** Thank you Aditya. Let's start with new businesses. We have always maintained that cut over point for EBITDA becoming positive is revenue market share of 10%. We started Idea journey in 7 service areas in 2009 or 2010 but our journey was halted in 2012, we did not, for two years, increase our investments. From 2014 we started investments back in these new circles and that is why the growth has started to come back in these new circles. On overall basis these circles are still at RMS of 5.6%, there is little more journey we have to cover before we reach to a 10% revenue market share and start delivering a positive EBITDA. We are in expansionary mode, you have observed Idea has launched over 3000 sites this quarter and the up-fronting of these investments is what is reflected in losses that we are currently incurring in these 7 new circles.

**Akshaya Moondra:** Also, we used to be at an EBITDA loss of around Rs. 1,400 million in a quarter earlier. One of the reasons that these losses have expanded is that in these circles we are primarily seekers for 3G services and that has also resulted in higher opex. So this is the impact of opex versus capex model of 3G. Where we are 3G seeker, the EBITDA losses have expanded, otherwise operationally there is no reason that the EBITDA losses have increased.



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**Aditya Soman:** I understand sir. Just one follow-up question on that actually, in terms of the ICR contracts that you mentioned for 3G, is there a list that some of these ICR revenues could come off in a couple of quarters because of the new 2100 spectrum that was allocated after this auction?

**Himanshu Kapania:** So you are referring to seeker or provider? You are referring to our 3G ICR revenue or you are referring to ICR cost?

**Aditya Soman:** The net revenue because you have acquired in one additional circle, right, whereas some of your competitors have acquired in more circles.

**Himanshu Kapania:** First and foremost, we have a firm contract for the period of the spectrum to continue the 3G ICR and it applies to other partners also. Now if a partner is to roll out its own network and is comfortable in exiting, the contracts will be renegotiated. But generally we believe that the partner may want to exit only once their infrastructure has been built up which in our mind will be very good, because the capacity expansion investments will slow down once the ICR partner goes away. But, I will again repeat that we believe the mobile data boom is very close to us and we need lot more capacities than we currently have and the era of operating in an ICR environment will slowly go away.

**Aditya Soman:** Understand, thank you.

**Himanshu Kapania:** Let's come back to the very important question, technology. What is the technology we are deploying today, is it a single technology or does on the same band we use multiple technologies? Let me start with 1800MHz spectrum. As far as all 1800 MHz 2G BTSs that we are currently deploying are capable of parallel running two technologies. Let's take example of Tamil Nadu and Orissa, we have more than 10 MHz in both these markets. Therefore in all the installation that we are going to do in new 1800 MHz single BTS we will be running two technologies one for 4G services and second for 2G GSM services. Now the principle applies for 900 MHz, all procurement of RF equipment that we are doing is capable to run GSM plus 3G services. In markets like Maharashtra and Madhya Pradesh where we intend to use both the technologies together our procurements will give us the benefit to run two technologies. We'll pay a very small incremental percentage for activating the specific software for both technology. And thirdly, I will also like to add that 2100 MHz spectrum that currently we are using for 3G, we are completely ready if later on the world were to move from 3G to 4G on 2100 MHz spectrum. All our recent purchases from, I would not be able to give whether



it is 2012 or 2013 but definitely from 2014 onwards most of our equipments that we are procuring on a particular band is capable to run minimum two technologies, GSM plus 3G or GSM plus 4G or 3G plus 4G etc.

Also, going forward what also tilted in favor of selection is carrier aggregation and we see a lot of research & development on carrier aggregation allowing us to aggregate 3G in two different bands of 900 MHz and 2100 MHz or 4G in two different bands or aggregate in the same bands like 1800 MHz. We are very confident carrier aggregation will allow us to add huge capacity. When we look at Idea's 270.7 MHz spectrum, a lot of analysts independently see our spectrum separately for one technology and separately for other technology, but going forward with the carrier aggregation and harmonization which is in its final leg at the DoT, it will be possible to be able to aggregate spectrum and provide a large capacity. That is why we have chosen to get the equipment now as equipment is now ready to offer these benefits.

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

**Suresh Mahadevan:** I had few questions, first of all I just wanted to understand your consumer behavior. I think some of the people who are advanced data users like who are using close to a GB, do you see any cannibalization in their voice? I think that is question number one because that may hold the key for understanding how users will behave in a data world. Second question is also related, have you seen a drop in your international roaming revenues? How much is international roaming revenue for you?, Because when people go on international roaming now they can pretty much use WhatsApp or whatever. So just wanted to understand that both in terms of voice cannibalization as well as how is it impacting your roaming revenues? So that is question number one. The second question is related to fiber, Is part of this capex increase also going towards fiber, how should we think about fiber build because clearly with the way data is growing, you may probably need to fiberize a lot more sites, so I just wanted to get your thoughts on that. And third and final question is you mentioned about the towers you have as well as your Indus stake, both in my view are probably not very strategic for Idea in the long-term, so how should we think about at some point of time monetizing either the 9000 odd towers or the stake in Indus you still have? Thank you sir.

**Himanshu Kapania:** Thank you Suresh for your good words. Let's start with first on consumer behavior. As regards customers who are high end mobile data users is there a cannibalization with voice, so the question is are these consumers using latest messaging services? Definitely lot of these consumers are



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using messaging services and definitely there is cannibalization on SMS, now have they started to use VOIP, voice services on data rather than effective circuit switch voice network? Yes, there has been some movement, I can tell you the last number which I saw which was about a month back, about 0.1% to 0.2% of our traffic is currently moving on VOIP.

I have been in touch with most of the global CEOs and speaking to them through GSMA, we have had a recent call with them and in fact in the developed market, I am talking of markets where there is no bundle voice with data, we are finding that the adoption of VOIP services is at best at the level of 1.5% to 2.5%. I do not see a worry in India looking at the markets which have already much more evolved, which has almost 60% to 70% of the consumers accessing internet from mobile. India is in a very early stage. Having said that, what is interesting trend we found for consumers who actually shift their SMS or voice on to internet, that customer was earlier giving us approximately say Rs.25 on SMS and was giving us Rs.150 on voice. When we do his ARPU calculation, this consumer tends to use lot more data compared to when he was purely on circuit switch or was purely on voice plus text message. We have had seen improvement of 5-6 times for the cannibalization loss that has happened. This is what our sense is that there will be some cannibalization, we will budget for it but it is not something of a fearful nature that we have to worry about. It is not a trend, worldwide that what happened to SMS will also happen to voice. People are far more comfortable to be on their GSM or 3G network for voice call, given that VoIP is an app to app call restrictive to an open platform, messaging is a very different nature.

When the voice rate differential is as large as in case of an international call then obviously there is a lot more Wi-Fi calling or WhatsApp calling, but it is very small % when the voice rates in India is at the levels of 32.9 paisa per minute and consumer has to pay for mobile data services. The consumers are not encouraged enough in doing it, they do it for reason which are non-commercial by nature, they do it for privacy reasons. As regards drop in international roaming, I must admit that I have not studied this portion, so I will ask Akshaya to talk about international roaming.

**Akshaya Moondra:** There are different trends in in-roaming and out-roaming revenue. In overall terms there is some marginal decline but the international roaming revenue as a part of our total revenue is almost insignificant. If it were to go away you will not even notice it.

**Suresh Mahadevan:** is it like sub 2%, just a rough cut.



**Akshaya Moondra:** Much lower than that.

**Himanshu Kapania:** Are you okay with this answer on consumer behavior?

**Suresh Mahadevan:** Absolutely sir, this is very helpful actually, very insightful and very helpful.

**Himanshu Kapania:** Okay, now we will move to fiber. When we have been building out 3G, our thumb rule was for every fiber PoP that we created we could link 8 sites because there are microwaves available with capacities up to 200 megabytes. Now that we need larger capacity for 4G, we brought that number down to link a fiber PoP to four linked sites. There has been a lot of comparison being done with a total quantum of fiber which Idea has with others. I think it is an unfair comparison because Idea remains a dedicated mobile operator, it has no intention to enter into fixed line or enterprise business. If you study our needs of fiberization, we are on way to be able to ensure in the next two year every location where we have a 3G service or 4G service, all our sites will be capable of delivering 21mbps on a 3G service and 70 mbps on a 4G service going forward if we have a single carrier and even 150 mbps if there are two carriers available with Idea. We are not building ahead of time. You are absolutely right, we allocated significant portion, in fact increased our outlay on fiber and you can see based on last two years capex increment pattern. The company has added around 20,000 kms of additional fiber and we have added about 2,500 additional fiber PoPs. There will be lot more acceleration of fibers going forward. We are investing in a way that whichever sites identified to become upgraded to 3G or 4G services, it will be fiberized

**Suresh Mahadevan:** I think in terms of your sites what percentage will be fiberized right now, around 10%?

**Himanshu Kapania:** It was 13% to 14% was the number which I remember, but I will double check this out.

**Suresh Mahadevan:** Okay sir, that's very helpful.

**Himanshu Kapania:** And the last as far as tower and Indus stake is concerned, we do not have any plans for monetization of that and that is our official statement.

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



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**Kunal Vora:** First question is on your recent data price hike, can you just explain how the customer reaction has been to that and how do you expect that to impact the realization going forward? Second question is on with the increase in capex. Should we also expect an acceleration in network cost we have seen some bit of it this quarter, how do you see the margins, like last two years have been great, going forward how do we look at the margins? And lastly on your postpaid churn levels has increased a bit, generally your churn level is slightly higher compared to the market leaders. So can you explain like why that is the case and how do we look at that going forward? Thank you.

**Himanshu Kapania:** Thank you Kunal and acknowledge your good wishes. First and foremost, yes you are right, from 1st of June 2015 the service tax has been revised upwards and is a straight impact on mobile data realisation because it is a fee based. For example for a particular fee we were to sell a 500 MB or 1 GB. So, to transfer the impact of the change in the service tax either we have to reduce the quantum of volume or change the price points. During this quarter there is some portion of the service tax component which has been absorbed and we can see that in the fall of our overall mobile data prices. Having said that, there are number of markets where we have tried to adjust either the volume or be able to introduce higher prices for mobile data. The competition in data market is intensifying and all our effort to do that has not yielded in much results in past that is the reason why in the last one year we have had a mobile data rate drop by 6.5% and 4.5% on a sequential quarter basis. We remain hopeful that we will be able to stop this decline and reverse this trend. We are making serious attempts to do that.

**Kunal Vora:** Sir, you have taken almost a 20% hike and if I look at there have been significant changes in many of the circles. So should not this have a significant positive impact on data realisation or while the headline tariffs have been raised, discounts are still being offered and thus it might not really give big results. So how do you look at this?

**Himanshu Kapania:** If you study an individual pack versus headline tariffs, what was the mix earlier that existed, the mix of pack adoption versus headline, it was earlier in the favor of people not buying promotional packs, but with more and more consumers increasing the usage, weightage of promotional packs is increasing and our attempts even to increase prices is still not yielding results in improving overall rates. But we are very hopeful, we will keep you posted by the end of next quarter if we are able to reverse the current trends. We are making some serious attempts but that has still not yielded results, so there is not much to report at this point in time.



We move on capex acceleration, your point is will the capex acceleration result in a significant network cost increase and what impact will it have on margins? As you are aware that a large portion of capex increase that we have announced is primarily for expanding our mobile broadband infrastructure both in terms of sites as well as fiber and, the cost from opex front is a very small component of an overall network cost. We are fairly confident that the trend that you have seen in the past two or three years, the network opex as a percentage of overall revenue on a declining trend, we will be able to achieve this in spite of increasing our investment in mobile broadband infrastructure.

As regards margin, you are absolutely right that we have improved our margin over last two years by 8%, we have achieved 3.8% improvement on a year-on-year basis, on a standalone basis and given that even in this quarter that incremental EBITDA over incremental revenue is at 56%, there is no reason to believe that the current trend will be any different going forward at least in the near future.

If we come to the postpaid churn, I think the numbers are very small, our team is very conservative and we have very tight norms for collection. I have not looked at it in that much detail, maybe I will study and come back to you specifically if there is anything significant that has happened on postpaid market.

**Kunal Vora:** Sure. Just a small follow-up on the second question, like as you go from covering 275 million customer to 950 million customers over the years, would loading really like help you take there because would not you need to add a lot more number of sites, how do you look at loading versus new sites? Also it looks like you are still adding a sizable number of 2G sites while our expectations would have been 2G investments will slow down, how are you looking at that?

**Akshaya Moondra:** Kunal actually if you will look at let's say last year also we rolled out a number of 2G sites which was higher than the previous year, but if you look at Q1 to Q1 comparison of network cost as a percentage of revenue that has declined. And then particularly if you are going to roll out more LTE sites which will be 4G they will all be co-located sites. 3G, while there may be some need for standalone sites but still there are a lot of 2G sites which do not have 3G equipment. So 4G I think 100% co-located, 3G you may see some instances of standalone sites but they largely remain co-located still. So from that point of view we have seen improvement in network cost as a percentage of total revenue and I do not think that trend will change despite the acceleration in capex.





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**Himanshu Kapania:** Just for a guiding principle, only incrementally I will add to what Akshaya is saying. We do not anticipate in the next three years have more than 1% to 2% of the total sites which will be standalone sites because we have sufficient and more coverage on GSM. The gap between upgrading existing sites to 3G & 4G is very large before need for new standalone 3G/4G sites. As mentioned in my opening speech we have only been able to upgrade between 30% to 40% of 2G sites to the new technology. The work currently is to upgrade 7-8% to 80% existing sites rather than to look for new standalone sites.

**Moderator:** Thank you. Our next question is from GV Giri of IIFL Capital. Please go ahead.

**GV Giri:** Sir, your 13 GB per day per site data consumption is at what capacity utilization approximately? #2, in the last two or three quarters if one sees the absolute data revenue increment, that number has been falling and in the time period before your 4G launch and before the market generally moves to 4G, what would be your strategy to get this number to move up a little bit? And #3, the 4G whenever it comes from you and from other operators will have higher per site capacity and you said that your recent vintage 3G base stations will be able to do 3G and 4G both, so if over a period of time the handsets gradually move in such a way that most of them become 3G and 4G handsets then will your current 3G sites be automatically higher capacity without even needing to do anything?

**Himanshu Kapania:** Let me cover the third part of the question because it has clearly some confusion. At any point of time, I assume when you say 3G it is equal to spectrum band of 2100 MHz. If we are using a chunk of 5 MHz (2100 MHz spectrum) and we have dedicated it to use for 3G, then we will have to close down its application on 3G technology and use it for 4G by activating a particular software and closing down the 3G software. One obviously cannot run both the technologies at the same time on same 5 MHz band, we can run one at a time this is as far as 2100 MHz spectrum is concerned. When we talked about 1800 MHz and I gave example of Tamil Nadu and Orissa, I said that we have got a chunk of 10 MHz, 5 MHz has been dedicated for GSM usage, 5 MHz will be dedicated for LTE or 4G usage, however we will buy one BTS radio hardware and in one single block of BTS hardware we will be able to use 10 MHz spectrum; 5 dedicated for running GSM and 5MHz being dedicated for running 4G. At any point of time we will have to have a dedicated spectrum block for a specific technology that we have chosen and we obviously cannot run both of them at the same spectrum block (of 5 MHz).





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**GV Giri:** That's fine. So if you run only one at a time and at a particular time of choosing 3G area and 2100 you decide that now the time has come to do 4G, your capacity would at that time with the use of the 4G technology instead of 3G would your capacity would improve without any further investment, that's what I am asking.

**Himanshu Kapania:** The Investment to convert the 2G BTS to 4G will be software cost which will be a small percentage, but data capacity will be upgraded defined to 4G levels. But, obviously such decision is a little far into future because one need a massive handset availability, further we need to consume our current 4G capacity and when the company is short on the capacity and needs to add more capacity. I think it is far in the future but it is the way forward. That's the point I was trying to make for everybody.

As regards, the question about 13 GB capacity, there is a lot of capacity enhancement feature that we are currently adding and in broad sense that Idea is operating at about 50% to 60% capacity utilization from an earlier levels of 30% to 40%. So that is the first part of the question. Is it okay, can I move to second part?

**GV Giri:** Sure.

**Himanshu Kapania:** Your question was the incremental data volume growth has slowed down, yes we are also equally concerned and that's why I had taken almost two to three minutes to explain in my opening remarks that there is a very large movement of customers buying the latest smartphones on 3G and nearly 20 million consumers have upgraded their phone in Idea network very similar to 24.8 new million subscribers added during last one year. But out of these 20 million existing Idea customers who upgraded their phones to 3G smartphone only about 7.9 million consumers actually started accessing internet from their 3G phones, and to us that is a big area of worry. I had mentioned in my opening remarks that 51% of these incremental consumers, who upgraded devices, use voice and data on Idea 3G platform and only 40% use data. Now all this needs a lot of attention from us and we are committing to the investor community that we are putting a lot of focus on this not only through brand communication but also through our expansion of coverage, working very closely with handset manufacturers, introduction of various trial packs and actually getting the attention of all our sales and marketing team so that we can continue to improve mobile data because we are at the start of a big journey of growth of internet services in India. Further, there are many new digital services getting launched and it is responsibility of operators to increase lot more subscribers who upgrade themselves



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from earlier analog world to exciting digital services. Currently it is only about 10% of overall 850mn+ subscribers who access high speed broadband services and onus is on us to be able to work on non-internet users. We remain focused to do this and are very confident that in the next two to three years we will be able to reverse the current trend.

**GV Giri:** Sure. Also when you launch 4G and when the market moves to 4G maybe in about 6 months or 12 months' time, do you see the yields on the current 3G revenue streams also falling or do you think that the 4G would be operating at a higher pack size like Rs.300, Rs.400, Rs.500 type of ARPU levels or do you see that it will influence the yields in the smaller denominations also?

**Himanshu Kapania:** Our belief that Indian Internet market is very large and India is a very large country, the total size of mobile data market is at a level of around Rs. 25,000 crores or while the wireless industry revenue is at Rs. 185,000 crores. All projections of mobile data revenue market in the next four to five year period from analysts are between Rs. 100,000 to 150,000 crores. The overall wireless broadband market is large to accommodate both 3G and 4G. The mobile broadband coverage today is very limited and it needs to get expanded. Consumer adoption, presently is limited, last TRAI report showed only 80 million 3G users in India and government vision is of 1 billion digital users. So we do not have the worry about which technology will take over and how interplay will happen, both of these will survive because as far as the technology is concerned the applications which consumers are currently needing for accessing internet works well on both 3G & 4G technologies.

**Moderator:** Thank you. Our next question is from Srivinas Rao of Deutsche Bank. Please go ahead.

**Srivinas Rao:** Sir, thank you very much and congratulations. Also your disclosure levels have been quite exemplary. Sir two questions. First, the voice revenue strategy which you have seem to have kind of followed for the last four five quarters has been to focus on price declines but elasticity to kind of get you the revenues, but you have seen the revenue growth to decelerate to now a level of around 5%. My question is, going forward say over a two year period do you think this level of revenue growth is sustainable for voice? So that would be my first question. Sir second is do you have any visibility on when you can get the full spectrum in Maharashtra and Punjab? Finally my third question is, if I look at over a five to six quarter trends in your margins there has been a fairly significant fall in interconnect cost, so what is driving that? And for this quarter you have given the impact on revenues for interconnect but we do not have any idea on the impact on cost which would have also come down,



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so what actually would have been the net impact of this TRAI cut in the MTR? Thanks sir, I will stop here.

**Himanshu Kapania:** I am going to give the third part of the question to Akshaya, I will just focus on the A and B part of question. Let me first start with spectrum harmonization and when do we expect, in pockets of Maharashtra and Punjab where we do not have full spectrum. There is already a lot of work which is happening in Department of Telecommunication. As you may be aware sometime back the Department of Telecommunication had announced that they have signed an MOU that out of the total 75 MHz of spectrum in 1800 MHz frequency band, 20 MHz is earmarked for defense and 55 MHz is earmarked for commercial use. The work has already started at Department of Telecommunication with operators to be able to move those spectrum which are currently being used by operators but earmarked in the defense band of 1800MHz, to move back to defense and after that activity starts, the spectrum which is lying with defense will be returned back for commercial use. Once that happens we anticipate that all those spectrum blocks which are currently not available in some of the cities will come back to us. It is our belief that within a period of two to four quarters this exercise will be completed. We are very hopeful that the spectrum will come to us at earliest and we will keep you posted on this.

As far as voice revenues strategy is concerned, you are absolutely right that there has been only 5% revenue growth on voice. The reason for the 5% revenue growth is primarily on account of IUC. If we were to normalize the growth then we reach to double-digit levels so this is a one-time impact. Now that the IUC will permanently settle at 14p, this year impact is going to be there and that's why at the start of the financial year we had mentioned while 2014-2015 was double-digit growth year for the industry, this is going to be a year where there is going to be single-digit growth for the industry because of around 4% to 5% impact on account of IUC change. But once the impact of IUC goes away and overall volume and subscriber growth remains strong, on a normalized basis market will continue to be double-digit growth. I will hand it over to Akshaya to respond to the third part.

**Akshaya Moondra:** While we are not giving separate figures on what has happened on the cost side but I think when this change was made for the first time in Q4FY15, we had given you an analysis that because of the increase in ILD termination rates we will see a marginal improvement in EBITDA, if the volume of traffic were to remain same. Now definitely reduction in interconnect rates has some impact on competition dynamics which is difficult to quantify but I think that you can see in terms of



how the market shares are growing and whether there is any impact or not. But, if you were just to look at this by ignoring the competition dynamics, there has been a marginal positive impact because of interconnect changes at an EBITDA level.

**Srivinvas Rao:** Understood, this is really helpful. Just if I ask one final question on fiber, we are not seeing any move towards sharing of fiber by the telecom players, what is the possible reason for that, is it because your strategy for fiber so to say footprint or where you want your fiber PoPs are different from what your peers want?

**Himanshu Kapania:** There is a lot of sharing which is happening on fiber. The sharing happens through an IRU arrangement where typically a fiber has 24 strands and out of the 24 strands we normally keep 10 to 12 strands for ourselves and we are in the market to be sell on IRU basis the remaining 12 strands. There is a lot of sharing currently happening with existing operators, specially with the operators who are focused on 3G and 4G. Fibre sharing is very much part of our fiber investment strategy and a significant push is happening on the same.

**Srivinvas Rao:** I mean sir, just to clarify I am talking of sharing the last mile which is connected to the towers, not just the intra city or interstate fiber.

**Himanshu Kapania:** I am not clear, maybe we will discuss it separately, how are those two different?

**Srivinvas Rao:** That's fine, Thank you so much sir, this is helpful.

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

**Sanjay Chawla:** I have two-three questions. One is, looking at data elasticity we have seen decline in ARMB and obviously some impact has been because of service tax rate hike but probably very marginal. If we ignore the service tax impact there has been a decline in ARMB but we have not seen significant impact on the MB per user, in fact on the 3G side we have seen MB per user has remained flat even though ARMB has declined. So if you can just provide some color on what is happening there? And secondly, with base of 2G BTS addition has been picking up every quarter and it is still maintaining your minutes growth, my question is what exactly is happening there? I mean are we going to see this trend continue for a while, are you suddenly investing more in coverage expansion on the 2G side and will it have any impact in terms of market share gains? And finally, we have seen quite a significant benefit on the working capital, we have seen impact on your cash flows particularly because of



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increase in current liabilities as well as non-current liabilities. Can you elaborate on what is going on there and whether some of these changes are sustainable or will they reverse?

**Himanshu Kapania:** Thank you Sanjay. I will try to cover both first and second part and request Akshaya to cover the working capital question. As regard data elasticity, you are absolutely right that with the ARMB fall, the usage per subscriber has not been going up but on an overall basis and you are specifically mentioning on 3G while on a blended 2G plus 3G there has been growth from 400 MB or 410 MB per user to 600 MB per user over the last one year. On 3G especially on a quarter-on-quarter basis there has not been much growth. It already reflects that there is a need to spend a lot more energy in educating customers on banquet of digital services that are available. Consumers are adopting to handsets and they have to adopt to digital services, there is a little lag factor but we are confident over the period of time consumers will catch up with this. Given the fact that we have been in the industry for the last 20 years we saw the similar trends in the past on voice and finally consumer caught up. We are fairly confident in the long run the same will happen on mobile data. But at this point we also acknowledged the slow pace of consumer adoption and we will work harder to be able to reverse this trend.

**Sanjay Chawla:** Sir just a related question on this, I mean is this ARMB drop more due to lower breakage or is it due to some adjustment in the tariffs in the market?

**Himanshu Kapania:** So there is no adjustment in the tariff in the market, it is more because of lower breakage and more adoption of promotional packs as well as some of the impact we have already mentioned due to service tax, it is a combination of these three. Now you will have to carefully listen to what we are going to tell you as far as the 2G BTS is concerned. As I was trying to explain earlier that we are in the process of introducing modernized BTS in number of markets, for example in Tamil Nadu, in Orissa, in Kerala, in Maharashtra, when we are launching a modernized 1800 MHz BTS, now that we have in these markets 8 MHz to 10 MHz of 1800 MHz spectrum, the BTS is ready today to give us two technology, almost at the same earlier hardware price. We will obviously put in this latest BTS in the most advanced urban markets and when we remove the old 2G BTS either we can dump them or we can take them to uncovered population areas. We have chosen to take these BTS to uncovered population areas so that we can expand our coverage. We have identified another approximately 100 million population that needs to be covered (by wireless network) and we will like to complete that quickly and then close expansion on the 2G.



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We are not buying any more independent 2G BTS, we are now modernizing our existing BTS which allows us ability to be able to put some of these old BTS into rural markets in population centers which were have been uncovered before. I hope you understand what we are saying.

**Sanjay Chawla:** So you are saying an upgrade is going on in some of these advanced market where you intent to launch LTE also, is that a simple way to put it?

**Himanshu Kapania:** LTE or 3G on 900 MHz

**Akshaya Moondra:** On your question of working capital, the main reason which always happens from Q4 to Q1 is that in Q4 the service tax and the license fee are paid at the end of the quarter whereas in all other quarters it is paid on the 15th of the next month so there is about an 8.9 billion release of working capital between Q4 to Q1.

**Sanjay Chawla:** Okay. But we have seen the impact is actually close to Rs.15 billion - Rs.16 billion of cash inflow on account of these, are there some other long-term liabilities also we have seen them going up sequentially?

**Akshaya Moondra:** I think if you are looking at long-term liabilities then it is also on account of accrual of interest which may be happening. What is also happening is that whatever debt is not reflecting in the debt right now, the accrual of interest has started from 9th of April which was the date the upfront payment was made. That interest is also getting accrued as long-term liability. We can discuss this offline but genuinely working capital change is on account of the early payment of service tax and license fee in Q4 every year.

**Moderator:** Thank you. Our next question is from Sunil Tirumalai of Credit Suisse. Please go ahead.

**Sunil Tirumalai:** I think most of my questions have been answered, I just have two questions sir. One was on the VAS revenue showed a sharp uptake during the quarter, just wanted to understand what has driven that and how should we look at that?

**Himanshu Kapania:** On the VAS revenue as we said some of the increase is coming from ICR which is reflected there. In this quarter particularly there was IPL which was a specific event and which has brought in some additional VAS revenues and there is some increase on the gaming revenue.



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**Moderator:** Thank you. Our next question is from Piyush Chaudhary of CIMB. Please go ahead.

**Piyush Chaudhary:** Thanks for sharing the 3G population coverage numbers which is now 275. Could you also share your kind of long-term targets whether you want to reach this 3G population coverage to 500 million by March 2017 or what is the target in next two years? I understand that the aspiration is 950 which would also depend on more 3G spectrum acquisition, but if you can give some color by March 2017?

And secondly in Delhi circle where you have launched 3G on 900, are you seeing kind of better traction in terms of high end users also coming because of better quality of service, are you seeing any early signs of improvement in RMS over there, any color over there could be helpful. Thanks.

**Himanshu Kapania:** Thank you Piyush for your good words. First and foremost, as far as 3G services in Delhi is concerned, I think it is a little early time. As you are aware we launched our services at the end of March 2015, will have to give us another two quarters, we are still in the process of completing our launch, we are having a phased wise 3G launch and we expect to be able to cover fully Delhi by December 2015, after that you can start monitoring the improvement in the circle of Delhi.

As regards what will be our target from current 275 million 3G internet coverage, there is a lot of planning work which is currently going on, the nature of planning is as follows: We are tracking in the various population centers where we have not currently provided our high speed broadband 3G services, what is availability of smartphones. There is also a research going on of the nature of services that these consumers would like to have and based on that hopefully in next three to six months we would have a firm plan, which we can share with all of you. Currently we have a tentative plan because we have drawn up a long list, I would like to commit myself maybe by December 2015 once we have firm plan, by when both the research is over as well as final numbers are available on availability of handsets which is going to be a key factor for our decision.

**Piyush Chaudhary:** Great sir, this is helpful. And one related question, as you mentioned the gap between 3G data adoption and 3G device penetration is quite large, like 40% of subscribers have adopted 3G data, is there any research which you have done, how much of this non-adoption is due to non-availability of 3G network in your areas?





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**Himanshu Kapania:** Yes, we have that information and obviously those are the pockets that we are attacking first and information is very much available with us.

**Piyush Chaudhary:** Okay. So how big is that number?

**Himanshu Kapania:** It is reasonably large, I do not remember the exact number, but it is reasonably large number.

**Moderator:** Thank you. Our next question is from Karthik Chellapa of Buena Vista Fund Management. Please go ahead.

**Karthik Chellapa:** Thank you very much for the opportunity. Sir I have a couple of questions. My first question is, if I look at our incremental RMS profile I noticed that in our new growth circles our incremental RMS today is much higher than our incremental RMS in our emerging geographies. This is despite the fact that in the emerging geographies we are usually like either number three or number four whereas on our new growth geographies we are somewhere close to number six or number seven and this has been the trend at least in the last two quarters. I am just curious to understand what would explain this.

And my second question is on our LTE capex, you mentioned that the ecosystem has improved and the handset prices are falling which is why you have decided to prepone your LTE launch. Does this mean that for a new entrant like say someone like Jio the economics now is much better which would imply that the LTE data prices can probably be lower than what we initially thought it would be, any color on that would be helpful? Thank you very much sir.

**Himanshu Kapania:** Thank you Karthik. I think a very good observation, our incremental RMS is improving in most of the circles but there are certain circles where the intensity of competition is higher and we have not been able to push higher incremental RMS. So let's take an example of circle like Mumbai where the adoption of internet services is much stronger than a circle like West Bengal where the geography continues to be a voice dominant market. So wherever the voice market has a predominance there we continue to do well inspite of no mobile broadband spectrum, where the markets which have a larger propensity to move towards internet services and we do not have our own 3G spectrum, that is where the growth has been slightly slower. We are also studying the same thing and would like to keep emerging markets ahead of new markets but we will take what we get,





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it is what we have today. It is a very good observation and we will keep it at the back of mind while pushing the field team to deal over the same. If you are fine with this answer I will move to the second part?

**Karthik Chellapa:** Yes, Thank you sir.

**Himanshu Kapania:** Okay. So as far as LTE capex is concerned, because we have chosen to launch LTE it does not make any changes for new competition. The new competition has to work hard to be able to acquire a huge amount of subscribers. Their cost dynamics will continue to be very different from the cost and mix of existing players. I would point two or three areas, remaining you are smart enough to understand. First is as far as the network opex is concerned, for both 3G and 4G, it is just loading factor for incumbent operators and not a full opex cost. Second is our business case is driven by existing 165 million customers that we have and all our focus will be that every customer upgrades his handset, how do we make sure that he also starts using our new broadband services that we are offering to assist in our journey to generate higher revenue from the same customer. So while that would not apply to a new operator who has to spend large amount of cost of acquisition & servicing the new customer and marketing his latest services. These are two very big areas. The opex side dynamics does not undergo a change even though the capex side dynamics may undergo a change.

**Moderator:** Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to Mr. Himanshu Kapania for closing comments.

**Himanshu Kapania:** Thank you so much Inba. I think it is after a very long time that we have spent two hours on the call, I can see a lot of interest among the analysts as well as investors on our game plan as we move from being a pure voice company to do a balanced growth and build a large internet infrastructure. Idea Cellular is a committed Indian telecom operator. We are on a journey of growth and we will continuously make every effort to be able to improve our position. We thank you so much for reposing faith in us and we will try all our efforts to be able to share & be transparent with you. Thank you so much and all the best for the next quarter.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Idea Cellular that concludes this conference. Thank you for joining us and you may disconnect your lines.