Idea Cellular Limited

Quarterly Results Conference Call (Q1FY11)

July 23, 2010

Moderator Ladies and gentlemen, good afternoon and welcome to the Idea Cellular Conference Call. This is Rochelle, the moderator for this conference. For the duration of this presentation, all participant lines will be in the listen-only mode. After the presentation a question and answer session will be conducted.

We have with us on the call today, Mr. Sanjeev Aga – Managing Director of Idea Cellular, Mr. Akshaya Moondra – Chief Financial Officer of Idea Cellular, along with other key members of the senior management. I want to thank the management team on behalf of all the participants for taking valuable time to be with us. Given that the senior management is on the 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 today may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces.

With this I hand the call over to Mr. Sanjeev Aga. Thank you and over to you, sir.

Sanjeev Aga Thank you. On behalf of Idea, I welcome all of you to this call. Yesterday, our board of directors adopted our un-audited results for the quarter ended June 30, 2010. The media release, the quarterly report and the results, have all been uploaded on our web site. I imagine you have read these.

In the backdrop of what is happening around us in the sector, we are very pleased with our quarterly performance. At times of change, when an old order is giving way and a new order is taking shape; an understanding of the underlying dynamic becomes more important. Quarterly margins and quarterly profits are meaningful, but mainly if they support a broader thesis. Illustratively, the quarter we had entered now, which is July, August and September, are poor seasonal months, demand picks up October onwards, but these ups and downs are of little long-term analytical consequence.

Looking at the bigger picture we see really two stories for the sector in India as a whole. But I will restrict my comments only to Idea Cellular.

The first big story is that, around 18 months ago, that is, as on 1st January 2009, we had around 145 operators in the 22 circles of India; an average of 6.6 operators per circle. As of 30th June 2010, the number of operators has jumped to around 225, giving an average of 10.2 operators per circle. So the average number of operators per circle has increased from 6.6 to 10.2 in just 18 months. Now, anyone would expect that a company like Idea Cellular must lose market share in such a situation. But, if you see the last two years revenue market share figures, as per the TRAI data, that is from April 2008 to March 2010 (which is the last available), Idea has in-fact increased its revenue market share from 9.8% to 12.6%. This is an increase of 2.8% over these last two years. And even in the last one year, when we saw the bloodbath at its bloodiest, Idea increased its revenue market share by 0.9%. Now, before you assume that this increase is from the new circles launched, let me tell you that this is not so. It is the same story for our older and stronger circles. To me, this analysis speaks more than a thousand words. None of us can predict the future, but we anticipate that this broad trend will continue.

The second big story is around profitability. In the quarter ended June 2009, that is exactly one year ago, Idea had reported a realized rate of 58 paisa per minute and a variable cost per minute of 44 paisa. For the latest quarter, which is the quarter that just ended, the realized rate itself is down to 44 paisa, which was the variable cost per minute one year ago. Now, if we had stayed at the variable cost one year ago, we would have had a nil EBITDA margin. However, in the quarter that just ended, the variable cost per minute is down to 35 paisa. That is a decline of 9 paisa in just one year. Of course this is partly due to improved capacity utilization; but it is also a function of evolved and evolving management processes which are hard to replicate. We are not the lowest in India (in terms of realised rate per minute), but there are indeed very few companies in India or in the world who can run a quality operation at 44 paisa per minute, keep investing in the future, support losses from nine gestating circles and still make a cash profit of over Rs. 700 Crores per quarter. In fact, over the last six to eight quarters, while the world around us might have changed, our cash profits have remained largely steady.

Taking these two stories together, one is the story about market share and the other one is about the profitability, there are very few companies like Idea which in this bloodbath phase are improving market share and still staying reasonably economically healthy. The gap in economic power between the stronger and the weaker operators is widening with every passing quarter. That is why we believe Idea not only has the ability to ride out these testing times but will emerge competitively enhanced, whenever this over capacity phase draws to its inevitable close.

I will now request Akshaya to give you a little more detail.

Akshaya Moondra Thank you, Sanjeev. Good afternoon to participants in India; good morning or evening as applicable to overseas participants.

On to our financials, firstly in our quarterly report, media release as well as for the purpose of this call, Idea standalone includes Idea and its 100% subsidiaries. While Idea consolidated, includes the proportionate share of Indus Towers in addition to Idea standalone.

Further, the standalone figures for this quarter include 100% results of the Spice circles for the full quarter; as against one month operational results included in the last quarter. Therefore, figures are not comparable on a sequential basis. However, in our media release, as well as in the quarterly report, we have provided comparable figures for some of the key financial and operating parameters.

On the revenue front, Idea achieved robust growth of 5.4% on a comparable quarter-on-quarter basis. Our standalone reported EBITDA margin is down by 3.7% compared to last quarter, mainly due to one-off year-end reversals in the last quarter, provision for higher spectrum charges in current quarter and the Spice amalgamation impact, as explained in our media release and quarterly report which are already with you.

In the case of established service areas, normalised EBITDA margins for the last quarter after the exclusion of the impact of one-off year-end reversals stands at 30.2%; against which the reported EBITDA margin of 27.6% for the current quarter was down by around 0.9% due to provision of higher spectrum charges and around 1.7% due to the impact of Spice amalgamation. Further, EBITDA losses for new service areas were down compared to last quarter, even after provision for higher spectrum charges.

The interest and finance cost has increased mainly due to a Forex loss of Rs. 28 million in the current quarter compared to a Forex gain of Rs. 93 million during the last quarter. Interest of Rs. 404 million against payment of the 3G auction fee has been capitalized. The 3G spectrum fee amount along with the interest thereon is reflected in the capital work-in progress.

Our Net Debt has increased by Rs. 45.3 billion, due to payment for the 3G spectrum fee and stands at Rs. 96.6 billion as of June 30, 2010. With this our net debt to equity ratio stands at 0.83.

The deferred tax charge during the quarter has reduced from Rs. 300 million to Rs. 46 million mainly due to lower capex in this quarter and the reducing difference between tax and book depreciation.

As for Indus Towers, the consolidated PAT includes Rs. 50 million as our pro-rata share against a loss of Rs. 36 million in the last quarter. This represents improved operational performance at Indus. However, at the cost of repetition, I would like to clarify that due to consolidation effects, our share of Indus profit is not representative of their actual results.

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

Moderator Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. At this time participants who would like to ask a question may please enter '*' followed by '1' on their touchtone telephone. During the initial round of question and answer, participants are requested to please limit their questions to two.

Our first question is from the line of Sachin Salgaonkar of Goldman Sachs. Please go ahead.

Sachin Salgaonkar Hi, thank you for the call. I have two questions. Firstly, can you give us a little bit more clarity on the intended timeline of 3G launch and whether your focus on 3G services will be mainly to target the data market or to free up the voice capacity? And secondly, if I am not wrong, most of the 3G debt which is raised is a short-term debt, so want to know your thoughts and how you intend to re-finance it? Whether through an ECB or re-finance in the domestic market? Thanks.

Sanjeev Aga Hi, Sachin, on your first question, we are expecting the allotment of the 2100 MHz spectrum sometime in September and I think all large companies would be truly launching their service in the period around December, January, February. You could always sneak in and launch something earlier, but by the time you test, integrate and provision, it would be around that period. So within this fiscal year, I think we would be pretty much done with the launch.

Secondly, you ask whether it would release voice capacity or data, it would be both. Firstly, data is a function of how many people have 3G-enabled terminals, secondly, how many of them want to use data. So that will surely be encouraged, but inter alia the voice capacity will also be transferred from 2G to 3G, particularly where there is congestion and where there are 3G enabled terminals. I will ask Akshaya to answer you on debt.

Akshaya Moondra Sachin, on the debt side, firstly out of our total payout of about Rs. 58 billion for the 3G Spectrum fee, only Rs. 19 billion was short-term, so the majority is not short-term debt. Secondly, if you look at a balance sheet as of 30th June we have a total debt of about Rs. 98 billion. We did not have any other short-term debt to start with, so this is the only short-term debt we have on our balance sheet. This is a debt which we may re-finance or we may continue with this as short-term debt because it is not very high. The means to re-finance this would depend on what is more attractive at any given point of time.

Sachin Salgaonkar Okay. Thanks, Akshaya that is very helpful. A follow-up question to Sanjeev, I wanted to know if the equipment procurement issues have been fully resolved or do you think that this could potentially further delay the launch of 3G services? Thanks.

Sanjeev Aga No, they are not fully resolved. There are various steps which have been taken but I do not think it has come to a complete resolution yet. But it has been a long time and we are hoping that it would not be too late now.

Sachin Salgaonkar Okay. Thanks a lot.

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

Reena Verma Hi, good afternoon and thank you for the call. Firstly to follow-up on the capex security clearance issue, Sanjeev, we would be grateful for some color on how this might impact competitive dynamics in terms of the roll-out plan of incumbents versus new operators; do you see it materially altering the situation over the next six months? And linked to that your upgrade in capex guidance, could you throw some light on that please? My second question is on your very robust traffic growth. Can you help us understand what continues to drive this robustness and how sustainable is it, and is this partly due to the spice merger? And finally on tariffs, can you help us understand what the exit RPM was when you closed this quarter? Thank you.

Sanjeev Aga Hi, Reena, there are three questions. The first one is, will this affect competitive dynamic? I do not think so; I think people are being paranoid. The country has been without 3G or its existence, so 15 days, 20 days, here or there is not going to make any difference in the competitive dynamic.

Reena Verma What about 2G please?

Sanjeev Aga On 2G; certainly I think all companies have been affected for the last six months. I do not know if it has affected anyone more or less because even an old company like ours is affected in our new areas and affected in our old areas where we are having congestion or we would have liked to expand to the rural areas. But hopefully it is in its last leg. Therefore in the next quarterly call I do not think this topic will be there. So I do not think it would have any long-term impact on the dynamic.

Your second question is about robust growth. It is a combination of everything but I think in general terms, after the initial excitement about lower tariffs dies down, eventually consumers tend to revert their clientele around people they have greater confidence in and not just us but some others also, so I think this trend will continue. In terms of market share, maybe the market growth might pick up or it may go down, but I think we expect to keep increasing our market share over the next few years. Now, whether it is rapid or slow it is hard to say, but it will happen.

The last question is about tariffs. Our tariffs have declined by about 5.5% on a quarter-on-quarter basis. But if you see last six months that is January, February, March, April, May, June, the decline was steeper in the first three of these six months. And if I was to look at the decline, say, from March, April to June, has been slower. So without going into further detail, if I were to go only by numbers, it appears that the rate of decline is slowing. That means there is a tendency to flatten, based on pure numbers.

Reena Verma Sanjeev, thank you very much. Two sub questions that remain unanswered are; your own capex guidance, the uplift in the same and secondly on MoUs, what was the impact due to Spice merger please?

Sanjeev Aga We have stated capex guidance in our quarterly report yesterday. There is a little amplitude we are taking. We have guided that total capex incurred in this fiscal year including 2G and 3G will be in the range of Rs. 4,000 Crores to Rs. 4,400 Crores. Maybe a little bit of this may actually, in terms of capitalization, spill into next year, but in terms of committed capex this is the range. Now, the spread between 2G and 3G is a bit dynamic and even as we speak, we have not got an exact fix on this.

Akshaya Moondra Reena, on the volume growth actually the 13% growth which we are mentioning is a normalised growth. It has no impact of Spice being for a different period, in the previous quarter and this quarter. It is absolute comparable growth.

Reena Verma Right, but from your previous reflections, are MoUs of Spice subscribers similar to those of Idea subscribers or higher because the ARPU's seem to be higher?

Sanjeev Aga Reena, we do not give ARPU or MoUs at a circle level, we give it at an aggregate level. We do not remember the figure off hand, but I do not think there is any dramatic difference, it is broadly the same. I do not think it will change any analysis.

Reena Verma Okay. Thank you very much.

Moderator Thank you Ms. Verma. Our next question is from the line of Nupur Agarwal of UBS. Please go ahead. It appears that the participant is out of the question queue. Our next question is from the line of Vikas Mantri of ICICI Securities. Please go ahead.

Vikas Mantri Good afternoon, sir and congratulations on a good set of numbers. This is more of a theoretical or a scenario analysis, what do you think is the rock bottom ARPM that you will end up with based on current set of tariffs that you have?

Sanjeev Aga I cannot understand your question.

Vikas Mantri It is about more people shifting to the lower tariff plans.

Sanjeev Aga You are talking about migration?

Vikas Mantri Yes.

Sanjeev Aga Well, I am just taking a guess. These tariffs really declined very rapidly about six months or eight months ago; so most of the migration must be over. There could be a little bit left.

Vikas Mantri So incremental decline in tariff is likely to be if more cheaper tariff plans are introduced?

Sanjeev Aga Yes. Tariffs are made up not only of headline tariffs, but there are also interventions in terms of promotions and so this is a combined effect. There is outgoing and incoming ratio and there is also STD and ISD. There are value added services. So there are a whole lot of things which go into tariffs. But at a broad level, if your question is that, is the pain of migration largely behind us? I think so yes. And therefore any steep decline will be because of fresh initiatives by someone or the other.

Vikas Mantri Thank you. A book-keeping question. Our depreciation has decreased quarter-on-quarter. I want to understand that because the average gross block would have increased still.

Akshaya Moondra Firstly, of course there is increase because of the Spice inclusion which has been partly off-set by some accelerated depreciation in the year end on some of our assets. That was a one-off in the previous quarter which is not repeating in this quarter. As a result the increase in Spice from one month to three months has been offset because there is no repetition of accelerated depreciation in this quarter.

Vikas Mantri Sir could you quantify the last quarters accelerated depreciation amount so that we could have a fair picture?

Akshaya Moondra I will not be able to give you a figure right now but you could check with Pradeep.

Sanjeev Aga Alternatively if we get the answer during the call, we will get back to you.

Vikas Mantri That should be fine sir, thank you.

Moderator Thank you. Our next question is from the line of Sanjay Chawala of Anand Rathi. Please go ahead.

Sanjay Chawala Hi good afternoon; thank you for the call. To start with, could you provide some color on the traffic growth that you have seen? It has been pretty robust for the last three quarters around 12, 13, and 14%, in that range. My question is compared to the fourth quarter FY 10, in this quarter is it the elasticity or pullback of lost traffic to rival operators, and have these two elements created a bigger role this time around or lesser role compared to fourth quarter? And the second question is, if you could provide some update on this issue of overlapping licenses with Spice circles? There have been some media reports on some DOT notice, if you could provide some update on that? And third is for Mr. Moondra, this on 3G spectrum amortization. Can we assume that this amortization of the 3G spectrum cost will start from September itself as an when you get the spectrum, while the interest cost related to this 3G related debt would be charged to P&L only when we start the services, can you confirm that?

Sanjeev Aga Okay Sanjay, I will answer in the order of sequence. Firstly on traffic growth, as I have been saying in all previous calls; is very difficult to give a one line answer. But in this quarter, we do, like many other companies, track the number of minutes by operator which comes to our network and so on. We have seen a bit of a trend that some of the stronger companies have got a higher share of the total increase in minutes. So my assessment is that our growth, for example, of 13% would not be representative of the sector average. The sector average would be lower. I am not saying it is the highest, until I know. But it appears that about two or three companies are getting the bulk of the growth. That's point number one which could point to elasticity but it also could point to some kind of pattern in which market shares are moving, which I referred to in my opening remarks.

Your second question was about overlapping licenses. Just to take care of any follow up questions, we had a press conference yesterday and I had to remark that for the last three quarters, unfailingly a day or two days before the quarterly results, there is a newspaper report that we have been issued a show cause notice. We are still waiting to see it. And as you finance people like to call it 'the color' of that show cause notice, we have not seen it yet. So there is no notice, forget about the notice, there is no letter. But we have written 16 letters or 17 letters, but let me give you the background.

The background is that when two companies merge, this is the situation which comes up. When Idea and Spice merge the overlapping licenses come up. Now there are license conditions and policy guidelines as to, how to deal with this. There was a guideline called the meager of licenses guidelines which was linked to the subscriber linked criterion, but there were many contradictory positions here and there. Now what has happened is that the subscriber linked criterion has been given good bye. So there is a bit of policy vacuum and that is why the government should have resolved it. The fact is that for the last 24 months we have not used these licenses, the spectrum is lying unused. We will deal with them in accordance with the spirit and the letter of the law, but we are waiting for clarity from the government who has not given any reply yet.

Akshaya Moondra Sanjay, on your question related to 3G, the amortization of the spectrum fee will start as well as the interest capitalization will stop, from the time the of commercial launch, and this will happen circle by circle.

Sanjay Chawala So are you expecting the commercial launch around December, January?

Sanjeev Aga Well you know we don't have a date, but that's what I answered. December could become January, January could become February, February could become December, but it is in those few months.

Sanjay Chawala Sure, thanks for that. Coming back to the first question you talked about the market share pattern taking a certain shape. But my question is really, are you seeing a growth in the overall pie in terms of total minute of use? In which maybe the growth is coming from some of structural factor, like income growth or rural penetration. Can you provide some color on that, if possible?

Sanjeev Aga Sanjay we don't have any reliable data, only the listed companies give out their minutes of use and they are just two or three. Most of unlisted companies don't give them; neither do they give the TRAI data. So this is not a reliable basis, but we have revenue and we have our own elasticity, so we can make some assessment. Certainly the country will be growing in minutes of use, particularly in some of the circles which are under penetrated, in the long run after adjusting for seasonal factors. For example, in July, August and September minutes tend to decline, they may be compensated by new subscribers, but they tend to decline. On a secular basis, certainly if the country grows in GDP terms, per capital GDP, some part of that will come to minutes. And in any case number of subscribers, forget the reported, because that's all fiction, are growing, so all that will contribute. I don't have a ready figure to share with you.

Sanjay Chawala Alright. Thank you very much.

Moderator Thank you Mr. Chawala; our next question is from the line of Sachin Gupta of Nomura. Please go ahead.

Sachin Gupta Thank you very much. I wanted to get your thoughts on a few things. Firstly on the TRAI's proposals, how do you think that is likely to play out? Secondly on competition, you talked about bloodbath last year, given people do have more spectrums now and we may not see consolidation anytime soon, what are the chances of seeing another bloodbath later in the year? And lastly on data with 3G. I was wondering what type of services are you looking to offer, is it more wireless internet or internet via handset? Thanks.

Sanjeev Aga Frankly, I didn't catch the third question, but let me finish the first two and then I will ask you to repeat the third question. The TRAI proposals were very disappointing and we have expressed our disappointment. Well it is a long answer, but I think our current policy of NTP-99 has been twisted and turned out-of-shape over the last 10 or 11 years. We need to have a very logical policy which combines competition with efficiency. In our assessment, the expert committee report was a step in a very right direction, very logical and we are a little disappointed with many of the proposals of the TRAI. And more so, it is not so much whether I like it or dislike it, but we believe that unless someone puts the whole structure of policy together into something which is logical, we will continue having these twists and turns into the future. Having said that, everyone does know what is happening. There is talk in the newspapers of the government maybe at the cabinet level or an empowered group of minister or the telecom commission, will take a brand new look. So I think it is too early to predict anything. Anything could happen, but I expect that the worst is behind us and we will hopefully get a much more logical and forward looking policy.

Your second question was on the bloodbath and you are asking whether there could be a second phase of bloodbath. I really don't know, that's an honest answer. No one knows. Bloodbaths don't happen because anyone wants it. They happen because you have a situation where no one is in control. You get sucked into it. But looking at the economic analysis, if a large number of companies are burning cash, it places an inherent restriction for long term. In short term you can always get some adventurous or courageous bank to lend money and they are plenty of them in India. But at some point of time, the chickens come home to roost and I think those days are not very far away. So I would be surprised if you have another round of bloodbath. But in any case, I think our company is better placed. No one likes a bloodbath, but if it does happen, we will still come out stronger, so we are okay. You had a third question, which I'll ask you to repeat.

Sachin Gupta The third question was on the data growth outlook; you are talking about the data prospect. I was wondering, are you are looking to offer wireless internet or just browsing services over the handsets? So the reason I asked that, is obviously the spectrum will be a bit of a constrained if we are going after the wireless internet market?

Sanjeev Aga As an operator, to some extent we create that preference, but largely we follow what consumers want. Worldwide over the last one year, there has been a decisive shift that 3G being (used) predominantly for business use, (but now) consumer use, which was what we referred to in different language, is on the upswing. In the long run, we expect that the consumer business part of it will be much bigger than the business part of it. But whether that will happen in six months or two years, is a function of how it takes off in India, how many smart phones are there, and so on. But we will be very secular and will be serving both segments and I don't think we will have data capacity crunch in the foreseeable future. But considering that handset penetration of 3G is still in single digits (of course this will rise very quickly) and considering that the services themselves are new, it could be about three years or two years down the line, we may have a crunch. But by that time, a lot more things could have happened.

Sachin Gupta Okay thanks a lot.

Moderator Thank you Mr. Gupta. Our next question is from the line of Rajiv Sharma of HSBC Securities. Please go ahead.

Rajiv Sharma Thank you very much for the opportunity. The first question is for Mr. Aga. Sir, do you think that India will see 3G handsets subsidies? So far we have been prepaid in the 2G market, but given that there are only 50-60 million high end subscribers, so everybody chasing that handset subsidy driven 3G business module is likely? Second, do you think 3G also adds capacity to the existing overcapacity and it could mean another tariff cut on the voice side as and when the 3G services get rolled out and the silence or the bit of numbness that we are seeing in the tariff decline or the softening could be temporary? And third question is on your margin outlook. Given that your promotional expenses were down this quarter, and despite that the margins were down 330 basis points, so you are at 24% today, a little help from 3G revenues over the next two to three quarters, your cost will get bloated. So do you think margins could decline further from here? And if voice revenues or voice RPMs don't improve, then this could be the possible scenario? That's it.

Sanjeev Aga Rajiv I will take your questions in the reverse order. On margins, our margins have actually not declined in operational terms. In the last quarter we had some one off pluses, in this quarter we had some one off provisions and so on. But because of operations, margins in percentage terms are the same, which doesn't mean that they will remain the same. Typically in the Q2, all operators will have a little bit of a challenge and we should also have because normally revenues are a little lower here. Assuming that if on capital equipment restrictions are removed, some of the opex on that account will start rolling in. I mentioned that in my opening remarks, these are not very consequential because one quarter could be lower and another quarter could be higher. Things like advertising and marketing expenses are kind of rounding off changes.

As a company we never take quarter-on-quarter margins that seriously. We look at the long-term trends more seriously, which is what I was stressing. It is very difficult for me to give you any guidance on margins, unless one is massaging, which we don't. You always have little ups and downs quarter-to-quarter, which is not very consequential. What is most important is how our margins are in comparative terms. Absolute margins are a function of the kind of phase that you are in and these phases don't last forever. So the important thing is; what is your margin in comparative terms. I think that the gap in those terms is widening over the years, which is more relevant.

On your second question, I don't think so, the answer is no. Because this is not an increase in the number of operators, this is an increase in spectrum of existing operators. And from that point of view it will have no impact. No operator has held back because he thinks he does not have enough spectrum. So I don't think it is going to have any impact on pricing.

On your question about 3G handsets subsidies, the Indian market has evolved differently from European and Western markets. Handset subsidies and handset bundling has never played a big part (in India). I don't think that is going to change very much with 3G. It could always be, one deal here and one bargain there. You must recognize here that the business model in India is different and handset subsidies work when there are two or three operators. So one big handset guy might tie up with someone. These things do not work when there are so many operators on a large term basis. So my answer is, I do not think so.

Rajiv Sharma Thank you Sanjeev for this. Just two very small follow up questions. One is your VAS revenue is coming up very well over the last four or five quarters, but recently, there have been lot of tariff vouchers in the market which are basically suggesting that SMS is for free. So how much of your VAS revenue is coming from SMS and are you seeing any trend which is really distorting your revenues from SMS? And secondly a book keeping question; what is the cost of both short term loan and long term loans that you have taken for the purpose of 3G?

Sanjeev Aga Rajiv, Akshaya will answer on loans. Frankly, I am not familiar or aware that SMSs are free or if there are a lot of vouchers. Maybe you got bombarded by some mail, but I am not aware of this. This is a detail I will have to find out, but I don't think there is any change around SMS. I think our SMS revenues as a percentage of total revenue or in penetration terms are pretty steady. I don't think there is anything significant that has come to my ears on this track.

Akshaya Moondra Rajiv, basically on the rate of interest on the loans, we do not give specific disclosures. All that I can say is that our long term loans are definitely very competitively priced. On the short term loan, I think our timing was good. We did some commercial paper early on, at very attractive pricing. We heard in the market that some of the commercial papers done closer to the time when the payout was happening, were at a higher rate. So I guess that is what I can share with you at this point of time.

There is just one more thing; which was a question Vikas Mantri had asked about depreciation. Our extent of accelerated depreciation in the previous quarter was of the order of roughly Rs. 25 Crores.

Rajiv Sharma Thank you sir; my questions have been answered. All the very best for the future. Thanks.

Moderator Thank you Mr. Sharma. Our next question is from the line of Anup Upadhyay of SBI. Please go ahead.

Anup Upadhyay Good afternoon sir. Could you elaborate on our network expansion plan? You currently have around 67,000 cell sites, and if you could provide some color on what kind of population coverage do we have right now and how close that is to our intended or desired coverage?

Sanjeev Aga Anup, I do not have this data ready to answer to you. Even If I have it, in terms of this year's budget, I do not know if I can share that. But at a broad level, there will be three kinds of expenditure, one will be on equipment, once equipment is allowed to be imported. Secondly we will be increasing our penetration into uncovered areas, chiefly, in circles where we are strong, but also in circle where we are relatively new. Thridly, we will have to also increase our coverage where we know, we are having big capacity growth. We will have to decongest some of that. Now some of the decongestion might happen through 2G, some of it may happen through 3G investment. Finally at this stage of our company, what we call vertical growth, which means more traffic from an existing site, becomes as important as horizontal growth, which is getting into uncovered areas.

Also we have investment in optic fiber. If I remember right, our total optic fiber end of June is of the tune of 55,000 kilometers. This is something which has come up really in the last two years and this number will keep going up and both in inter circle optic fiber and within bigger cities, where there will be 3G traffic.

Anup Upadhyay Sir, thanks a lot for answering.

Moderator Thank you Mr Upadhyay. Our next question is from the line of Vivek Doval of Boyer Allen. Please go ahead.

Vivek Doval Just a few questions. First of all wanted to understand in the new circles that you got into, what is the revenue market share gain that you're actually making there? I understand that you cannot answer that in quantitative terms but if you could answer that in quantitative terms it would be great. At least in qualitative terms and in terms of profitability in these circles, what is the timeline that you think, you would be profitable in them from the time you started? So that is one. Second in terms of mobile number portability, when is that expected in the Indian market and what would your strategy be when this opportunity will be there? And thirdly, around the country, as you mentioned that tariff are a function of headline rates and also promotions, have you started to seeing blended tariffs anywhere actually starting to go up as some of the promotions are removed from the market.

Sanjeev Aga Vivek, we have not seen blended tariffs moving up except one circle, for one month in a very small manner which could just be a tweaking or a change between outgoing and incoming, so I do not think that phase has come yet. So they are going down, although rate of decline has become slower. It is difficult to say when that tipping point would come, but I do not think it is here right now.

Secondly, on mobile number portability we have been ready for a fair time. It has been a big slog because enormous amount of work, enormous amount of investment. We are ready but I think this is one of those things where the slowest camel determines the pace of the caravan and until everyone is ready it would not happen. But in our assessment and we have been saying this for a year or two years that mobile number portability will just be one more step, which will further consolidate the stronger. It is not something which is going to be disruptive. This is our expectation. But we do not think it is going to be game changing at all. Given the fact that, a number of people who are looking to retain their number, who have had their number for years, their revenue contribution to the total national sector revenue is not very large. The nature of the Indian market has changed over the years, so we do not think it is going to be a game changing event.

Finally, in terms of new circles, market share is not a secret that is why I do not have it. The TRAI publishes adjusted gross revenue and gross revenue numbers every quarter. I do not have it (at the moment), but you will be able to pick it up. As we have mentioned in our quarterly report and our media release, over the years, our approach to new circles, particularly the circles we have just launched, which is Assam, Northeast, Orissa, West Bengal, Kolkata, has been calibrated. We could have gone for broke, but if you are the 8^{th} or 9^{th} or 10^{th} operator, coming in 13 or 14 years after the market has opened up, we believe it is sensible to go brick by brick. Our performance both in revenue and profit terms is as per our plan. And our plan is something our company can digest and support. So we will build this strategic strength brick by brick, over the years.

Breakeven at this point of time is hard to tell you. For this quarter our EBITDA losses from the new circles is slightly lower than the previous quarter. I would not therefore jump to say that this is the peak, because for example, if you do some new investment it could marginally go up but I think broadly we are around as much as the losses would be. Now how long before this becomes zero really depend on how the whole Indian market pans out and how the prices behave. It is hard to say right now but we are quite comfortable. Our head to tail ratio, as we call it; head being the circles which give us margins and the tail being the circles which take away the margins, is quite manageable and quite strategic. Our balance sheet is strong enough to support this strategic push indefinitely.

Vivek Doval Right, thank you very much for that.

Moderator Thank you Mr Doval. Our next question is from the line of Piyush Choudhary of India Bulls Securities. Please go ahead.

Piyush Choudhary Good afternoon, thank you for the opportunity and congratulations on the great set of numbers. Could you share some light on your 3G rollout strategy, like in one or two years from now do you visualise 3G network? Could it mirror 25% of your 2G network coverage or 30%? Any color on the same will be helpful.

Sanjeev Aga Piyush, I will not share the strategy in detail. But to answer your question, yes, our 2G coverage will be much more than 25%, not in two years but in less than one year. It is not going to be a stingy launch. We will invest a little ahead of time but the exact competitive strategy is not appropriate to be discussed on the phone.

Piyush Choudhary Okay, thanks a lot.

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

Shobit Khare Hi sir, good afternoon, I have a follow-up on EBITDA loss in new circles. For the last year versus the whole of this year, are we looking at a higher number because of the launches which happened in third quarter, fourth quarter or we might have a lower EBITDA loss in the subsequent quarter? And second is what kind of operating cost increase do we see due to the investments in 3G because of network costs and promotions etc?

Sanjeev Aga Shobit, I just mentioned about our EBITDA loss this quarter. For this quarter and the previous quarter we had the full quarter impact on new launches because our last new launch was sometime in December 2009. Our EBITDA losses are similar in quarter ended March and quarter ended June. June is slightly lower, but that is not very significant, it could go marginally up or down. I think it is about this level in the foreseeable future, it is not going to go down dramatically. It will take time and that is the best I can tell you. The reason it will not go down dramatically is that as we improve our revenues we keep investing a little more, there is a certain balance between those two elements. Eventually, it will go down and go towards zero, but that may not be in this year.

As far as operating cost because of 3G is concerned, yes, this will go up now to some extent. It will replace 2G investments, in which a case it is not really adding to total cost. But some of it is extra, particularly on the transmission side. So yes, it will open up our cost stream but it will also open up revenue stream. It could be that the cost stream kicks in ahead of the revenue stream. It is going to be that way, but it is going to workout as a business overall in the long term.

Shobit Khare Sir, just as a follow-up. If we look at your new circles subscriber rate, we saw very muted numbers for the first two months of this year and then it has gone up quite a bit in the third month. Is it a strategy or basically have we been a bit less aggressive in the new circles?

Sanjeev Aga There is nothing of analytical significance in these numbers. It could be just month to month chance factors. There has been no change in approach over the last three or six months.

Shobit Khare Okay, sir, thanks a lot.

Moderator Thank you Mr. Khare. Our next question is from the line of Nupur Agarwal of UBS. Please go ahead.

Nupur Agarwal	Good afternoon sir. Firstly, I wanted to understand why the decline in revenue per minute is so significant, around 6%, while there haven't been significant pricing moves in the market. The second question is do you have any plans to monetise the tower business or Indus Towers?
Sanjeev Aga	Hi Nupur, on the price decline we have already covered most of it. As I mentioned this 5.6% is the average of quarter one, over the average of quarter four. Most of this steep decline happened between the December, January, February, and March. After March it has continued to decline but at a slower rate. Now if I were to project this, it would show that the decline in the next quarter will be lower. Now why has it declined? It is combination of headline rates, it is not as if the price war has ceased. You might read less about it in the papers and it might mutate, it might go into a STD pricing or international long distance pricing or data pricing. Data has been given away at throw away prices. Also as I mentioned in an answer to an earlier question, the migration is not on day one, this is the migration which started in September continued during January to June. So all this is a combined effect. But it looks like there will be a little respite from the steep drop in the coming quarter, although things could change. Your other question is about monetisation of towers. We indeed have 8,000 to 9,000, very high quality towers, which are owned by us apart from our shareholding in Indus. But it has been so for sometime, as we have no real need to monetise. This is a strategic option open to us, but we have not felt the need to exercise this option as of now. Our balance sheet is strong enough to support whatever we want to do.
Nupur Agarwal	Thank you sir.
Moderator	Thank you Ms Agarwal. Our next question is from the line of Sameer Naringrekar of BNP Paribas. Please go ahead.
Sameer Naringrekar	Good afternoon, just one quick question. In terms of the capex guidance that you have given as $40-44 billion, can you give us some sense of what kind of 3G coverage is included in this capex guidance, in terms of population or your own subscriber coverage?
Sanjeev Aga	This is not dollars.
Sameer Naringrekar	Correct, I am sorry. Rs. 44 billion
Sanjeev Aga	This will be known in three or four months. At this point of time all companies are planning on what to cover or what not to cover. It is not appropriate for us to discuss this on a conference call. There is some detail which is very difficult and that is why we have given a range from Rs. 40-44 billion. When you get down to network planning the numbers might go up or go down. But as I said we won't be penny pinching, when we do a launch it will be a quality launch.

Sameer Naringrekar One follow-up question, in terms of the technology that could be adopted for 3G, I think there are different flavors of 3G. I just want you get a sense of what kind of throughput can we expect per cell site. I think there are the operators who are trying to look at LTE which can pretty much give about 270mbps theoretically per sector. So if you could tell me how you could be competitive with respect to LTE or any other variants of technology.

Sanjeev Aga Sameer, LTE is some years away. And when LTE comes it will come for everyone. All of us are operators, operators do not determine speed. Speeds are determined by the technology and equipment. The technology and the equipment is the same for everyone, so whether it is Sameer or Sanjeev we will get the same (Speed).

Sameer Naringrekar Alright, thank you Mr. Aga.

Moderator Thank you Mr. Naringrekar. Our next question is from the line of Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao Thank you Mr. Aga and Mr. Moondra. Firstly, any light on competition at the trade, in terms of dealer's margin, you had indicated that those costs have increased sometime back. So can you throw light on how the things are fairing on that part. Secondly, any color on potential payback which you think will have on 3G, even if a long number will be fine. And a related question, any light on data versus voice margins? How they would pan out going forward? And finally one more question, how have you maintained your margins? I know over the last almost two years despite a compression in your realized rate, which cost levers have helped you on the network and the SG&A side, if you can throw some light on that?

Sanjeev Aga Srinivas, tough questions. Firstly, dealer margins, I think you are referring not so much to the recharge coupon margin or the distributor margin, but the fact that because of the multiple SIM phenomenon, the same human being was attracting more than one cost of acquisition and this is the scourge of the sector. In fact this is hitting the newer operators more than it hits us, but it hits everyone. It is a difficult problem to solve but we are putting a lot of management discipline and effort and analysis in mitigating this. And it is not getting worse. The problem is still there but it is not getting any worse and it is receiving the highest attention. There is a lot of science in doing this.

Your second question was payback on 3G, it cannot be calculated because 2G flows into 3G. It (2G) has not been replaced so the cost flow into one another and the revenues co-live. One way of looking at is if you paid a certain amount of money for 20 year spectrum. The value of this could be greater in year one or year 20, time will tell. But for us, looking at it strategically, our combination of 900, 1800 and 2100 spectrum, although we do not have it in all our circles we do have it in most of our major circles, gives us a lot or versatility and a lot of adaptability to be able to harness and capitalize on any technology of today or tomorrow. So this is something which is not just going give us 3G services, when we launch. It is not just going to decongest 2G spectrum but it also gives as an attractive spectrum profile which will help us even three to five years later when new technologies come in. So it is quite strategic from that point of view.

Your next question is about data versus voice margins. This has been a worldwide challenge because although data demand is jumping but the margins have been hard and there are technical problems around actually billing data which makes it hard. It also is a historical factor because in the beginning data or 3G services were not picking up in Western Europe and USA and there were a lot of "eat as much as you can" plans, which are now becoming problematic. So we will do the sensible thing, we will be very careful. But it is very difficult for me to say because it is a competitive market and it is hard to say what will happen. But we will be sensible about it.

And your last question is on cost levers. You press every lever but the lever which you cannot press, cannot locate is the management lever. Some of the levers are simple ones like capacity utilization and negotiation and advantages of economies of scale and this and that. But telecom is a very management intensive business and it requires a lot of decentralisation, lot of processes, lot of application of mind and the impact of all this touches every cost. But it is hard to demarcate it, so I think that is something which is also helping us.

Srinivas Rao Thank you sir. Well appreciated.

Moderator Thank you Mr. Rao. Our next question is from the line of Miten Lathia of HDFC Mutual Fund. Please go ahead.

Mithen Lathia Thank you very much, sir. My question has been answered.

Moderator Thank you Mr. Lathia. Ladies and gentlemen due to the time constraint that was the last question. I now hand the conference over to Mr. Sanjeev Aga to add closing comments.

Sanjeev Aga Thank you Rochelle. On behalf of the team, Akshaya, and all of you who have joined the call, thank you very much. It is always a pleasure speaking to you and we look forward to having you with us again in three months from now. Bye.

Moderator Thank you Mr. Aga and Mr. Moondra. Ladies and gentlemen that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.