Vodafone Idea Limited Conference

July 02, 2021

Moderator: Good afternoon, ladies, and gentlemen. This is Margreth, the moderator for your conference call. Welcome to the Vodafone Idea Limited Conference. For the duration of this presentation, all participant lines will be in the listen-only mode. After the presentation, a question-and-answer session will be conducted.

We have with us today Mr. Ravinder Takkar – Managing Director and Chief Executive Officer of Vodafone Idea Limited, and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited, along with other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking their 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 contain forward-looking statements and must be viewed, therefore, in conjunction with the risk therefore that the company faces.

Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone phone. Please note that this conference is being recorded. With this, I hand the conference call now over to Mr. Ravinder Takkar. Thank you, and over to you, sir.

Ravinder Takkar: Thank you, Margreth. On behalf of Vodafone Idea, I welcome all participants to this earnings call. On 30th June, our Board of Directors adopted the audited results for the quarter as well as full financial year ending March 31, 2021. The detailed Press Release, Quarterly report and audited financials have already been uploaded on our website and I hope you had a chance to go through the same.

As usual, I will start with discussing our ongoing strategic initiatives along with operational highlights for the quarter and I will then handover to Akshaya to share details on the Company's financial performance.

Before that, let me talk about the impact of the severe second wave of COVID that the country has grappled with over the last few months. This has been a difficult period for the Vodafone Idea family. Since the beginning of the pandemic, we have lost few of our colleagues while several others have been affected and many of our colleagues have lost their near and dear ones. In these terrible times, as an organisation, we have stayed true to our Culture of Care and have provided full medical support to every employee who had to be hospitalized or needed any medical assistance. We have extended financial support to offset cash flow difficulties of employees who had unfortunate situations in their families. Our insurance policies are providing industry leading financial provisions in case of loss of life. There are COVID War Rooms in every Cluster headquarters that track, coordinate support and connect with every employee – be it ensuring connect with Doctors, scouting for oxygen cylinders, facilitating hospitalization, or arranging for medication. Our external counselling partners offer support and strength to Employees who have recovered from COVID or are in need of help to deal with grief and their circumstances.

Throughout this pandemic, our mobility services has formed the backbone to the digital infrastructure of the country, our focus thus continues to be on delivering uninterrupted services and great end user experience while ensuring safety of our employees and partners. I would like to thank all our employees, especially our Network teams, who have been working non-stop through the pandemic providing critical support to our customers and community. Our frontline teams have been working relentlessly in very difficult circumstances which were further aggravated during the cyclones on both west and east coast of the country.

Our network engineers were indeed the true 'heroes' braving all odds to ensure networks were up and running 24x7. There are scores of stories of our network warriors – such as our team installing a tower overnight in a small village in Kerala enabling 150 students to access online education; or working on war footing for setting up equipment for enhanced connectivity in one of the biggest hospitals in Mumbai. Many of our teams travelled hundreds of kms to restore critical sites, delivering SIM cards at doorsteps or just to set up service on a smartphone of a senior citizen at home.

While this was the need of the hour, we also maintained that we will not do business by putting our people at risk. Therefore, each and every employee and associate who had to step out of the house was fully trained on our comprehensive Covid protocol and was provided adequate safety gears. We have also been arranging vaccination camps for our employees and their families.

As a socially responsible corporate, we remain committed to helping the country to deal with this crisis in every way possible. During this phase of pandemic, we have again extended support to our marginalized customers, as we did during the first wave. We have provided benefits worth up to Rs. 2.9 billion to over 60 million low income customers. We have also been prioritizing CSR support to alleviative or mitigate the impact of COVID. We plan to reach out to farmers, students, Self Help Group, women families and dependents where the sole breadwinner has lost their life due to COVID-19. We also propose to facilitate the vaccination drive in several places.

Now, moving on to our key strategic initiatives

The first one being focused network investments

We continue to follow a focused approach to investments, biased towards our 16 priority circles which contribute over 94% of our revenue. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas.

We are progressively upgrading our 3G network to 4G. We closed over 30,000 3G sites during the year, while we added over ~43,500 4G FDD sites mainly through refarming of 2G/3G spectrum. The process of refarming 3G spectrum to 4G on majority of sites in different cities have substantially enhanced the GIGAnet 4G capacity in those cities. Our overall broadband site count stood around 453,000 compared to 436,000 a year ago. Our 4G coverage has crossed the benchmark of 1 billion Indians during the year.

Our constant endeavour to be the best 4G network in the country, is testified through top rankings across various third party reports on both data and voice. Vi GIGAnet remained the fastest 4G network in the country for 3 consecutive quarters in FY21, as per Ookla. Based on TRAIs MyCall app data, we also had the best voice quality in the country for 6 months consecutively - from November 2020 to April 2021. This comes at a time when people and businesses are more reliant on telecom connectivity for their work, education and all other aspects of life. Our focus on providing superior customer experience is helping us drive stronger network perception.

While we are currently in the middle of our 4G capex cycle, we have been deploying equipment which is 5G ready on both radio and core. We have the advantage of having latest 4G equipment and technologies which are capable of upgrade to 5G. Also, we have made substantial progress in deploying several 5G ready technologies such as, Massive MIMO, DSR, Cloudification of core, etc and they are very much central to our strategy for future growth.

Recently, we have tested dynamic spectrum sharing as a feature between the 4G and 5G with our existing 4G spectrum. We have also initiated 5G trials with our major Network partners Nokia & Ericsson on the freshly allocated 5G spectrum in 2 cities - Pune and Gandhinagar.

Moving on to market initiatives

In the post COVID world, the role of internet has become more relevant and digital adoption & usage has significantly accelerated. With the need for data increasing, we launched & promoted "Unlimited night data" – a differentiated proposition wherein customers can enjoy unlimited data between midnight to 6 AM on unlimited packs above Rs.249 and "Weekend Data Rollover" - an exclusive proposition for Vi customers to carry forward unused data from weekdays to weekends on unlimited packs above Rs.249.

We will continue to look for ways to improve ARPU by driving 4G/UL plan penetration. We also aim to scale up the proportion of high ARPU subscribers through large programs in conjunction with OEMs and NBFCs for 4G device. That said, tariff hike remains critical to revive the sector and ensure that operators make reasonable returns on their massive network and spectrum investments.

Recently, all 3 private operators have launched new plans without daily limit with lesser data bundled compared to the regular daily data plans. We believe these plans are a step in the right direction as pricing structure needs to correct where we have the ability to sell data bundles which customers can use anytime and then pay more if they need additional data allowance.

On Business services –

Business services remains one of our key focus areas. As we continue to innovate and offer solutions in line with the changing requirements of the customers, our traditional fixed line data and voice offerings continued to see growth during this challenging period. Recently, we introduced Managed SIP service for businesses for whom voice calls are a key business resource. We are the first and the only telecom operator to provide Managed SIP service in India.

The new and emerging cloud and IoT services are central to our business services growth strategy. We continue to derive tremendous synergies from our relationship with Vodafone Group, who are a global leader in the IoT segment. We have further strengthened our IoT portfolio with the launch of Integrated IoT solutions for enterprises. We are the only telecom company in India to offer a secure end-to-end IoT solution that comprises of connectivity, hardware, network, application, analytics, security and support. The launch of our integrated IoT solutions is a strategic step towards making Vi Business – an IoT ecosystem integrator for Indian enterprises, and positioning us to have an Ecosystem Play driving our transformation from a 'Telco' to 'Techco'.

The pandemic has accelerated growth in digital ways of working for businesses and workloads are increasingly migrating to cloud leading to a rise in demand for reliable security solutions. We have strengthened our security portfolio with the launch of Vi Cloud Firewall, a cloud-deployed security solution for enterprises and businesses. In order to power hybrid workplaces and provide seamless digital experiences, we have launched Vi Business Plus, an industry leading mobility solution, which enables today's businesses to strike a fine balance between business objectives and employee mobility needs.

Our enterprise digital platform for Vi Business - Mobility, has been recognized by a global jury at ICMG Global awards 2020, for having the best customer centricity and architectural design.

The next strategic initiative is driving partnerships and digital revenue streams

We continue to partner with content providers to promote new & engaging content through Vi movies & TV. Our vast content library coupled with differentiated data benefits in the industry has led to a winning proposition. We have collaborated with Hungama to launch Pay Per View Model for premiering digital films from Hollywood at a one-time cost. This unique offering is available only on Vi amongst telecom operators for its postpaid android users and provides a library of 380 titles in 4 languages. We recently added Disney+ Hotstar to our extensive list of content partners further fortifying our highly competitive content portfolio. This collaboration aims to bring the best of video content to Indians across the two most popular genres of Entertainment and Cricket. This will give our customers access to IPL matches and other cricketing content around the year.

We have also been entering into strategic partnerships with key players in the areas of Learning & Upskilling, Health & Wellness, and Business help to offer benefits to the new age customers. The company has forged partnerships with several internet first companies and plans to on-board more partners under each of these areas to enable Vi users get exclusive offers from these players. Healthcare being a priority, we have even provided free health insurance to our customers through Aditya Birla Health Insurance. Our innovative and partnership led content strategy has thus helped us adopt a telco-first approach for content monetisation in this hugely untapped market.

We will thus continue to focus on our platform capabilities to offer a deeper integration with our partners for a differentiated experience, create monetization opportunities and truly become an integrated digital service provider.

And lastly, we have made good progress on our cost optimization exercise. As you are aware, we targeted to achieve Rs. 40 billion of annualized opex savings by end of this calendar year. As of this quarter, we have already achieved ~65% of the targeted annualised cost savings.

Moving on to operational highlights for the quarter

Revenue for the quarter was Rs. 96.1 billion, a decline of 11.8% QoQ, on account of IUC regime going away since January 1, 2021 as well as due to fewer number of days in the quarter. The subscriber base was 267.8 million in Q4FY21, a decline of 2 million similar to what we witnessed in Q3. However, we continue to see healthy traction in 4G/ UL net additions which remains a key focus area for us. At the end of the quarter, the 4G subscriber stood at 113.9 million, an addition of 4.2 million 4G customers, highest over the last 5 quarters. Subscriber churn however increased to 3.0% compared to 2.3% a quarter ago, due to increased market activity.

A quick update on other developments

In the spectrum auction conducted in March 2021, we acquired 23.6 MHz of spectrum across 900 and 1800 MHz in 5 circles for a total consideration of Rs. 19.93 billion. We have also optimized spectrum holding in some circles. With that, our spectrum footprint of 1,768 MHz is very competitive and more than adequate to serve existing customers as well as add several million more.

On the AGR matter, as you are aware, we have filed a modification application in the Supreme Court requesting them to allow the DoT to correct the manifest/clerical/arithmetic errors in computation of AGR demands, which is currently pending hearing. Further, we have informed DoT that we have paid more than 10 % of the total dues and complied with Hon'ble Supreme Court order. We have also filed an affidavit with the Supreme Court confirming payment of 10% of the total dues with an undertaking to pay the arrears as per the Court judgement.

On fund raising, we are currently in active discussions with potential investors.

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

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

Revenue for the quarter stood at Rs. 96.1 billion, as against Rs. 108.9 billion in Q3FY21. Of the QoQ decline of 11.8%, 9.6% was on account of domestic IUC or mobile termination abolishment effective January 1, 2021 and 2.2% was on account of lower no of days in the quarter. The average daily revenue, adjusted for IUC was flat QoQ.

Adjusted for IndAS 116 impact, EBITDA was Rs. 21.7 billion for the quarter. There were one-offs of Rs. 4.5 billion in the quarter primarily in network and IT costs.

We continue to progress well on our cost optimization exercise to drive further savings and target to reduce our annual operating costs by Rs. 40 billion over Q4FY20 baseline, by end of this calendar year. On a run rate basis, by the end of Q4FY21, we have achieved approximately 65% of our target cost savings.

Q4FY21 Capex spend stands at Rs. 15.4 billion, taking the full financial year capex to Rs. 41.5 billion.

For the full financial year FY21, Revenue and EBITDA were Rs. 419.5 billion and Rs. 169.5 billion respectively. Excluding IUC revenue, FY21 Revenue declined by 3.3% compared to FY20. FY21 EBITDA, excluding IndAS 116 impact, was Rs. 80.4 billion, a significant YoY improvement, compared to Rs. 58.1 billion in FY20. The improvement of Rs. 22.3 billion was despite the revenue decline and loss of margin on account of abolishment of domestic IUC, primarily due to several cost optimization initiatives undertaken by the company during the year. FY21 EBITDA was also positively impacted by Rs. 8.0 billion compared to last year due to the amortization of subscriber acquisition cost over the average expected customer life starting Q3FY21 based on its updated estimates of customer life cycle. Also, this is in line with the general industry practice.

On AGR, as Ravinder mentioned in his remarks, we have filed the modification application in the Supreme Court requesting them to allow DoT to make corrections for manifest errors in DoT demands. As the matter is pending hearing, the AGR liability in our books is accounted for without considering any impact of corrections that may arise from the filed application.

Resultantly, Gross debt excluding lease liabilities as of March 31, 2021 was Rs. 1,803.1 billion, comprising of deferred spectrum payment obligations of Rs. 962.7 billion and AGR liability of Rs. 609.6 billion that are due to the Government, and debt from banks and financial institutions of Rs. 230.8 billion. Cash & cash equivalents were Rs. 3.5 billion and net debt stood at Rs. 1,799.6 billion.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question is on the capital raise plans. In your opinion, is the lack of clarity on account of AGR modification application a key hurdle for not being able to raise the funds. Why are we having so much of delay in the capital raise plans?

Ravinder Takkar: Manish, let me try to answer that question. We filed the modification application with the Supreme Court. These are arithmetic errors and omissions. We are very confident that it is not the intent of the government or DoT, to make us pay for these types of errors. We are thus very confident that the Supreme Court will allow the DoT to adjust on the errors and omissions that were done in the first round of calculations of these AGR dues. I will say that while this is an important element of confirmation that we are looking for from Supreme Court, I do not believe that this is a very big hurdle today in the minds of investors who are engaging with us on fundraising.

Manish Ostwal: Sir, would you like to highlight any timeline for the capital raise?

Ravinder Takkar: No, Manish, I would not like to speculate. All I can tell you is that we are in discussions. I can also confirm with you that there is a continued interest for investing in the telecom sector in the country. I think the biggest hurdle, if you ask me and something that they always ask us, and we have also mentioned several times is that the overall industry is under stress because of the pricing situation. As soon as the pricing improves, it will create a significant amount of confidence, not only in the industry players, but overall will start to show positive returns for the industry. I think that is really what can provide a significant amount of confidence and new investments, not only from new investors but also from existing investors into the business. But I would not like to speculate on the timeframes.

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

Vivekanand Subbaraman: I have three questions. Thank you so much for the discussion on the market initiatives to drive ARPU. So, elaborating further on the new tariff plans that were launched, Ravinder, in your view, what is the roadmap to the market repair that we have been talking about? Our competitors have also been talking about it for a while, and the role of the regulator there? That is question one.

The second one is on the liquidity position. Right now our cash balance is around Rs. 3.5 billion. But if you could highlight any potential tax refund or contingent assets, and the timing that we expect these assets to fructify? That will be great. And lastly, in terms of your conversation with the government and the lenders, in respect to the spectrum installment payments commencing from 9th April 2022, in the next 12 months payments expected by banks from you, is there any progress on the dialogue there with respect to giving you more time till the market repair happens?

Ravinder Takkar: Thank you, Vivek. Let me start by answering some of the questions, and then I will hand over to Akshaya for the ones which he is in a better position to answer. Let me start with the first question that you had regarding the new tariff plans. I think, as has been mentioned many times by myself, as well as several of the industry players, that the biggest issue in this sector today is the pricing, which is much lower than it needs to be. Whereas the consumption that our customers and overall the citizens enjoy is significantly higher than what it used to be some years ago. How we move towards maket repair, we believe there are several ways in which that can happen. One is in regards to floor pricing. As you know, all industry players jointly through COAI had written to the regulator to look at floor pricing as an option. The regulator had started consultation on floor pricing, in which representation was done by all, that a floor price is needed within the industry. We are still waiting for regulator to complete that consultation and come back with an answer which can hopefully help strengthen the returns in this industry, and relieve the stress in this industry. We believe that floor pricing remains the best and the most preferred way to fix this issue, because it has been a challenge to do that for several years now.

Also, in the meantime, there are other ways in which improvements can be made. For example, in our industry, the price plans that are mostly prevalent today are per day type of usage allowance that they provide, which means you either give 1/1.5/2/ 3 GB per day, depending on what package you want. Now, this is a very strange model. One, because customer usage does not always work in that matter, people use a certain amount of data, some day they use more, some day they use less, but this recurring daily model does not make any sense. Secondly, if you look at the total amount of data that you are given in a month is significantly higher than the actual usage. For all three operators from a reported number of perspective, the usage of data per subscriber is below 20 GB a month in that period, whereas even the basic plan, which is 1 GB a day obviously gives 28 GBs in that period so, it is a very strange thing. How do you actually move people and customers up to a higher payment ladder and we believe that the new plans that have been introduced just recently will do that, offering data which you can use during a period of time i.e. for 30 days, 60 days, 90 days, and also you can use it at daytime, nighttime, weekends, weekdays, or anytime during the day. And when you run out of that, you can buy more data, which I believe is the right architecture for price increase.

To summarise my answer, tariff hike is absolutely needed and floor pricing is the best way to implement that. But even when you do floor pricing, it needs to be done at the right price, although the architecture of the plans that have now been introduced seem to be headed in the right direction and I think this is something that can drive positive momentum in the industry, as far as the pricing is concerned.

Let me answer your third question regarding the discussion with the government, before I hand it over to Akshaya for his comments on liquidity and discussions with the banks. On the government part, we are in our two-year spectrum moratorium situation as an industry right now. The two-year moratorium was granted by the government, because there was stress in the industry. There were challenges which were not allowing people or operators to make the spectrum payments. While that moratorium was a big relief, and some of the issues that were causing stress in the industry, like AGR, to some extent have been addressed, although a little bit more work needs to be done.

The other significant issues like pricing that I mentioned earlier, still continue to remain. Unless those big elements are not addressed, I think in some ways the stress will continue. In that situation, I think it is only reasonable to say to the government that they provide an extension to the moratorium until these pricing related issues, and the stress in the industry is removed. That is the request that we have made to the government and I think it is reasonable under the current scenario. We are not the only ones who are saying there is stress in the industry, it has been said by other players as well, and it is important that the government addresses it. I think spectrum moratorium can be further increased until that stress is relieved.

Akshaya, I hand over to you for the liquidity question that was asked by Vivek.

Akshaya Moondra: Thanks Ravinder and hi Vivek. Vivek, your question is what are the assets available which we could convert to cash. One is, as we said from the beginning, that at the time of merger we had got tax refunds of about Rs. 83 billion. Out of that, till date, we have received about Rs. 15 billion and there is another Rs. 68 billion to be received. We also have some GST export related refunds where the refunds have just started coming in. It was just the first round of refunds, and to set that process it took some time. And then we also have some surplus land which was initially taken for data centers which we are in the process of divesting. I think all in, these items combined together could possibly realize cash in this financial year to the tune of about Rs. 30 billion.

Vivekanand Subbaraman: All right. Just one small follow-up. Vodafone PLC contingent asset, which was linked to the AGR payments, how much of that is pending?

Akshaya Moondra: The total cash payment by Vodafone Group, which we have explained earlier is Rs. 84 billion. In this financial year, they had paid about Rs. 20 billion, so there is another Rs. 64 billion which is to come. As these are linked to payment of liabilities and some of this also gets offset by the tax refunds if they are received for erstwhile Vodafone entities. The next settlement will be due in June 2022 so it will ultimately depend on what is the payment that we have made for the AGR dues, and is there any tax refund. There will be a net settlement in June 2022.

Vivekanand Subbaraman: All right. And my last one was on the dialogue with banks for the loans that are payable over the next 12 months, given the current portion of the long-term loan.

Akshaya Moondra: The first kind of funding which we are looking at, as we have said in the past, is more like debt or hybrid structure funding, which we are working on. We will engage with our lenders at a suitable time to see how they can support us in providing new facilities. We are in constant engagement with them to explain them about what our funding plans are. In terms of whether they could support us with any further funding, that is a discussion which is somewhat linked to the new funding that we are raising. That discussion will happen at a suitable time.

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

Vishnu KG: Just wanted to pick your brains on ARPU. Essentially we had the last round of tariff hike in December 2019, and we saw an ARPU increase in 4Q FY2020. Looking at your numbers, even if we adjust for the IUC revenue loss, the 4Q FY2021 ARPUs are actually slightly lower than the 4Q FY2020 ARPUs in spite of higher 4G usage. Could you please explain why the mismatch is there? Is it because of some kind of revenue leakage in the bottom of the pyramid subscribers?

Akshaya Moondra: Actually, no, there is no reduction or leakage. If you look at it, the ARPU appears to be flat, but ours is a business which is dependent on daily revenues. There is a reduction of two days on quarter-to-quarter. If we look at it on a daily basis, the ARPU has actually grown by 2%, which is decent growth of ARPU quarter-on-quarter.

Vishnu KG: Sir, I was looking on a Y-o-Y basis, 4Q FY 2020 versus 4Q FY 2021.

Vishnu KG: On a Y-o-Y basis, if I look at the ARPU, despite the higher number of 4G users, the ARPU seems to be slightly lower or flattish. So, why is there a disconnect, could you please explain?

Akshaya Moondra: Year-on-year that will have to be normalized for interconnect charges which have gone away. Last year, we used to have interconnect charges in Q4, if that is what we are looking at, there is no interconnect now and that could be the reason for the gap. I do not exactly know what figures you are comparing, but if you are comparing any figure in FY2020 with Q4FY21, that would have an impact of IUC. Can I suggest, if you are looking at a specific figure, you can connect with Arpit offline, and he can explain it to you. But as I said, Q3 to Q4, our effective APRU on a daily basis has improved by about 2%. If you are making a comparison year-on-year that will have to be seen for interconnect charges normalization.

Moderator: Thank you. The next question is from the line of Pradyumna Dalmia from Lansdowne Investment. Please go ahead.

Pradyumna Dalmia: I must say I am slightly disappointed today as a shareholder, because of our inability to raise capital over the last nine months or so, especially at a time when our competitors have been successful at raising billions of dollars during this time. And yes, the sector is under pressure, ARPUs are low, AGR dues are there, but that has impacted all the players, maybe us a little more severely than some of the other. But I am still unable to understand, and this is a question I had asked in the last call as well, that why have we not been successful in raising cash and attracting investment at such time?

And also, the kind of commentary that I have been seeing and hearing from the management over the last week or so is a little concerning when it says to the DoT that there are concerns about the company carrying on as a going concern, and obviously, I mean, it is almost inevitable that the company will not be able to pay the spectrum dues that are due in April 2022. So, what happens if there is no relief from the government or the SC on the AGR dues, could you just clarify those points, please?

Ravinder Takkar: I certainly do not want to say much beyond what I have said already, on funding and the timing. All I can tell you is that we are fully engaged with investors, there continues to be interest. We will announce something as soon as the company is in a position to announce. That is the best I can tell you in that regard.

Pradyumna Dalmia: Is there any timeline that we have set or a deadline?

Ravinder Takkar: As I said, no deadline has been set and I cannot talk about the timelines. When the company is in the position to inform and make an announcement, we will make an announcement. But I cannot speculate on timelines for you. In regard to the other questions that you had mentioned on letter to DoT, I explained in the earlier question that was asked, which was, the reason there was a spectrum moratorium given two-years ago was because of the stress in the industry and it is well recognized. And while other players, you are mentioning, are under the same stress and they have raised capital, they are also enjoying the benefit of the moratorium, because they continue to be under stress as well. From that perspective, we are in the same situation. Unless the underlying condition of tariff increases and floor pricing is addressed, which are absolutely important in the industry. These are not somethings that we say, they are said by all the players in the market, representation is done by everybody through the COAI saying that there is stress in the industry and not sufficient returns are being made in this industry. These are issues that impact everybody and they have been mentioned repeatedly. I think it is only fair to say that those issues need to get addressed. Our communication with the DoT is in just that regard to notify them that unless those issues are addressed, the stress in the industry continues, for which potentially a moratorium would need to be extended further. That is pretty much the only thing that we can say, I would not like to talk further about the contents of the letter that we write to DoT in a confidential manner.

Pradyumna Dalmia: Sure. But in the event that the DoT does not grant this extension of the moratorium, and we do not get any relief from the SC on the calculation of the AGR, what is the eventuality? Or what are the options that we are looking at?

Ravinder Takkar: It is very difficult and certainly not the right place for me to speculate on any of those options. We have made it very clear what we have asked of the government. I also have made it clear as to what we have said in our modification application, which is in front of the Supreme Court. Hopefully, the hearing on that will be taking place soon. It is completely inappropriate for me to speculate on what those entities will do in regard to these important decisions.

Moderator: Thank you. The next question is from the line of Sachin Salgaonkar Bank of America. Please go ahead.

Sachin Salgaonkar: Thank you for the opportunity, I have two questions. First question is, what is Plan B if you guys are not able to raise funding? And I am not asking you guys to speculate, but just wanted to understand out here.

Ravinder Takkar: Sachin, if that was the only question that you had, we remain confident that there is an opportunity to raise funding for the company. I do not think at this point a Plan B for funding is needed. We have a plan, we are engaged with investors, we expect this to take place. As soon as it is there, we will report it. But I do not think there is any reason to start creating Plan B because of funding not happening. We are not at that point yet and I do not think we will reach to that point. We are confident that funding will take place in the coming weeks.

Sachin Salgaonkar: Sir, the reason I am asking because there was a media article today which talks about Vodafone Idea mentioning in a letter to DoT that investors are unwilling to invest into the telco until the industry health improves, and hence I am asking that.

Ravinder Takkar: No, Sachin, as you know that media speculates a lot. If I have to start answering every media speculation that takes place, it would be really difficult to do that. I would prefer not to respond to media speculations, stories are written every day, and I am not really sure if we should be responding to every speculation that takes place in the media.

Sachin Salgaonkar: Thank you for that. My second question is, I wanted to actually understand that you guys have been noted as the best network on voice and data. And despite that, we are seeing Vodafone

Idea losing customers every quarter. What could be done more by you guys so that the net add subscribers goes back into the positive territory?

Ravinder Takkar: Yeah, very good question, Sachin. First of all, it is absolutely true, we have been rated the best network. The quality of the network that we provide to our customers and what they enjoy is absolutely fabulous. In many ways, we are very proud of what we have been able to achieve through a fairly difficult and complicated integration of the two companies, and then further refinement and fine tuning and adding of capacity as well as coverage. Once we did the integration and consolidation and we optimized the network, we have also launched our brand Vi, which is a little bit more than six months old. I think it is for people to recognize, customers to recognize, non-users to recognize the quality of our network, the pull of our brand, which is starting to happen, and we are building operational momentum on that. Also, you will notice that for the last two quarters, our customer base has now stabilized, whereas earlier on we were losing significant number of customers. More importantly, the important area of 4G customers, we have now grown consecutively for the last two quarters since the launch of our brand, we are now in a positive momentum. We believe that is the right way to build the forward momentum on subscribers and gain the right type of subscribers in the marketplace rather than just saying that I will add subscribers which are bottom of the pyramid or low value subscribers.

On our 4G additions, as I mentioned in my opening speech, it has been the highest in the last five quarters. Again, we are building momentum there, and the right type customers are coming to the network, they are enjoying the quality the network. We hope that the momentum will continue going forward. Although, obviously, for COVID reasons there are challenges there as well. But otherwise, I think we are going in the right direction. I think this is really an important factor for the company and our focus is very much on operational improvements, on driving the saliency of our brand and a positive pull for data customers going forward. As you can also see, data volume growth is 8.5% quarter-on-quarter, that means, our customers are enjoying better quality data, they are coming to us for the quality of our network, and we hope that momentum continues. Overall, we have shown that our customer base is now stable.

Sachin Salgaonkar: Thank you. One last question is you know about the Jio Google smartphone. Now, when we saw last time Jio launching the feature phone, we saw close to approximately 100-odd million subscribers that the Jio feature phone gained, over a period of 12 to 15 months. How do you look at this phone? Assuming they end up gaining, some kind of subscriber base, last time we did see churn from most of the competitors where it helped Jio. So, how do you look at your base and the impact on that based on the back of the launch of this phone?

Ravinder Takkar: Sachin, again, a very, very important question. Let me start off by saying, it is impossible for me to comment on the phone that they are building. Of course, I do not have any information and knowledge that is not public already. And who knows what that phone will do, what the pricing will be, and so on. That obviously time will tell. I can tell you how we look at this segment and market, and maybe I will take two - three minutes to describe that.

First of all, if you look at the Indian 4G smartphone market, and when I say 4G smartphone market, I am talking about subscribers who use smartphones the way smartphones are designed to be used. If you just have a smartphone, like my mom does, but never does anything with it, other than make a voice call, then you can have a smartphone but does not necessarily mean that you are a user of smartphone. If you look at that market specifically, only 2% of the smartphones that are sold in the market are less than Rs. 5,000. What does that mean? That means if you want to have a good experience on 4G, if you want to use a smartphone for the things that it is made for, which is taking pictures, sending pictures, doing ecommerce, doing other social media type of activities, you need a quality smartphone. Which unfortunately today, in whatever cheapest pricing that you do, is more than Rs. 5,000. In this market, we believe the best option is for us to make decent smartphones available to our customer base. If the OEMs as well as NBFCs allow our customers to purchase these smartphones in a manner which is financially suitable for them, which is on installments that they can buy, they can also buy used phones through our programs in installments. First of all, you provide choice to customer, because having a SKU of one or maybe two does not necessarily give choice because smartphone is a very personal item.

Secondly, it also gives you the ability to choose the price point that you want. Some may want Rs. 8,000, some may want Rs. 10,000 or Rs. 12,000, because you can afford more and you get a good quality phone in an installment basis. This is our belief, in giving customers a choice and the ability to finance, it is the right way of doing it. Rather than a phone which maybe has been pushed to the limit in terms of pricing, then on top of that potentially subsidizing it, you have to put a lot of money on the table. To say that I will pay you or I can subsidise this much for you to take the phone, in our view, it not providing the right choice to the customer. We believe that our model is the right one and that is the one that we are focused on. We are certainly not looking to take a phone and subsidise them heavily to sell as part of our packages. We believe more in giving choice and allowing installments. That is, in my view, the right model. So, that is where our focus is. What they will do, I guess time will tell.

Moderator: Thank you. The next question is from the line of Chen Samuel from Alliance Bernstein. Please go ahead.

Chen Samuel: This is probably less of question but more of a discussion and the thoughts. So far we have heard about quite a bit of APRU pressures and everything else, and this discussion for us has changed to talking about the entry level customers as well. But when I see Vodafone Idea, when I hear Vodafone Idea, the premium brand is the first thing that I think about. If I look at your current subscriber, you have been losing 11% share since the merger, but most of the customer you lost are in a way entry level customers, people pay Rs. 50 to use Jio most of the time. You have majority of the wealthy regions in India.

And if I remember correctly, I overheard on Bharti's call, Vodafone Idea and Bharti jointly together own more than 80% of India's high value customers. The high value customers really are not susceptible to what happened during the pandemic, like the past few months as well. You have the best spectrum asset in India, you have a very good network. When I visited Mumbai, it was an awesome network by the way. Why can't you charge more? And I have heard from Bharti multiple times that they will follow if anybody raise prices. Why can't Vodafone Idea raise price on certain segments where they are less price sensitive? And what are some of the thoughts on increasing those revenues? Because I am sure if you are able to work with your high end customer, getting a little bit of revenue over there, that will also help with the fundraising on your side. Just want to hear some thoughts on your side. Thank you.

Ravinder Takkar: First of all, Samuel, thank you very much for your comments and your observations. In terms of the quality of our subscriber base, the quality of our network, as well as the premiumness of our brand, we feel exactly the same way, as well as the spectrum assets that you have pointed out. I think the debatable question, and maybe this is something that we need to take a little bit more offline as well, because it is a lengthier discussion. The only comment that I can make is that today there are two things that you have to think of, one, which is Vodafone Idea is already at a premium in the market today. It is not that we are at parity, we are already at a premium, so I believe is Airtel as well. That is the first thing.

The second part is from a segment perspective, which is the higher value customer that you talked about in the base and in the market. The postpaid market, which is the high value customer, we are still one of the largest ones in the in the country and Airtel has a large base there as well, that is at a further premium to the prepaid customer. Frankly, from a pricing perspective, we have already pushed the envelope and we continue to raise. We look at opportunities where we can, in particular segments, we continue to raise that. But we have already pushed the envelope for raising prices, because we are already at a premium. And then in HVC, which is a postpaid market, we are further at a premium compared to prepaid. Even though, as you said, there are certain set of people who are completely price insensitive, I think generally the challenge that you end up, and this happens mostly in mass consumer marketing is, that if you decrease prices, it does not matter. It is very difficult to do it only for a particular segment. And if you increase prices, many times if you do not change it for another segment, people do tend to think about downgrading, which in a way does not necessarily lead to the growth that you are looking for. But I agree with you that pricing needs to go up. We are already at a premium, and with the premium set of customers we continue to push this envelope further every time we get an opportunity. But I think this is probably a discussion that we should have in more detail at the right time. I am happy to do that with you offline.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: I have only one question. I want you to talk about the ARPU differential. If I look the competition ARPU, it's significantly higher versus Vodafone Idea's. Earlier there was an expectation that you will basically let go of some low value customer. What is important to note is that this ARPU differential has persisted despite 4G addition, sort of coming your way, at least in last few quarters. What exactly is leading to that is what I would like to know. Thank you.

Ravinder Takkar: I will just start, and Akshaya can add more to it. I think some of the important part is, first of all, our pricing in the market is very similar to the pricing of Airtel. The only reason why our ARPU is lower than them is due to the mix of how many 4G unlimited customers we have in our base versus how many 4G unlimited customers they have at base versus the low end customers. So, it is only a matter of mix. I do not have data on them specifically, but I have no reason to believe given, again, the size of the postpaid base that both of us have, as well as that that from a customer perspective, I do not think there is any reason there should be any ARPU differential with them. It is really purely a matter of mix, so when we report our overall ARPU based on the blended mix, it obviously looks like we are lower than them, which we are, based on the mix that we have. Not that we sell products cheaper or we have a customer base that is lower value for the same sort of services that we offer. I do not know if that answered your question. And Akshaya if you have anything further to add?

Akshaya Moondra: The only thing I will add is that some of it is also coverage related. Where we are not able to increase our 4G subscribers as we would want to, or convert our 2G subscribers to 4G are where we currently lack in 4G coverage and that is an area we will address going forward.

Pranav Kshatriya: Okay. But I just want to gauge, you have talked about the low ARPU customers sort of trimming them and which will drive up the ARPU. And that is why you had earlier basically introduced minimum ARPU plans. But that does not seem to have created too much of an impact, or am I missing something there?

Ravinder Takkar: No, I think as the 4G customers go up, ARPU does go up. Akshaya also mentioned quarter-on-quarter here as well, once you do the calculations on the daily basis, the ARPU this quarter has also gone up. The new additions for broadband 4G customers that come in, they obviously come in at higher ARPU. I think we are not trying to drive away low value customers; I am not sure if our intention is to say we want to drive them away. I think what we want to do is obviously, when they choose to convert from 2G to 4G, we want to be the operator that they choose for that journey. In some cases, they do, as you would have seen in our gain in our numbers. In some cases, if we are in an area where I do not have 4G coverage, because I am disadvantaged today on some 4G coverage, then of course, I do not have that option to retain that customer. But we are not going to drive away any particular low value customer. What we did not want was set of customers who are there who do not pay us anything but end up using the network. Which is why there are minimum validity plans or minimum pricing plans that are there to maintain that. I think that is the best strategy. Hopefully, that helps with the answer.

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

Ravinder Takkar: Thank you, Margreth. To conclude, I think it is fair to say that these are challenging times for our country, as well as for our organization. We are also aware of the duty and the critical role that we play in connecting the nation, and we remain committed to help our employees, customers, vendors, and partners in every possible way. We are also keen to provide uninterrupted services and an exceptional quality of service. We remain committed to be the best 4G network in the country, and in turn also remain committed to our strategic intent. I want to thank each one of you for joining this call. Please stay safe and have a good evening. Thank you very much.

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