"IDEA Cellular Ltd. Conference Call"

October 27, 2009

Moderator: Good evening ladies and gentlemen, this is Melissa the moderator for your conference call. Welcome to the IDEA Cellular conference. For the duration of this presentation all participant lines will be in the listen-only mode. After the presentation a question and answer session will be conducted.

We have with us today, Mr. 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 on this call. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on the call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time.

I must remind you that the discussion on today's call may include certain forward looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this I hand the conference call over to Mr. Sanjeev Aga. Thank you and over to you sir.

Sanjeev Aga: Thanks Melissa, and on behalf of Idea, I welcome all of you to this call. Our board of directors yesterday adopted our limited review results for the quarter, and for the half year ended 30th September. The board of directors also adopted yesterday the annual audited results for the fiscal year ended March 31st 2009. The media release, the quarterly report and the results have all been uploaded on our website.

The July to September quarter is, every year, a subdued quarter for rural demand. This year the seasonality effect was more pronounced because of delayed monsoons in many parts of India. Over the years, Idea is obtaining an increasing share of its total revenue from the rural customer, the figure being roughly 40% now. Consequently Quarter 2 results of the company exhibit the impact of this subdued rural demand. While this has been a significant factor for Quarter 2, it is really of no long term consequence.

I would now turn to two of the more significant long term factors; the first is sector overcapacity and the second is multiple SIM ownership.

It is now widely recognized that 2007 and early part of 2008 were bubble days in the Indian mobility sector. The difference between viable and unviable businesses was blurred and people thought Indian mobility was a rising tide which would lift every boat, notwithstanding significant or enormous difference between companies, in their cost and competitiveness structures. The resultant overcapacity has continued to flow into the sector in the calendar year 2009. The inevitable outcome has been ever lower price points, unrelated to economics. This inescapably points towards a sector shakeout and an eventual reduction in the number of independent operators.

The sector overcapacity has come at a time when the sector has seen, also the emergence of the phenomenon of multiple SIM ownership. In earlier days, this took the shape of one SIM in the handset and one in the wallet, or through the use of dual SIM handsets, but what has given a fillip to multiple SIM usage has been a new device called Dual SIM which is a small strip priced at under Rs. 20. Such consumers no longer have to leave their original operator, whom they may prefer for overall quality, coverage, service and a number of other reasons, but while retaining their old subscription they can toggle on the handset and pursue a price arbitrage just for the outgoing call leg. Therefore traditional understanding of consumer behavior is changing and is also causing a realignment of competitive tariffs. The prevalence of multiple SIM ownership is perhaps 20% at an all India level, but in urban areas it is significantly higher and growing. This phenomenon makes it easier to grab a share of traffic, through cut pricing but by the same token, such traffic can flow away equally easily. The multiple SIM phenomenon, coming together with sector overcapacity, in our view, is only going to accelerate the process of a sector shakeout.

IDEA has anticipated and prepared itself for this phase. The company has been generating cash profits in the region of Rs. 7 billion every quarter and its net debt is a low Rs. 35 billion. Based on its balance sheet the company can comfortably borrow another Rs. 100 billion and also has other asset sources for accessing further funds, if at all, necessary.

Idea is extremely strongly placed in its established circles and has a calculated and measured approach in its new circles. With the launch of Kolkata and West Bengal circles, which happened just one hour ago, Northeast and Assam are the only circles remaining, which will also be accomplished very shortly. This will all make Idea a PAN India operator. The peak CAPEX requirements of Idea are behind us.

Idea is in a battle ready position and expects to emerge from this hyper competition phase with its inherent competitiveness showing through, and its competitive position enhanced.

In conclusion a couple of other points, the CAPEX guidance for the fiscal year 2009 -10 now stands changed to Rs. 45 billion. The reduction is being achieved due to a combination of factors, one of-course has been somewhat slower MoU growth in the first half, but other factors include redeployment of inventory, better commercial terms and a planned increase in capacity utilization ahead of the 2100 MHz spectrum auction.

Finally, I am pleased to inform you that Idea Cellular has been selected or picked by the Economic Times Awards for Excellence Jury, as the Emerging Company of the Year for 2009.

I now request Akshaya to take you through some financial highlights.

Akshaya Moondra: Thank you Sanjeev. Good afternoon to participants from India and a good morning or good evening to overseas participants, depending on your locations.

We continue with our reporting structure of previous quarters. In the quarterly report Idea standalone results include mobile operations in 15 operating service areas i.e. includes all its subsidiaries but excludes the joint ventures of Spice and Indus. However in Clause41 standalone results Idea is referred as a single legal entity i.e. excluding subsidiaries as well as joint ventures. However the consolidated results in both quarterly reports and Clause41 are on the same basis i.e. including all subsidiaries and proportionate results of joint ventures Spice and Indus.

Yesterday along with the quarterly results our board has also adopted audited results for the financial year 2008-09 which include the effects of scheme of demerger of passive infrastructure to ICTIL and also the scheme of arrangement for financial restructuring. I would like to explain these effects briefly.

First, on the demerger of passive infrastructure. The appointed date of the scheme was 1st January 2009; hence for Idea standalone excluding its subsidiaries, March 09 quarter audited results exclude the income from de-merged passive infrastructure as also the depreciation charge from January to March 2009 in respect of the same assets. The revenue for IDEA for March 2009 quarter stands reduced by Rs. 378 million and depreciation is also reduced by Rs. 505 million. There is also an increase in deferred tax liability by Rs. 214 million. These effects resulted in a net lower PAT of Rs. 70 million compared to the un-audited results. On a consolidated basis, the net profit is reduced by Rs. 193 million compared to un-audited results, which is mainly on account of increase in deferred tax liability by Rs. 214 million in Idea standalone.

Also in accordance with the scheme of arrangement of financial restructuring, the non-compete fee of Rs. 5440 million paid as a part of Spice acquisition transaction, is adjusted against the share premium account and this is reflected in the audited financial statements of March 2009.

We now turn to the performance during the quarter, firstly on a standalone basis. As we have seen in the previous years, this quarter is a seasonally subdued quarter. This has also been coupled with the increased competition intensity and delayed monsoons, in this particular quarter. As a result revenue at Rs. 28.9 billion has remained almost flat compared to the last quarter. EBITDA margin for the quarter was down by 1.4% compared to last quarter and stood at 25.3%. This is almost equally because of lower margins in the existing 11 service areas and higher EBITDA losses due to launch of Chennai in this quarter and impact of Tamil Nadu full quarter operations. This EBITDA margin decline is before taking into account the other receipts of Rs. 317 million during the quarter, which represents a one time gain on account of early settlement of Escorts bonds.

Depreciation for the quarter has increased by Rs. 136 million which is in line with the Capex for the quarter.

The net interest in finance cost for the quarter is higher by Rs. 151 million, due to Forex loss of Rs. 38 million during this quarter, compared to a Forex gain of Rs. 125

million in the previous quarter. The net interest cost itself has declined by Rs.12 million in this quarter compared to the previous quarter. The standalone PAT and cash profit for the quarter was Rs. 2.5 billion and Rs. 7.1 billion respectively. With the results of this quarter, Idea including its subsidiaries, has wiped off the brought forward losses of the earlier years and hence you see a positive balance in the profit & loss account.

At a consolidated level, revenue, EBITDA and PAT stood at Rs. 29.7 billion, Rs. 8.1 billion and Rs. 2.2 billion, respectively.

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

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question at this time may press '*' followed by '1' on their touch-tone telephone. If you wish to remove yourself from the questioning queue you may press '*' followed by '2'. Participants are requested to use handsets while asking a question. Anyone who has a question may press '*' followed by '1' at this time.

The first question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you sir, this is Srinivas from Deutsche Bank. I have one question on your opening remarks. You have mentioned that you are looking at a planned increase in capacity utilization of the network, in the run-up to the 3G auction. Just wanted to understand, that would probably also mean that metrics like call drops and all those things may increase going forward and would that have an impact when MNP comes up, let us say in December or January, a timeframe that has been kind of commented by the various industry people?

Sanjeev Aga: Hi Srinivas, no, not at all. The relationship between capacity utilization and call drops is very tenuous, but basically what it means is that normally we get to a capacity which could be either the capacity of the switch or the Media Gateway or the BTS. Typically companies plan capacity increases 6 months ahead or 9 months ahead of time. Now when you have a situation where there is a possibility of a 3G auction and there is a possibility of getting 3G spectrum and 3G equipment, you may like to migrate that extra volume to the 3G equipment rather than adding more 2G equipment. This is a real time adjustment and it takes us not even 3 days, that in case there is a requirement to add capacity. We will not be losing traffic or compromising quality. So this is just, you go a little more real time and adjust, so that you are not saddled with extra 2G equipment, in the event you are going to get 3G. There is no relationship with call drops at all.

Srinivas Rao: Secondly, if I am permitted one more question, your commentary in the release is fairly pessimistic and you have mentioned that the current tariffs have no correlation to the economic. Are you saying that the current tariffs are actually below cost for operators?

Sanjeev Aga: Srinivas, we are not pessimistic at all. I think if you read the commentary or the press release carefully, the present situation was contained in the events of 2007, so if there was any pessimism, it was in 2007. Now when so much capacity is there, you might as well get done with it. We have been ready for it, we are almost eager to get into battle; we would like this process to be brief and decisive. There is a certain inevitability about it for which we are completely prepared or in fact, I would say that we are almost looking forward, because I think after the consolidation phase, we would look to much sunnier days ahead.

Now as far as price is concerned, whether it is sustainable or not sustainable, is a very operator and circle specific answer. The cost equations of different telecom operators in India are so disparate that there could be a tariff which may be viable for some but not viable for many others. So the point I would generally make is that, the present price points may not be viable for a large number of the 14 licensees per circle, but that does not mean that they are unviable for everyone.

Srinivas Rao: Fair enough sir. Thank you.

Moderator: Thank you Mr. Rao. The next question is from the line of Shubham Mazumdar from Macquarie Capital. Please go ahead.

Shubham Mazumdar: Hi, I have primarily two questions. The first is on the thesis of consolidation that you are talking about Sanjeev. I guess it is inevitable, but to my mind there are only three ways in which the entire thing will play out over the next 2 to 3 or 4 quarters or longer, before we get any semblance of rationale or discipline playing out. One is actual M&A and you got actual barriers that have been erected by the regulator, either for existing operators or for Greenfields in terms of that M&A thesis playing out. The second could be in terms of capacity choke-up, so the irrational pricing that is playing out from the Greenfield or the challengers, fill up their capacities that will obviously takeaway that headroom in terms of irrational pricing beyond that point. Both of these to my mind may take at least one, one and half or two years. Do you share that view and any color from you on this thesis of consolidation regarding the shape and forms and also the timelines that it may take, will be very helpful. And where do you think the regulator is vis-à-vis bringing down those barriers that today hinder M&A.

My second question Sanjeev is that the incumbent operators including yourself as also Bharti and Vodafone, have said in the past that you do not really need to match tariff which are below the economic cost of providing services on sustained basis. Today, I think, a few hours back you have probably launched a tariff plan in Mumbai circle. I do not know whether you are going to replicate in another circles or not, where you have joined Tata DOCOMO'S per-second pricing plan. Firstly your thoughts on, why you needed to match DOCOMO with a per-second pricing plan. And secondly, will you replicate it into other circles or not.

Three, what is the kind of ARPU hit that you will need to take based on your assessment of call durations and so on and so forth if you move from a per minute to a per second pulse, thank you.

Sanjeev Aga: Shubham your first question first, you are asking me whether M&A rules will change, I think they will change pretty quickly because there is almost no one in the country who seems to be having a different opinion about it and a consultation paper to this effect is already out. But even assuming the rules do not change immediately, eventually economics will cause them to change. So my view is that M&A rules will indeed change.

I do not really understand this capacity choke-up concept because if capacity is choking up, you can always add capacity. If you do not add capacity, it is because you have decided to give up, which really comes back to a conscious decision. No one knows the result of what this period would be, but I have been one of those, and our company has been one of those, who believe or who expect, where the price drop has been more rapid than people thought, it will accelerate the process of consolidation. I already mentioned to you, the sector overcapacity, the dual SIM, so this in a way accelerates the writing on the wall.

Generally speaking telecom is long gestation, so if you do not know in year one what will happen in year two or year three, you can start making projections. And when a lot of businesses come to a conclusion that not only it may not be sustainable but it may not even make cash profit, that tipping point is normally the beginning of a series of actions which follow after that. My personal expectation is that, that tipping point will happen before the summer of 2010. And after that the rest of the action will play out. I would not like to argue about this because it is one person's word against another and again my view is based on my individual assessment of various companies and various circles and there is a lot of uncertainty ahead. It is quite possible to have a different view, but in our company's view we believe the consolidation is going to happen much more rapidly than people expect, because the issue is not liquidity, the issue is viability.

Your second question was about tariffs. We have different tariffs, I do not have specific knowledge of what we do in a particular circle, this is decided by the local team. But to the best of my knowledge, we have a bouquet of tariff plans, and we are going to be competitive. Obviously we are a strong company and our competitiveness does not mean equality but it means that you are not yielding any advantage to anyone in terms of a value proposition. There is no point in being battle ready if you are scared of battle. This could be the way things are going, pricing is really not in any one person's control when there are many, many operators. In a way this would lead to what I have been talking, things will play out quite rapidly.

Shubham Mazumdar: Sanjeev thanks for the point on M&A. In the scenario of M&A actually happening sooner or rather than later, would Idea Cellular be an acquirer, be more in the acquirer camp or be more of a target? What is your company's view as well as the promoters view, as far as the Birla Group is concerned?

Sanjeev Aga: I cannot answer your second question. I cannot answer for the shareholders of Idea but I think it is highly unlikely. We also do not see ourselves as being an acquirer. I cannot rule out anything, but if you just asking me to make a projection, we do not see (in acquisition) any value either by way of subscribers or processes or brands or spectrum which is really being added, spectrum maybe.

I think, we are going to be really assuming that (in) this period of shakeout, on our own strength, we will go through. It does not matter to us if, in the intervening period of a few quarters, EBITDA or profits move one way or other, because our focus is to win the war and to come out competitively much stronger and that is our real focus and the intervening period of a few quarters is neither here nor there.

Shubham Mazumdar: Right, So basically, if I heard you right, then you are saying that your customer base remaining intact and customer market share is probably going to be ahead as an imperative being put ahead of profit market share?

Sanjeev Aga: Let me put it differently. The profit margin or the return on equity, between those who are behind us and us, should widen and those who are ahead of us, should compress. As you are also aware, we play a two tier game. We are very strong in certain circles and we are very measured in circles where we are new, so that is the real thing, it is not really market share and subscriber, but because all that contributes to this end result. Our own profit may move up and down depending on how the sector is, but we do not have to run faster than ourselves, we have to run faster than others.

Shubham Mazumdar: Great, thank you for your thoughts, Sanjeev.

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

Rajeev Sharma: Thanks for the opportunity, I have couple of questions. Sanjeev when you were seeing some impact from dual SIM, why is then there a hesitation to replicate a 50 paisa kind of plan or a per second billing in the established markets and really, as you said, get into the battle and stop this dual SIM phenomena and stop this arbitrage opportunity and play to your strengths? And the second question is what kind of growth impact you see because of this lower Capex, means there must be some kind of coverage which you are sacrificing so as to get into this tariff war and also the 3G stuff. So which areas where the coverage is not going to be as planned as earlier and how much growth impact consequently? And thirdly is on the cost structure. How do we model your cost structure with the tariff war, are there areas where can you really bring your cost downs on per unit basis or per minute basis or are they largely fixed in nature and at the best, is this the structure, or the total opex would still be there? Thanks.

Sanjeev Aga: Well Rajeev, all pertinent questions. On your first question why there is hesitation; there is no hesitation. But when I say there is no hesitation, it does not mean that one hour later you will find an announcement. There is no hesitation because we are very clear that the months average realized rate and the quarters realized rate and EBITDA for the quarter is unimportant, compared to the big picture. As I mentioned in an answer to an earlier question, we will always be competitive, we may not necessarily have to be equal, but in terms of achieving the end purpose of being competitive, we will ensure that. I expect I have answered your first question.

As far as your second question about coverage, there is no compromise on the strategic game plan of the company. I would go beyond coverage, I would go to other things. For example, in most of our strong established circles, the population under coverage is very high and we are continuing wherever we need to, to expand coverage into rural areas. In new circles, in any case we had a measured approach and whatever we had measured, we will achieve. So that is as per plan. I also gave you the reasons for the lower Capex and none of them had to do with any compromise in terms of long term strategic objectives of the company. Stepping beyond coverage, we are making investments, for example, in brand building, in areas of service delivery, in areas of technology, in areas of IT, many of these will not give results in the immediate quarter but are going to, in the long run, give us efficiencies and cost curves, which will place us ahead of the majority of Indian companies or global companies.

Your last point was about cost. The costs are being examined and re-examined and every time we examine it, we find an opportunity to improve efficiencies, streamline processes. In any case we are aided by scale and as I told you, in another month, we would be an all India operator. So all these things start working to our advantage. Another thing I could just mention is that, today we carry, as on date, about 60% of our national long-distance traffic on our own media. So this is just an example of the strategic things being done and we will keep our quality equation high and our cost equation low.

Rajeev Sharma: Thanks Sanjeev. A follow-up question, we have seen some kind of pressure in the 11 established circles. In one of those, like in Rajasthan, you also replicated the per second billing. This is before RCOM could come in, this is before the Airtel Advantage Plan and before any other further cuts which will be announced over the next 1 or 2 months. If in September itself, we have seen these kinds of flat revenues, you have mentioned you were aided by scale, so will it be possible to continue with that aid of scale. Because that is coming from established markets and there the problem is even going to be larger because dual SIM is going to distort the economics there more than the new circles which are already expected to be impacted.

Sanjeev Aga: Rajeev, we have no problem. The problem, if any, was overcapacity which had its roots in 2007, after that, things are panning out as per our plan. I frankly do not know too much about circle level tariffs and do not make too much of per-second, this is a topical phenomena and in 6 months, no one will even remember it. We have different plans for different segments and maybe we have this plan in some of the circles. I have mentioned to you a while ago that Quarter 2 is not the best quarter, even last year it was a subdued quarter. But having said that, when you have this extraordinary period of over capacity and hyper competition, realized rates are going down. They will not be adequately compensated by minutes of use or by market share because now there are more players. So, certainly any strong player could have some pressure in terms of growth rates, market share or in terms of realized rate. The important thing is not, how you fared compared to a year ago or compare to 2 quarters ago, the important thing is that in this period of churn, among businesses, how you fare compared to others. So long as that quotient is widened, you are doing well and that is what we are focused on. We do not control, as a company, what the sector pricing is going to be or what the sector margins are going to be. Any sector will go through good times and bad times and the important thing is that how you are relatively placed competitively and that is what we focus on and we are very bullish on that score.

Rajeev Sharma: Thank you Sanjeev.

Moderator: Thank you Mr. Sharma. The next question is from the line of Rahul Singh from Citigroup. Please go ahead.

Rahul Singh: Good afternoon everyone, I had two questions. Firstly on the tariffs coming down and bound to come down in the next 6 months, Sanjeev what is your sense on either any last drop of elasticity left to be squeezed out or all drops of elasticity to be squeezed out both in the Local and the STD market, just would appreciate any thoughts on that. And also I might have missed this, there was some discussion on capex but what is the capex guidance for FY10 if any, the revised capex guidance?

Sanjeev Aga: Hi, Rahul, I will not repeat the discussion on capex but the guidance is Rs. 45 billion for the year and the reasons for that have been elaborated a little while ago. I would not repeat it because there are many other people on call, but none of them (reason) have to do with any kind of a cutback. It is all either better commercials or better inventory utilization and better preparation for 3G and so on.

Your first question was about tariffs and whether there is scope for a further drop. Let me give you a very theoretical answer because only time will tell. When you look at tariffs, you look at realized rate per minute, but when the customer looks at tariffs, the customer looks at outgoing call rate; and there has been a sharpish drop in outgoing call rates in the last few months and maybe it will continue. I guess, even though, we may not have dramatic increases in elasticity, but some increase in MoUs at an overall country level, must happen because the drop is not small, it is significant. Telephony has really become very cheap, so I think there will be a drop. There are more players to share the pie, so the entire benefit will not come to the stronger players. But I guess in terms of market share, in terms of market presence, and market strength, as we are going to be competitive, I think we will continue to do reasonably well.

Rahul Singh: Thanks Sanjeev.

Moderator: Thank you Mr. Singh. The next question is from the line of Anirudh Gangahar from JM Financial. Please go ahead.

Anirudh Gangahar: Thank you very much for the opportunity. Two questions, one is moving away from the wireless financials, Indus financials were relatively flat as reported by Idea. I was wondering is there something which is taking shape in the place of the organization coming into its own and taking some more time? And the second question is, if you could mention what is the average call duration in your opinion, given these per-second tariffs plans being in vogue at this point of time, thank you very much?

Sanjeev Aga: Anirudh I do not have the average call duration at the tip of my fingers, but our team has it, and there is no one answer because it is different in different circles. It also changes as subscribers remain longer on the system and we may or may not like to share it, but I would just ask Akshaya to answer your other question about Indus.

Akshaya Moondra: Anirudh your question is that why there is a decline in Indus revenue, is that right?

Anirudh Gangahar: Yes, it is pretty much a decline and the numbers are pretty much flattish, one would have expected them to show an uptake?

Akshaya Moondra: Actually it is like this, on Indus, there have been some revenue reversals which are pertaining to prior periods. Indus currently has about 100,000 towers and about 80,000 plus were taken from existing joint venture partners. Now there was a process of physical verification, reconciliation of these sites, what are the tenancies, so a certain amount of billing was provisional and as this exercise is getting completed, there is a greater accuracy. So I think because of this, there have been some revenue reversals, which has resulted in a decline. If we normalize this then there is actually a revenue increase in Indus.

Anirudh Gangahar: I see. If I maybe permitted to ask one more question. This is on the effective tax rates going ahead given the deferred tax assessment following the demerger of the passive infrastructure for the 9 circles. What would be the typical guidance be, from the management on the effective tax rate going ahead for the remaining two quarters and for 2011 as well?

Akshaya Moondra: We would say that, roughly if you look at the next two quarters, probably the deferred tax charge on the P&L should be similar to what we see in the current quarter, it may vary a little bit, but remain in that ballpark figure.

Anirudh Gangahar: Alright sir, thank you very much sir.

Moderator: Thank you Mr. Gangahar. The next question is from the line of Gaurav Jaitley from Reliance Equities. Please go ahead.

Gaurav Jaitley: Great, thanks for taking the question. On the cost side, a quick question on the network opex. The absolute number actually went down quarter-on-quarter, I was wondering if that was related to the prior answer that you mentioned on Indus, there was a revenue reversal. Was there a similar kind of cost reversal for the JV partners as well, just wondering what was driving that?

Akshaya Moondra: There are few things happening, one is of course you see Indus is now also gearing up and their operational efficiencies are also improving. It has not to do with their revenue reversals, but in terms of certain pass-through which come in the form of energy charges to us, we are seeing an improvement so that is one part. And also seasonally in terms of energy charges following the Q1, which are the peak summer months, there would be some seasonal improvement. More importantly, we have had some better management in terms of some recurring expenses so that has also resulted in some benefit.

Gaurav Jaitley: Okay great. And could you quantify the amount of the revenue reversal on Indus, is that possible?

Akshaya Moondra: No, I would not be able to quantify that. All that I can say is that but for those revenue reversals, the revenue was actually increasing, on a normalized basis.

Gaurav Jaitley: Right, thank you.

Moderator: Thank you Mr. Jaitley. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Good afternoon sir, a quick question on strategy. Does Idea decide a strategy of tariff or of pricing based on its own plan or we are trying to just match upto whatever the industry is doing, in terms of the best plan and maybe move it to new circles? what is the plan ahead?

Sanjeev Aga: It is not just Idea, but every sensible company has its own plan, and the plan has to be in relation with, what it wants to do in the context of the competitive situation. So I can only give you a general answer. Certainly we do not just do what someone else is doing; at the same time we cannot be blind to what others are doing. There is actually, if you ask me, not a hell of a lot of strategy around pricing. It is an overrated tool, because by and large anything you do on the pricing front can be imitated by anyone else within 5 minutes. The pricing, in terms of, doing something secretive or something that cannot be imitated is very unlikely. And one of the reasons that Idea, at least on mass-media like television, never advertises price because there is too much dynamism around pricing, there are 22 circles, they all have different price structures. And pricing is not what you see, there are costs of acquisition, there are dealer margins which are passed on to the consumers, and there are (free) talk times. The net result of all this is quite complicated and what comes into paper is just some headlines, but what goes on behind there, is a lot more complicated.

Vikash Mantri: Thank you sir. Another question on the 3G. Do you think that for the 3G license one has to definitely win in the auction to differentiate going forward and take subscribers away from the tariff based phenomena?

Sanjeev Aga: I would not answer your question, in fact the answer is no. No company in the world will pay any price whatsoever for any auctions. So obviously there is an appropriate price. What that appropriate price is, time will tell when the auction happens. But one of the things about 3G, which is not a secret is that, in India the biggest application for what is called 3G but is really not 3G, it is 2100 MHz, is to make some spectrum available for applications which are presently being done on 900 and 1800 MHz, where the spectrum is a little inadequate, things like Voice and SMS. Of course it will also be useful for 3G Services of which the chief known application is faster internet access. In India given the fact that most operators will give 3G by default to all 2G subscribers who have a 3G compatible handset; I think there are going to be limits to how much one can price 3G Services. And that is the reason I mentioned that freeing up spectrum shortage in 2G is going to be one major reason for desiring 3G.

Vikash Mantri: Thank you sir, that is helpful.

Moderator: Thank you Mr. Mantri. The next question is from the line of G. V Giri from IIFL Capital. Please go ahead.

G. V Giri: Thank you sir. Could we know what the tenancy of Indus Towers currently is? Secondly, when the 3G auction happens, will you be bidding for 3G or WiMAX as well? And thirdly is there a risk where after 3G, if the auctions happens, additional spectrum through other routes like M&A or 2G auctions or allocation, goes on a slow track and becomes a non priority? Does incremental spectrum beyond 4.4 Megahertz matter to you?

Sanjeev Aga: Hi Mr. Giri, Akshaya will answer on tenancy but let me take your second and third question. We will not be able to share what we will bid for 3G or what we will bid for WiMAX because naturally this is proprietary information. But yes, on your other question, that is there a risk or a possibility that there could be other sources of spectrum which may come up either through merger and acquisitions rules being changed or through fresh spectrum being released by Defence in other spectrum bands. Since spectrum is largely fungibl**e,** therefore the supply and demand equation is not very well known at the time of auction. So is that a risk? Is that a factor? Very much so. And that is a reason, at least our company, had advocated to the government that the sensible thing is to clear up the spectrum policy and the M&A rules first and do the 3G auctions immediately thereafter, but the government is following a reverse schedule, so we have to live with it and we will factor this uncertainty into our bidding.

Akshaya Moondra: On the Indus Tower tenancy, as of September, it is 1.63.

G. V Giri: Okay thank you very much.

Moderator: Thank you Mr. Giri. The next question is from the line of Sanjay Chawla from Anand Rathi. Please go ahead.

Sanjay Chawla: Hi, good afternoon, thank you for the call. Just one question I had on the MoU trend. You attributed some of the MoU drop in the last quarter to seasonality as well and coming into this quarter at least for the month of October given the festival season and the fact that you have also reduced tariffs significantly, have you seen a better trend in the MoU per subscriber, in the last one month at least?

Sanjeev Aga: Sanjay broadly yes, but I would not like to elaborate any further. I would like to caveat everything about the future by saying that these are uncommon times. You might have some change on pricing which may result in a change in share of MoU. These are times where the whole industry is going through a bit of change. We, as a company, while we watch and while we act, with a hawk-like intensity, are really not too worried if on a month-to-month basis or quarter-to-quarter basis things go up or down. The important thing, I keep saying is that, how are we positioned to come out on top and that is what we focus on. On that score I think we are very pleased with the way things are going.

Sanjay Chawla: Thanks for this. One more question on the outlook on pricing, for example, my question is really the fact that once you reduce price drastically, as it is happening now in the industry, you may never be able to get the pricing up? Is that also a factor while you are deciding to react to the competition or the industry pricing?

Sanjeev Aga: No, Sanjay that cannot be a factor. I have no doubt, although it looks very far fetched today, but I have absolutely no doubt that at this point of time, when pricing is not related to economics for the majority of players, that when this phase is over eventually, in every market, in any part of the world, over a period of time, pricing has to give a return on equity for efficient players. There is no question that the sector will permanently be operating at low return on equity. These are abnormal times and do not make extrapolations from what is happening in a particular month or a particular quarter. Look at the big picture; this is a period of change, try and see where this change is going to lead. I do not know how costs will be one year from now or two years from now, but I have no doubt that once the (player in the) sector thin out, you will find pricing coming back, to levels which gives adequate return, for those who are efficient, and for those who are inefficient, there is no shelter.

Sanjay Chawla: Now obviously if you take, let us say, the example of a company like Idea, with a pretty significant scale of operation and the brand power, in a stable environment, at what ARPM level do you think, you would be able to make acceptable level of returns?

Sanjeev Aga: Sanjay I cannot anticipate what will be the cost structure one year from now and how many players will remain one and half year from now. And by that time, maybe 3G is also in the market. All I can say is that in the long-run, in every market, anywhere in the world, the pricing gives a reasonable rate of return, either profit margin or return on equity to the efficient and the surviving companies and that would be the case in telecom also. Now what that number will be, it is very hard to say. But any extrapolation, just because prices have dipped so far, and to assume that prices will go below zero, is not realistic. They may go down further, it does not matter, but they will eventually rise and that eventually may not be many years, it might be much sooner than people think.

Sanjay Chawla: Sure, fair enough, thank you for your thoughts.

Moderator: Thank you Mr. Chawla. The next question is from the line of Surabhi Chandna from Morgan Stanley. Please go ahead.

Surabhi Chandna: Yeah thank you for the opportunity. I had a question on the capex. Does 45 billion guidance, include any share in Indus that you may have? Thank you.

Akshaya Moondra: No Surabhi, it does not include. It is just Idea and Spice.

Moderator: Thank you. The next question is a follow-up from the line of Shubham Mazumdar from Macquarie Capital. Please go ahead.

Shubham Mazumdar: I am not sure I have picked that one up right. Did you answer the question on 3G versus WiMAX strategy? Someone asked on the call as to whether you see any role for yourself, as a WiMAX bidder, at all for the mobile WiMAX spectrum that the government is putting up for auction. And I have another question as a follow up.

Sanjeev Aga: Yes Shubham, I answered it. We are evaluating both of them but I would not be able to share our company's view because this is an auction and you cannot show your hand in advance.

Shubham Mazumdar: Sure. And my second question is really with regard to the new circles. In the new circles, we have had some sort of breakeven guidance or color from you in the past. In light of what is actually happening, especially given that in the new circles and in the potential new launches or in the recent new launches, what is the kind of EBITDA breakeven timeline one should be working with, in light of these changes, because in these markets your positioning is far weaker than where you are on the incumbency circles?

Sanjeev Aga: Yes Shubham, we had answered this in earlier calls and in earlier conversations. We had mentioned that our approach in many of our new circles, it does not include every circle, for example in Bombay and Bihar we have a very different approach, but in many of our new circles, we are a little more measured, little more calculated. I think earlier we had mentioned that profit breakeven maybe 3 to 3.5 years from launch and cash breakeven approximately 18 to 27 months from launch, is the kind of band in which different circles fall. Someone does it a little earlier someone does it a little later. In some cases we are in a position to come to cash breakeven but we may deliberately, if we believe, we are getting good traction, go in for a little more expansion which may push that delta by a quarter or so, but that is the kind of general timeline.

Our investments in new circles is largely behind us because, only circles which remains is now Assam and Northeast, which is not launched and therefore its Profit and loss is not captured, in the quarter's results, but it will be in the Quarter 3 results. Our investment in these new circles is designed and managed in a way that it does not, in any way, disturb or impede the overall momentum with the larger company. So that is about the answer that I can give you.

Shubham Mazumdar: And finally very quickly on mobile number portability. How do you see it panning out for Idea Cellular, specifically as a company and would you have any color that you maybe able to share on what is the kind of concentration that you have from a revenues perspective from post-paid or specifically the corporate market?

Sanjeev Aga: For Mobile number portability, Idea is one of the companies which in technology terms, is among the 2 or 3 companies, which is most ready. It appears to be that MNP is getting slightly delayed because unless everyone is ready across India the process cannot start. MNP is underestimated, people think of it as a toy, but to install MNP, every IT system of the company gets touched. So the investments and the work it requires at the back-end is enormous, it takes months and months and large number of people. We are among the companies which are sort of ahead of the curve in terms of readiness.

Now your second question is about what impact it has. In my opinion it will have a very small impact in India because not more than 10% or 12% of revenue pertains to subscribers who see MNP as an event. While these are high profile and vocal people and urban people, but they are not representative of the larger market and therefore MNP's ability to change the competitive landscape is negligible. Having said that, generally speaking, across the world, companies which are well prepared are ready and which are strong, net-net end up gaining marginally and we think in terms of market share we will be either quits or slightly better off.

Shubham Mazumdar: Okay, thank you so much Sanjeev.

Moderator: Thank you Mr. Mazumdar. The next question is from the line of Nikhil Pahwa from Medianama. Please go ahead.

Nikhil Pahwa: Hi Sanjeev, just wanted to get a sense of what percentage of your overall revenue is from SMS. We get that number from all the other operators, could you share that? And also just wanted some color on, how you view value-added services as a differentiator in the market given that the price, well I think everyone thinks just about the same thing, does not seem to be emerging as quite a differentiator anymore, thanks.

Sanjeev Aga: I do not remember that we were giving SMS and have not given it this time, I think we never did. But roughly speaking our value-added services contribute about 11% of our revenue. Within them SMS is, very broadly and I do not remember exactly, about 40% of the VAS contribution. Now value-added services as a percentage of revenue is growing in the last few quarters that is really because to some extent value added services grow independently of Voice revenues. They are not completely independent because after all it is the same subscriber set, but it is not a one to one correlation. Also the price wars that we are seeing in the Voice side, you do not find a similar pattern on the VAS side and that is another reason why as a percentage they are growing. Having said that, while they are of increasing importance, no one in India has VAS contribution very dramatically different from 11% or 12%. So while these matter on the margins, these are not game changing in terms of their potential right now.

Nikhil Pahwa: But do you see them becoming significant for either subscriber retention or for subscriber acquisition?

Sanjeev Aga: Over a medium term yes. But if you are asking me a forecast for the next 2 to 3 quarters or 4 quarters, I do not think these will have a game changing influence. But if you are talking of the change on the content side, technology side, user adoption side, over a 3, 4, 5 years' period, yes I think value added services would play a much bigger role.

Nikhil Pahwa: Great. And any color on the mobile internet adoption amongst Idea subscribers?

Sanjeev Aga: I do not have the numbers but we have a very good GPRS services and we have pretty encouraging strong usage of our Data Cards across India. I can give you the numbers offline, I do not have them ready.

Nikhil Pahwa: Thanks I will get in touch, thank you.

Moderator: Thank you Mr. Pahwa. The next question is from the line of Sameer Naringrekar from BNP Paribas Securities. Please go ahead.

Sameer Naringrekar: Good afternoon Mr. Aga. Just one quick question regarding the coverage advantage that incumbents have over new entrants. Most of these new entrants are pretty much talking about a PAN India coverage with about 55,000 cell sites on 1800 MHz. Do you believe that this is adequate enough to provide PAN India coverage or can you quantify what kind of advantage you would have in coverage over these new entrants, in terms of, the depth of coverage in the Indian market?

Sanjeev Aga: The first thing is, whether all the new entrants will get to 55,000 or the process will gets aborted or checked mid way, in my opinion both will happen. Just to give you a sense the company like ours has, if I remember right about 58,000 cell sites as on date, and this includes Spice, in that ballpark. It includes lot of circles where we have 900 MHz, the majority of these cell sites will be 900 MHz circles.

We are not all India in terms of coverage, by a distance. This does not include West Bengal, if I include West Bengal that number will go up, but that has happened during the current quarter, even J&K has happened during the current quarter. As an end of last quarter, we had about 58,000 cell sites as on September end, of which large number was in 900 MHz and with that a lot of the country was not covered. J&K was not covered, Bengal was not covered, Assam and Northeast was not covered. So obviously in 55,000 you cannot cover India.

What you are seeing is a very funny trend, you are seeing a polarization that in urban areas, small towns, big towns you are seeing 8, 9, 10 operators and many of the newer entrants and we are also new entrant in some circles. It is not one new entrant so there are several new entrants who have to compete with each other. But in rural India, I do not see much increase in competitive intensity in terms of coverage, you might have increase in competitive intensity because the price which drops in the urban areas may drop across the board, but in terms of more capacity, I don't think rural India will see much change even in the future.

Sameer Naringrekar: Okay thank you Mr. Aga.

Moderator: Thank you Mr. Naringrekar. Ladies and gentlemen due to time constraint that was the last question, I would now like to hand the floor over to Mr. Aga for his closing remarks. Please go ahead sir.

Sanjeev Aga: Thank you all of you for having joined us on the call. I have, more or less in my opening remarks, mentioned that we are going through changing times, and at least in our company when times are changing, we recognize the change in paradigm and we discard old methods of looking at markets, looking at the sector and we try and prepare ourselves for what is new. The only point, what I would like to reiterate is that at this point of time, numbers for a particular month and particular quarter end up becoming non-representative depictions of what the future may hold. The real game is what is happening in terms of long term competitiveness, long term cost equations, long term pricing power, scale and spectrum, and that is where I think the game lies. But I expect with every passing quarter we will see greater clarity. Our expectation is that in 2010, in the second half or from the middle of the 2010, the picture will start becoming a lot clearer. Thank you so much for being with us on the call.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of IDEA Cellular that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.