Vodafone Idea Limited Earnings Conference

May 14, 2019

Moderator: Good afternoon, ladies and gentlemen. This is Janis, 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. Balesh Sharma – CEO of Vodafone Idea Limited and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited, along with other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking 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 include certain forward-looking statements and must be viewed, therefore, in conjunction with the risk that the company faces.

With this, I will hand the conference over to Mr. Balesh Sharma. Thank you, and over to you, sir.

Balesh Sharma: Thank you, Janis. On behalf of Vodafone Idea, I welcome all the participants to this earnings call. Yesterday, on 13th of May 2019, our Board of Directors adopted the audited results for the fourth quarter and full financial year of 2018-2019. The detailed press release, quarterly report and audited results have been uploaded on our website. And I assume you had a chance to go through the same.

Similar to the last earnings call, I will first share an update on the various strategic initiatives we have undertaken, followed by operational highlights for the quarter, after which I will hand over to Akshaya to share the details on company's financial performance for the fourth quarter and for the full year.

Let me start by reiterating our five pillars of strategy, that was shared with you in November analyst meet, then again in the earnings call in February, and in the meetings thereafter. The five pillars are as follows:

- **Pillar one is 'Accelerate the Integration'**; When we announced the merger two years ago, we said it will take four years for integration completion, we then gave a guidance that we will be able to achieve that in two years, i.e by FY21, we will have the full benefit of Rs. 84 billion cost synergies that we talked about. The focus remains on how quickly can we achieve it, how can we fructify integration, and therefore bring out the benefits of integration in terms of customer experience on capacity and coverage, and in terms of cost reductions.

- **Pillar 2 was about 'Prioritizing the Investments'**; identifying geographies which are profitable for us, where most of our profits and revenues reside, and ensuring that we create fortress or moats around customers in these geographies. We are also working in geographies where we can take out the costs by rationalizing one of the two networks as quickly as possible.
- The third one is about, **'Driving ARPUs through Simplification'**.
- Fourth one was about **'Focusing on Fast-Growing Revenue Streams'** and focusing on partnerships to drive value for the customers, for the value chain and for ourselves.
- And fifth and last pillar was about **'Strengthening our Balance Sheet'**.

Our core strategy remains the same which forms the blueprint basis which all the initiatives were undertaken in the quarter. These initiatives are focused towards improving revenue, profitability, cash flows and our competitive position in the marketplace.

Let me elaborate on the progress on each of these five pillars:

The first pillar on radically accelerating the integration. We continue to execute network integration extremely well, which remains our key focus area. We have successfully consolidated spectrum and radio access network in 10 service areas of West Bengal, Andhra Pradesh, Haryana, Madhya Pradesh, Himachal Pradesh, Assam, Northeast, J&K, Bihar and Punjab. We have also completed the integration activity in parts of the Delhi circle, basically the trans-Yamuna or East NCR area. Customers of both brands in these areas now enjoy a unified network experience across 2G, 3G and 4G networks.

In addition, we are offering unified 4G experience in Bangalore city and in the entire Orissa circle. In other circles, network integration is taking place on a cluster by cluster basis and subscribers of both the brands are gradually moving to a much larger and better network. In addition to the spectrum consolidation in the 10 circles, we have refarmed an additional carrier from 2G or 3G to 4G in six circles. In the remaining circles, we are in the process of refarming spectrum to deploy additional 4G carrier. The process of network consolidation and spectrum re-farming has enhanced network capacity by 34% in these 10 service areas where network integration is completed, leading to improved customer experience.

Further, we have enhanced capabilities of some of our 900 MHz sites through dynamic spectrum re-farming in the service areas of Kerala and Delhi. We are in the process of extending 900 MHz 4G offering to other service areas also. We have also re-farmed 2100 MHz spectrum from 3G to 4G in select sites, where it makes sense or where we saw opportunity right now.

As a result of our focus on accelerating network integration, we have optimized the loading on 24,000 sites out of the total 66,000 co-located sites by Q4 end.

All the network integration activities that I just highlighted, have happened during the quarter, and thus the benefits of these activities in terms of improvement in our key network and operating metrics will happen with some time lag. That said, there are early signs of encouraging results in some of these areas, such as improvement in Net Promoter Score and ramp-up in data consumption in the circles and areas where the integration was completed few months back.

For example, West Bengal circle, which was the first circle to be integrated, the performance has been better than the overall average of the company on many metrics –

- In West Bengal, the data volume in the quarter increased by 14.5%, versus an overall increase of 9% at the Company level.
- Revenue growth in the West Bengal is significantly higher than the overall revenues in the country, which is flat (+0.1%).
- The NPS has improved significantly

All this is on account of network integration, leading to much higher capacity, improved coverage for one of the two brands, and thus improved download speeds. We are happy to report that in West Bengal, we are the leader in the download speeds as measured by the third-party apps. The lead on the data download speeds has impacted NPS and has led to the data volumes going up, and therefore revenues going up in West Bengal. Our belief is that as we go and integrate our network across the country in a similar fashion, the improvement in network parameters and customer experience with some time lag will follow and therefore revenues will follow through.

If you look at the third-party crowd sourced reports, our download speeds in almost all of the integrated circles have considerably improved. We have also improved our speed ranking by one or two positions in 7 out of the 10 circles where we have completed the integration. Further, in some of the large cities or clusters where integration is in progress or completed, we are witnessing significant improvement in network. We believe we should witness similar trends in other geographies, which have recently been integrated or are in the process of getting integrated.

On operational integration, we had completed consolidation of zonal and circle offices across all 22 circles in Q3. This quarter, we have completed the targeted integration of our distribution network, retailers, service stores and service centers.

During the quarter, we have entered in a strategic partnership with IBM. As per the multi-year agreement, IBM will manage, enhance and operate the IT environment for Vodafone Idea across the country. The deployment of IBM's future fit technology will enhance the company's digital transformation and will deliver further cost savings for the company.

To summarize update on integration, we are moving at a great pace and we are happy to report that we have already achieved 60% of our targeted synergies within first seven months of merger completion.

Moving on to the Second Pillar on Prioritizing Investment to the profitable areas. As previously shared, instead of conventional approach of focusing on service areas, we have drilled down to the district level or next level of granularity, and segregated the districts in the country based on their growth potential and revenue and EBITDA contribution to our company. The high potential districts which are part of Quad A and Quad B, our key focus areas is to target 95% coverage, and therefore provide superior customer experience and gain more than fair share of the market.

We have added 8,915 4G TDD sites during the quarter to augment 4G capacity and most of the deployment of capacity has been in these districts. We have also added around 2,000 massive MIMO sites during the quarter, and that momentum on TDD and massive MIMO continues as capacity building continues into the next fiscal. As we speak, we have deployed over 4,650 massive MIMOs, which I think is potentially the third largest deployment of this technology anywhere in the world. We are also adding small cells to improve our coverage in dense urban areas.

While our TDD site counts have increased, unique broadband locations and broadband sites have declined this quarter as they are in the process of redeployment. We talked about the process that we go cluster by cluster creating capacity on one site, take the load off the second site to the first site or the retained site, then re-deploy or take off the equipment of the second site. The redeployment on the new sites or uncovered areas is still on the way, and therefore, you see a slight reduction in the number of broadband sites. Once the redeployment exercise is completed, the overall broadband site count and subsequently the population coverage would improve significantly. Our 4G population coverage stands at 65% as of March 31, 2019, compared to less than 50% coverage for each of the brands in August 2018. This means, on 4G we now provide incremental coverage to 281 million Indians for the Vodafone brand and 187 million Indians for the Idea brand since the merger. We continue to focus on our target to have over 1 billion people covered on our 4G by end of the FY20 fiscal. We are thus well set to achieve 4G coverage of more than 95% population in the high potential districts by March 2020.

We are also progressing well on capacity creation front with aggressive deployment of TDD and massive MIMO. As a result, during the quarter, we carried nearly 33 billion MB of data per day with average usage per broadband subscriber of 9 GB/ month now. We intend to increase our capacity to 2.5x that of September 2018 by March 2020.

In the non-profitable districts, given that the capacity utilization is low on either both networks or one of the networks, we are in a position to do rapid consolidation of the traffic on stronger network and rationalize weaker of the two networks. As of March end, nearly 80% districts in Quad D have already been consolidated. This quarter, we exited ~9,900 low utilization sites. This exercise enables us to reduce operating expenses as well as improve the coverage and experience for the weaker of the two networks earlier, without impacting customer experience for the stronger brand, and therefore we continue to have revenue from both the brands. As we stated earlier, the attempt here is to have two revenue streams with one cost line, and get these districts which are typically EBITDA negative to turn positive. We are tracking very well on this pillar of strategy as well.

The next pillar is about ARPU improvement via simplification, rationalization and up-selling. In line with our stated strategy to simplify customer offerings, in Q3, we had discontinued various recharge vouchers and launched standard minimum recharge vouchers at the price point of Rs. 35, Rs. 65 and Rs. 95, giving bundled voice and some data to the consumer for 28 days. The minimum recharge plan, as expected, led to decline of 53 million customers this quarter, taking our subscriber base to 334 million. However, most of the subscribers who exited the network were either incoming only customers or with very low ARPU. As a result, the overall ARPUs have increased sequentially from Rs. 89 in Q3 to Rs. 104 in Q4, a growth of 16.3% QoQ. We had implemented this strategy in some markets in mid-September and in the rest of the country in late October/early November. We have witnessed customer losses or SIM consolidation as expected, and that is clearly reflecting in the ARPU upliftment this quarter.

This quarter we also introduced Rs. 119 plan or voucher to the mass market, with an aim of targeting the non-data users and encouraging them to upgrade to unlimited plans. The response on this has so far been very good. As these users start using 4G data, we believe they are potential customers whom we can target to further upgrade to higher ARPU unlimited plans with daily data allowances.

The Fourth Pillar - focus on fast growing revenue streams and partnerships to drive value, is another important aspect of our strategy. Vodafone Idea continues to maintain leadership in the enterprise mobility space, with focus on growing segments of IoT solutions, cloud offerings, carrier services, etc., leveraging Vodafone Group's global enterprise relationships. We have progressed well on these fronts.

On content, our strategy remains the same. We will continue partnering with the "best in-class", rather than trying to own the value chain. Our list of partners includes names like Netflix, Amazon Prime, Sony, Zee, EROS, Sun, Shemaroo, Hoichoi, TV Today, Discovery and the list is growing longer by the day. We are in the process of sun-setting the Idea Music, that has progressed as well and we will soon be coming up with an offering which will provide "best-in-class" music streaming services. We will keep you posted on the progress.

Our strategy on partnership extends way beyond content. We have partnered with various financial service providers, ecommerce retailers like Amazon, and we are looking at partnerships with all the adjacencies, leveraging the opportunities that are opening up. The philosophy here continues to remain the same that we focus on our core, which is really our mobility customers and taking care of those customers, and bring the best in class services and products to our customers by partnering with the best of the world.

The last pillar of our strategy was 'Strengthening our Balance sheet'. This quarter we concluded the mammoth exercise of closing rights issue of Rs. 250 billion, the largest ever in India. We witnessed strong participation and the issue was oversubscribed by nearly 1.2x by non-promoter shareholders, a clear demonstration of investor support to our strategy.

On the other hand, the merger of Bharti Infratel and Indus Towers has received approval from the Competition Commission and SEBI, and is expected to close in the first half of current fiscal, in the coming months. Separately, the company continues to pursue its plans to monetize over 158,000 kilometers of intra-city and inter-city fiber assets that we have.

Moving on from the strategy to the operational highlights for the quarter:

The introduction of 'service validity vouchers' on national basis in Q3 had a positive impact on revenue and ARPU. Revenue for the quarter was up 0.1% compared to a decline of 2.2% in Q3, and 7.1% decline that we witnessed in Q2. The average daily revenue for the quarter was positive at 2.3%, following 11 consecutive quarters where the daily revenue had been declining.

On the 4G front, we added 5.4 million 4G customers, taking overall 4G base to 80.7 million. As we continue to improve our 4G coverage and capacity through network integration and fresh capex, we expect to build up on the positive momentum and gain higher share of 4G customers.

To sum up, on all the five pillars of our strategy, we are progressing well, in line with the plans and in line with the targets that we have set for ourselves.

With this, I hand over to Akshaya who will share the financial highlights for the quarter.

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

As explained by Balesh, the positive impact of our strategic initiatives have started reflecting in the financial results. After a successive decline over 11 quarters, we have witnessed positive daily revenue growth during the quarter. The revenue for the quarter was Rs. 117.8 billion as against Rs. 117.7 billion in Q3FY19.

Following our strategy of accelerated integration, we have achieved significant cost reductions. Our overall operating costs, excluding license fee and spectrum usage charges and roaming and access charges, have reduced by Rs. 12.8 billion post-adjustment for certain one-offs, inflation driven cost increases and incremental network rollout as compared to Q1FY19 pro-forma operating costs. This translates into annualized cost saving of about Rs. 51 billion, which is around 60% of our stated synergy target of Rs. 84 billion.

As a result, EBITDA for the quarter improved by 57% to Rs. 17.9 billion, with EBITDA margin of 15.2%. However, adjusting the impact of one-offs of about Rs. 2 billion in the quarter, EBITDA stands at Rs. 15.9 billion, an improvement of 40% compared to Q3FY19 with normalized EBITDA margin of 13.5%.

The 'Depreciation and Amortization' charge for the quarter stands at Rs. 46.6 billion, and 'Interest and Financing Cost (net)' stands at Rs. 27.9 billion. The 'Interest and Financing Cost (net)' has increased by

Rs. 1.8 billion, mainly due to higher net debt, lower forex gain and lesser interest capitalization compared to last quarter.

Exceptional items of Rs. 11.5 billion during the quarter, mainly include integration and merger related costs of Rs. 5.7 billion and non-cash impairment charge of Rs. 5.1 billion on certain equipment. The impairment charges represent the WDV of equipment, which is becoming surplus on account of ongoing network integration.

Post-finalization of contracts with network vendors during last quarter, we have ramped up our rollouts. Capex during the quarter was Rs. 32.3 billion. The pro-forma capex for FY19 now stands at Rs. 102.2 billion. The combined capex guidance for FY19 and FY20 remains at Rs. 270 billion.

Our net debt as of March 2019 stands at Rs. 1,183.6 billion as against Rs. 1,149 billion in December 2018. The cash and cash equivalents balance as at March 2018 is Rs. 75.5 billion.

We successfully completed India's largest rights issue, raising Rs. 250 billion of equity. The strong participation from public shareholders resulted in 1.2x subscription for the public component of the issue. Post-rights issue, the pro-forma adjusted net debt would be Rs. 933.6 billion, resulting in net debt to equity ratio of around 1.1.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: Thank you for the opportunity. I have three questions. First question, just wanted to confirm what you mentioned last time that most of the subs' rationalization is behind us and going forward we should see positive net adds. On SIM consolidation, in this quarter if 53 million subscribers have left the network, what is your sense, most of them actually consolidated usage on the other SIM which is on your network or your peers' network?

Question number two is, if I look at your broadband sites, they went down QoQ. Should we consider the current number of broadband sites as the new normal or should we see a reduction from these levels? I do understand you are closing/removing some of the low utilization sites.

And thirdly, on the cellular revenue growth, if you look at your peers' growth, your growth is much slower. Just wanted to understand from your point of view, your assessment on what exactly happened in the quarter and how should we look at it going forward?

Balesh Sharma: Thank you, Sachin. Let's start with the first one on the SIM consolidation or the subscriber consolidation subject. As I have stated, we had rolled out most of these changes across the country in late October/early November. There will remain a set of customers and segments that will be increasingly brought into the fold, and may have not yet gone into the fold of new tariffs, because of various regulatory requirements. Therefore there will be a residual impact of new customers who have not yet got into the minimum recharge fold.

Second, the impact was mainly in December and January when the majority of the subscribers made their choice in terms of consolidating their usage on one of the SIMs. There has been a reduction or tapering down of churn since then, but I wouldn't say it is fully gone. We have to wait and watch the behavior of these new customers because of the dynamic marketplace, and we are yet to see the behavior of the people who have taken Rs. 35 plan for the first month or two. I will not be able to give you a short-term guidance, but a bigger part of it is for sure behind us, and the churn is improving.

Where have they consolidated their usage to? Given our market share, we would have gained in one of the two brands, but some of them could have chosen another service provider. Likewise, because simultaneously there was a change done by one of my competitors, there also I would have gained with the SIM cards consolidation on our network.

On your second question on number of broadband sites, we stick with our guidance originally given, everything else is transitory. As I tried to explain in my narrative, the transitory nature means that if I have de-loaded the equipment from our site, there is a lag before which it pops up into another geography where I need to load that equipment, and therefore you see some movements on the broadband site numbers. On broadband sites when we met in November, we said that there will be around 200,000 sites after removing the co-located sites, converting from dual tenancy to one tenancy. We said, from there we will additionally remove around 22,000 base stations, and the numbers come to 178,000-180,000 base stations. Ultimately, all of these sites will have 2G and 4G. Our guidance has thus not changed and we are building towards exactly that. As we have already stated earlier, our plan is to complete most of our network integration by March 2020, and all of it by June 2020. We are very confident of achieving that given the progress over the first seven months.

Lastly, on your question about relative performance on revenue versus the two industry peers. This I see more as a time lag, as we are were about four quarters behind in 4G coverage and capacity creation. We are trying to gallop as fast as possible to catch up on that, especially on the capacity side. In the focus markets of ours, the Quad A and Quad B markets, we are trying to build up as much capacity as we can even if the integration has happened or not happened, and catch up on the gap in these markets. Net-net, we grow our coverage and capacity over a period of time, and with that our competitiveness should increase and therefore our performance should come more in line with other industry peers, or better in the market, depending on the strength in the markets that we have.

While we are behind on 4G coverage and capacity on one end, we are busy doing the integration not just of network, but the entire distribution network across the country. That is a very complex exercise; it sounds easy from sitting here and saying the distribution has been integrated. But in the field, every distribution territory and all retail relationships have to be redone. It obviously will take some settling down time. Very soon, since the distribution integration is already behind us, it will be business as usual with stronger of the two distributors being retained giving us a much better distribution muscle. With network getting integrated, coverage and capacity comes up, experience improves and our competitive performance improves.

Sachin Salgaonkar: This is very clear, Balesh. One short question for Akshaya, last quarter you did give the amount of net IUC, can you update on that figure, what is it right now?

Akshaya Moondra: Last quarter we had given a quarterly figure of about 4.5 billion, and that has come down to a little over 4 billion now. There is a decline in the impact of IUC becoming zero.

Moderator: Thank you. Next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Thanks for the opportunity, three questions. First, Airtel seems to have raised postpaid tariffs and they also seem to be making an effort to increase ARPU by bundling insurance and content. Have you made any tariff changes on the postpaid side? Can you share your plans on premiumization?

Second, you still have approximately 190 million customers who are not using data, can you give us a sense on what are the most popular plans amongst these customers? Are a vast majority of these customers on the Rs. 35 plan?

And thirdly, you already achieved Rs. 51 billion of synergy benefits. Do you see upside to your target synergy benefit of Rs. 84 billion? That's it. Thank you.

Balesh Sharma: Thank you, Kunal, for your questions. First on postpaid, I read as much as you did the Airtel's announcement this afternoon on the postpaid price revision. If I understand correctly, they have removed the lowest plan, which was the Rs. 299 plan from their tariff portfolio. We continue to still have the Rs. 299 plan. Looking at the opportunity and the competitive position in the market, we might decide to move in some markets first, and then later in some others, but I am not yet sure of the same because this is a recent development.

On postpaid, all this while for the years that the industry existed, postpaid was being sold as a proposition that at a particular level of usage becomes cheaper than prepaid, which typically is not the case any longer with the unlimited prepaid propositions that have been in the market for over two years. Therefore, postpaid now becomes a proposition of giving more value to the customer, with content premiumization through service offerings, premiumization through various kinds of bundling, and we have continued to do that. In fact, to remind you, we were the first ones in the country to bring Netflix and offer that exclusively for the Vodafone Red customers. Similarly, we continue to build our repertoire of content. Right now, only some part of the content is differentiated between our customers, either premium customers or otherwise. We believe, if I am getting a content deal that's good, I should extend it to most of my customers and get them on to the content bandwagon first.

However, we continue to build value on postpaid customers through content, through other things like Red Shield on Vodafone's side and similarly a handset insurance on the Idea's side, which is available and bundled for a certain set of customers. We have got Amazon prime bundled for certain set of customers. We will thus continue to create value for postpaid.

On postpaid what we have also done a few quarters ago, and we keep building on that every now and then, is to make the proposition stronger on family plans. We realized that there were families where there were one or two postpaid users and there were some prepaid users. We tried to get all of them together under one umbrella, Single Family plan that gives a great value to the customer, and leads to better stickiness for us. That seems to work well, and we try to power that up every now and then and maybe soon we will be doing some more additions on to that.

On your question about non–unlimited, the most popular plan as you expected is the Rs. 35 plan, but there is a clear laddering that gives the customer lot more benefits when he moves from Rs. 35 to Rs.

65, Rs. 65 to Rs. 95, Rs. 95 to Rs. 119 and so on. When we acquire many customers, a big chunk of them remain on Rs. 35 plan and then we upsell to them using all the possible opportunities to take them up the value curve. But Rs. 35 plan does remain the most popular plan.

Kunal Vora: On the Rs. 35 plan, how is the usage behavior of customers? Are these customers using it or they are just paying amount to block the number? What has been the experience so far?

Balesh Sharma: Kunal, the experience is very encouraging, because most customers are making their choices and they are not using their SIM card any longer for only incoming or keeping it in pocket. Whatever card they have chosen, typically they are using that card, and therefore the number of incoming only subscribers on the network has come down substantially.

Third question was regarding synergy benefits. We said synergies of Rs. 84 billion is coming primarily from de-duplication of costs. There was a cost of running Idea network, and there was a cost of running Vodafone network. The cost of running Idea retail stores, Idea distribution mechanism, and there was a cost of doing that for Vodafone. As you integrate, you de-duplicate that and you bring your costs out. That's the first instance of synergy we talked about. On that, we have achieved Rs. 51 billion. Do we see a lot more opportunity versus Rs. 84 billion? I don't think so.

However, we are now kick starting transformation within the company, and at the moment I am going to give you neither guidance on timing nor on value of what we are targeting. We believe there is substantial opportunity to take out more costs from the operations by doing things differently or stopping to do things. At the moment, need of the hour is speed on integrating the two operations. But now, we are starting an exercise on transformation, which means questioning all that we did in the past 20 years of the industry. Given the market momentum and ARPU erosion, do we need to continue doing things like the way we did in the past? For example on postpaid business, do I need to do a rigorous customer verification at the time of in-sourcing a postpaid customer when the ARPU is much lesser? If I have to do it, can I do it more digitally, can I turn everything that's possible to digital? Through digital transformation and overall process transformation, we are kick starting an exercise internally to come out with a much more ambitious number. But at this juncture, I will leave you with just these details and not more.

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

Pranav Kshatriya: Hi, thanks for the opportunity. I have three questions. Firstly, mobile broadband subscriber addition at 2.3 million quarter-on-quarter seems pretty weak. I was expecting with 4G capacity getting added we should see some acceleration and some traction here. What is not working? When should we see this number reaching almost double-digit?

Next two questions are for Akshaya. Just wanted to understand what are the constituents of the non-current and current financial liabilities sitting in the balance-sheet? Can you throw some light on the note four of the Notes to Account in which you have categorized the certain portion of long term-debt as current maturities of long-term debt? Thank you.

Balesh Sharma: Let's start with the first one that was given to me, Pranav. Mobile broadband customer addition you say is weak at the moment, and I don't disagree. That's because the whole potential is still to be unleashed in terms of being able to integrate quickly, create coverage and capacity, customer experience, and therefore compete more aggressively in the marketplace and get fair share or more customers, especially from the Quad A and Quad B markets. It takes time but we are moving at a good pace, and we are satisfied with it. But we are very aware of the fact that the competitiveness is not fully there, for example, with 65% coverage on 4G we will have areas and geographies where coverage is not as yet there on 4G, and so the customers when they decide to move onto 4G, we are not in the consideration.

However, when you look at some other parameters like unlimited users, our growth has been impressive. We have grown at a pace of about 3 million new additions to unlimited portfolio every month. Which means, in the areas where we don't have 4G coverage, customers are still taking our unlimited proposition to use unlimited voice. But overall, we know we have a clear plan, we know that it takes us some time, but we need to get on the plan to get coverage to 95% in the Quad A, Quad B geographies, get our capacities up substantially, and therefore get our competitiveness to go up accordingly.

Akshaya Moondra: Pranav you had two other questions, what are the constituents of non-current and current financial liabilities? There is a lot of detail, but what I can say is increase in the non-current financial liabilities is largely representative of increase in capex creditors because of the better payment terms that we have negotiated with them. The other detailed components we can take offline.

As far as your question on Note 4 is concerned, there is a reclassification of about Rs. 102 billion of long-term debt to current maturities. It is because we have some financial covenants in our loan agreements where there is a breach, for which we have sought waivers. Wherever a waiver is not yet received, it is required as per accounting standards to reclassify that into current maturity, which is what we have done. You will see Rs. 102 billion reclassification from long-term debt to current maturity. As and when a waiver will be received, these will get reclassified to long-term borrowings.

Pranav Kshatriya: Can I just have one follow-up, on the non-current and current financial liabilities. This is roughly at Rs. 20,000-odd crores. If I recall, Idea's balance sheet used to have capex creditor and some liabilities related to spectrum. Is that Rs. 20,000 crore related to these two items? If yes, how much? If you can quantify, it will be helpful.

Akshaya Moondra: Quantification I can do offline, but there is a large element of interest accrued which is standing there, and in case of DoT installments that amount is fairly large.

Moderator: Thank you. We take the next question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Thank you for the opportunity. I just had one question with regards to network cost, they have decreased by Rs. 5.6 billion quarter-on-quarter, which is almost 10%. But if I look at the site related costs, probably they have not declined as much because the site reduction has been quite mild. Also, tower companies like BHIN and Indus don't show that much of a decrease in revenues. I am just trying to understand did the non-site non-synergy related costs shows such a sharp decline so as to enable you to get 10% decline in costs at the overall level.

Akshaya Moondra: Let me try and address that to the extent I can do here. Firstly, we have said that there is an element of about Rs. 2 billion of one-offs in this quarter, which is largely coming from the network costs. The reduction is thus not Rs. 5.6 billion, it is more like Rs. 3.5 billion in the network cost, so the quantum is much lesser. The second point to be noted is that as we had indicated in our earlier presentations that the largest source of synergies would be the network cost.

What has also started happening is that we were earlier on a fixed energy model and post-merger we have moved to a pass-through model where the billing actualization happens with a time lag compared to the fixed energy model. You will see this phenomenon of provisions being made on an approximate basis, and the actualization happening later on, so the one-offs also have a large component of billing which was done earlier and which has been actualized in this quarter. That benefit has come, both as a write-back of the previous quarter, as well as savings in this quarter which was not quantified in the last quarter. The network cost is in-line with what we had assumed and decline in the number of sites may not be the only reason for energy cost decline, because as we reduced equipment from sites where we were co-located, the number of sites has not reduced but the energy costs can continue to reduce as the equipment gets optimized and reorganized.

Viju George: One follow-up question. Do you think that in this quarter also the effect of minimum recharge plans will continue to take effect; how long will it persist where you will have the trend of ARPU increase offset by subscriber loss?

Balesh Sharma: We cannot give you a short-term guidance on revenues or on any parameter. But directionally, as I was answering to one of the questions earlier, some part of subscriber base and some segments are just beginning to be put on the minimum recharge regime. That should all be done by end of May, assuming six months from the date of first implementation. By end of May we should be done with that and therefore, the upsides of that as well as the first time impact of that would all be done by that time. In terms of the behavior of Rs. 35 base, it is a very new thing and we are very closely watching it. The market continues to be dynamic and therefore let's see how the behavior there moves.

Moderator: Thank you. Next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Good afternoon. Thank you for the opportunity. My first question, can you broadly indicate how much incremental revenues you were able to get from the minimum recharge validity plans in the fourth quarter?

Secondly, in your peak synergy target of Rs. 84 billion annualized, what is the operational number of mobile broadband BTS that you have factored? I am asking this because you had a lot of 3G BTS, which are probably not single-RAN enabled at the time of merger. I just want to understand whether they will be completely shut down? Wanted to get the sense of the broadband BTS which is relevant for the peak synergy calculation that you have?

Third question is on the site exits, you mentioned 9,900 low utilization sites, but the net reduction is 5,600 roughly in your total network sites. Can we assume that there is a gross addition also going on where you are adding sites maybe from a coverage or capacity point of view?

Balesh Sharma: Let's take the first question, Sanjay. Given the competitive nature of the market, I don't think I will be able to separately share with you as to how much has been the revenue upside, specifically with respect to a particular market initiative. Broadly, most of the upside that we saw came in from this new change that was made in the market in December.

On second question about BTS, we are not investing any more in the 3G technology. Whatever 3G carried forward equipment we had is what we are continuing to have. Whatever new we are putting is all on 4G FDD and on top of that 4G TDD and massive MIMO. As I was saying in one of the earlier questions, the plan is to have at the end about 178,000-180,000 unique base stations on which all will have 2G and 4G, and some would continue to have 3G if it existed there in the past. Does that answer your question of do you want specific 3G numbers?

Sanjay Chawla: I am just saying the total number of mobile broadband BTS at the time of merger in September was 377,000. Is this the number which is matching with your synergy target at the end of the period or is it a higher number?

Balesh Sharma: Number simply is 180,000 unique geographies. All will have 2G, all will have 4G. How many of them on top will have TDD layer would change that number of 377,000 equivalent that you are talking about. That's difficult to share because of competitiveness of that information, as how much TDD will I lay out will clearly come out if I was to give that number right now.

Akshaya Moondra: Sanjay, on your question on site exits, the details we will have to get back to you. We have exited 9,900 low utilization sites. There has been some incremental rollout, although that is not that significant that could explain the complete difference. We will come back to you on this question separately.

Sanjay Chawla: Why I am asking this is because your target is 178,000-180,000, but if you are also going to do these gross additions then may be the eventual number will be higher by the time you reach peak synergies.

Akshaya Moondra: I don't think whatever we are doing there will increase that overall number. That is not going to be impacted.

Sanjay Chawla: The end point remains 178,000–180,000 when this entire exercise is completed by March 2020?

Akshaya Moondra: That's right.

Sanjay Chawla: A related question on synergy. There is a Rs. 21 billion reduction in the quarterly Opex based on the synergy target, of which Rs. 12.8 billion is achieved. Is the end point, subject to all the assumptions about no inflation and no increase in network volume, etc, is the end point still Rs. 69.5 billion quarterly Opex, or is it a different number?

Akshaya Moondra: Let me reiterate that our overall synergy target is Rs. 84 billion, which means on a quarterly basis it is Rs. 21 billion. That target is for cost reduction and would be independent of the cost increases which would happen. There are three main items of cost increases: new rollout, rent escalation, and compensation increases. The synergy is independent of these figures. If you have to see the net cost reduction that will be Rs. 84 billion synergy minus cost increases on these accounts. Does that answer your question?

Sanjay Chawla: Yes, I understand. I am just saying that if we assume no increase in rental due to escalation or inflation or increase in the network volume, what should be the end point post full synergy extraction?

Akshaya Moondra: That specific guidance I will not be able to give you right now. All that I can say is that Rs. 84 billion is a cost reduction, which will be achieved over the Q1 cost base that we are using for comparison. Any other cost increase will be incremental. Even if we are not rolling out new sites, if we are putting a TDD equipment on an existing site, that will incur some cost, although it is marginal in nature. Additional rollout, rent increase and compensation increases, these cost increases will reduce the benefit from overall cost reduction of the Rs. 84 billion figure that we have given. I cannot give you the quantification of that right now.

Sanjay Chawla: You had a figure of Rs. 278 billion annualized cost in your presentation in November. I am not able to get that number based on the starting opex that you had prior to merger. That is why I asked this question, because you already have given a figure of Rs. 278 billion as the end-point opex post synergy extraction.

Akshaya Moondra: What we have given is a cost indicator. This is the pro-forma cost assuming the same level of operations. It is not a guidance stating what will be our cost at a point of time.

Sanjay Chawla: Keeping aside all those assumptions of escalation and volume increase in the network, what is the pro-forma level of Opex? Can we still take it as Rs. 278 billion annualized or is it a different number now?

Akshaya Moondra: The earlier guidance without cost increases remains the same at Rs. 84 billion, that doesn't change.

Sanjay Chawla: Thanks for that. Can you confirm the capex guidance for FY20?

Akshaya Moondra: FY19 and FY20 capex guidance is Rs. 270 billion in totality. What we have incurred in this year, if we take that away, it is about Rs. 168 billion of capex guidance for FY20.

Sanjay Chawla: As of now do you think you could undershoot that figure and have a lower capex in FY20 then Rs. 270 billion minus Rs. 102 billion?

Akshaya Moondra: When we had given that guidance that was based on a given BOQ and a certain price assumption. There is a possibility that we may do better not because of the BOQs, but because of price.

Balesh Sharma: The ambitions that we have stated is being able to complete our integration, most of it by March 2020, of being able to reach 95% coverage of population in Quad A, Quad B and 80%+ across the country, and the ambition of reaching 2.5x of the September capacity. If this can be done at a marginally lesser cost because of some better negotiations that we have done, then that could be a marginal reduction. But otherwise, we are talking of a full capex impact of Rs. 168 billion in the cash capex. Remind you, we have also got a lot of advantage that comes through reuse capex, the equipment that is going to come through de-duplicating sites and redeploying them, and the impact on capacity that comes from firing full spectrum of the two brands put together onto a single network. We continue to grow at a great speed in terms of network building, and right now, my biggest focus is building capacity in the Quad A, Quad B districts. On average for the March quarter, we carried 33 billion MB per day of traffic. We increased our capacity by 34% in the integrated circles, so a significant capacity expansion is happening, and most of it is happening where it really matters, or where it is desperately needed.

Moderator: Thank you. Next question is from the line of Rajiv Sharma from SBICAP Securities. Please go ahead.

Rajiv Sharma: A couple of questions from my side. Firstly, on the subscriber loss which we have seen this quarter, is it possible for you to quantify how much of this was related to minimum recharge plans, and how much was not related to these particular plans which you rolled out? Secondly, how much of these subscribers as a percentage of your total subs with ARPU of Rs. 35 would be still active, so that we can get a sense of what number could be vulnerable, as you mentioned that you will watch their behavior. And lastly, if the whole synergy exercise is done by March 2020, is it fair to assume that from the entire Rs. 84 bn, remaining Rs. 33 bn will be realized over the next two to three quarters and start reflecting in EBITDA?

Balesh Sharma: Thank you, Rajiv. On the first question, how much was the impact of minimum recharge introduction? Most of the subscriber reduction, whether you look at 53 million in this quarter or take the entire 88 million in Q3 plus Q4, most of it is coming from either incoming only subscribers, i.e zero ARPU subscribers, or subscribers from the bracket of zero to Rs. 10 ARPU. Of the Rs. 35 plan subscribers, as I was answering in one of the earlier questions, most are users and most are now using outgoing as well.

Akshaya Moondra: On the synergy, we will be achieving it over this financial year. What we have guided earlier is that in Q1 FY21 we should see the synergy reflecting fully in our financial statements.

Rajiv Sharma: Thanks for this. My second question, I wanted to ask what percentage of your current sub base is subscribers who are using minimum recharge plans, particularly Rs. 35 plan?

Balesh Sharma: Rajeev, because of the competitive nature of that information, I will not be able to share that, unfortunately.

Moderator: Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Hi, thank you very much. Couple of questions. If you could speak about what you have done on the integration on sales and marketing? You did comment in your opening remarks, and you said it was completed. Have you rationalized the distributors by half and have you closed any company branded outlets from either of the companies? Any feedback on what has happened and how you plan to take this forward?

Second, your broadband subscriber growth is probably tracking lower than what the market was also expecting. It's actually lower on a quarter on quarter basis also, the net addition. What is your thought on the trend line for those broadband subscribers over the next 12 months? Thanks.

Balesh Sharma: Thank you, Srini. On the first question, on integration of sales and marketing, it is very critical in terms of getting it right as the entire field operation depends on them. We blueprinted all of it before the day zero, then gave it to the fields to work on for the first 60 days. We had already done mathematics on how the model should be and what the number should be before day 0, and then the field decided what they will do, what will be the selection process, etc. in the 60 days and thereafter they went into implementing that.

What have we done? We had a starting point of distributors, your question was whether we have come to half of that. We actually have come to lesser than half of that. What have we done? We have had two different distribution models, Idea was almost everywhere on a single tier distributor, Vodafone had single tier distribution in cities and had two tier distribution in rural, which is basically having a super distributor who was servicing through associate distributors (AD) in the rural markets. Given the larger volumes of new company, we agreed that the Idea way of distribution with a single tier distribution makes a lot more sense. Even in the smaller geographies the volume is large enough for us to go into a single tier. We have selected the best people, best distribution setups out of all our valued partners across the country in every geography. We have got the best from among the distributors or the super distributors that were available to be selected from and end result number is actually slightly lesser than half, primarily given the tier removal of the Vodafone distribution side.

On retail, what we have tried to do is keep geographical presence constant, but numbers in the same geography have been rationalized. If in the same neighborhood there were two outlets, one for Vodafone and one for Idea, we have tried to keep the better of the two outlets into the network. They are still called either Vodafone or Idea, they are not co-branded. What we have however done is started both cross-serving and cross-selling from the outlets. Let's say in Borivali we are shutting down one of the two brand retail outlets, what we have done is for the brand outlet which had closed, we have sent out one-on-one messages to all the impacted customers who were visiting the closed outlet, saying that you could go to the Vodafone outlet within the neighborhood, or vice versa, and you will be able to get your service or support from that outlet.

We have reduced down from about 15,000 outlets to somewhere close to 8,000 based on the last count of the number of outlets that we keep, across all spheres - large format company owned store, large format franchise store and smaller rural format. All put together, we have taken out about 50% of the outlets in this process.

On the broadband subscribers, that remains clearly our area of focus and as we build up the distribution muscle backed by the network improvement that should lead to increase in customers. We will try to maximize the broadband, and therefore the 4G subscriber bases.

Srinivas Rao: Thank Balesh. Someone has tried to ask you, given what is happening in the marketplace, can we expect that after six-eight months of the merger going through, you would be able to compete more effectively in the marketplace? And I'm not talking about network integration.

Balesh Sharma: Absolutely, it should happen once this new distribution changes settle down, and new zonal changes settle down, as there has been a change at all levels. There is a change of the sales force in the field, as we have reduced or rationalized the number of zones; there was a zone in every geography for Idea and also Vodafone and we have rationalized that down. We have therefore got a new set of sales people, or sales people who are new to one set of distributor or one set of outlets. We have got distribution that is new, and network that is integrating and stabilizing and it is all happening simultaneously. With every passing day, our competitiveness improves.

I will go again to the West Bengal example that I was talking about in my narrative. West Bengal, I take as a test case because that was the first circle that was integrated. It took us a few months to get the network KPIs in control, slowly with time we were able to see that the speeds were coming up, and then finally when it all settled we have best speeds in the market. That is reflecting thereafter with a lag on the customer perception measure that we have, NPS that we measure. That is reflecting then on data usage which is more than 1.5x that of the country - country’s average is about 9% versus West Bengal at 14.5%. As a result, West Bengal is on a substantially higher revenue growth for the quarter versus overall revenue which is flat QoQ.

That was last quarter, when it was all beginning to stabilize. This quarter we expect even better performance from West Bengal. The circles that have all got implemented in last quarter, in this quarter have started seeing those benefits and it should stabilize in the further quarters. As we go across the country, we have the same level of confidence that we will be able to get the science right of integrating the network, getting the NPS, getting the competitiveness up and therefore revenues going up.

Moderator: Thank you. Next question is from the line of Himanshu Shah from HDFC Securities. Please go ahead.

Himanshu Shah: Thanks for the opportunity. Just one question, there has been a substantial increase in interconnect cost during the quarter, despite decrease in minutes of usage. How should we interpret it? Is it basically because of the competition, we are losing primary SIM?

Akshaya Moondra: Our interconnect cost has gone up. First point is that the largest part is due to international out roaming costs. The domestic cost has also gone up because, while our overall minutes have declined primarily due to the cleanup of incoming only subscribers, our outgoing minutes have actually improved. Because of these two reasons, the interconnect costs have gone up.

Balesh Sharma: As the incoming customers go down, the retained customers are the full users of network and their outgoing goes up and therefore the interconnect goes up. But again, as Akshaya said, it is not just because of the domestic interconnect.

Akshaya Moondra: Majority of it is because of international roaming.

Himanshu Shah: Any specific reason for increase in international roaming access cost?

Akshaya Moondra: There are two reasons, it could be the time period, i.e it may vary from time to time. But the other reason is that some of these arrangements are based on volumes and there is an annual settlement of discounts, and sometimes the usage and the settlement may not be in sync with each other. Sometimes there are one-offs which comes once in four quarters and there was an element of that in the last quarter, so some credit in the last quarter is not repeating in this quarter.

Moderator: Thank you. We take the next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: What is your best guess of the share of 4G subscribers, smartphone subscribers that you got during the current quarter? Is it fair to assume that most of your 81 million 4G customers are on unlimited plans? That's question one.

Secondly, any updates on the B2B Enterprise market and your strategy? You had outlined something in the November presentation, any update on that?

And thirdly, Rs. 35 plan also includes 100 MB of data. Are most of the customers who are on the Rs. 35 plan also using data, are they counted as a data customers? Thanks.

Balesh Sharma: Let's start with the third one first, unless a customer uses data, we don't count them as data customer. Most of the Rs. 35 customers do not use data. The idea is to give them that data free if they have a data enabled handset to get them into trying to snack on that data, and therefore take them up the value curve with us.

Coming to your first question on 4G customers and are most of them on unlimited? Yes, most of them are on unlimited, because that's where you get serious amount of data to use. On the non-unlimited plans, the maximum you get is on Rs. 95 plan, which is 500 MB of data. However, if you are a data consumer, you might as well just pay Rs. 25-odd more and get to 1 GB plan of data per month or pay Rs. 50 more and get to a 1 GB/ day kind of plan and onwards. That's on the 4G usage and yes, most of them are on unlimited.

Then your second question was about the enterprise. We continue to be fully focused on that and are now actually growing our IoT market share in the process. What we said in the November meeting was a couple of things, we said that being a part of Vodafone Group gets us access to the Vodafone global enterprise products, services and sales force, which means every given day there are more than 1,100 – 1,200 sales people of Vodafone Global sales force who are going all over the world and selling to the global accounts. They're selling for the overall Vodafone Group, but a big part of that given the size and scale of India get serviced by us in India, and that advantage comes to us. Second, with the merger of Vodafone and Idea, we have become, on enterprise mobility side, the largest player or market leaders.

Third, on the non-mobility side, we are growing very well on cloud and security. On IoT specifically, being a part of Vodafone Group, we have access to the GDSP platform of Vodafone, which is the IoT management platform. How does that help? Giving out these millions of SIM cards for fleets, buses and cars is one job, but managing those is a completely different science. With this platform, we are able to do that and therefore we are the preferred partner for most IoT cases in the country. We are actually growing our IoT market share. We are obviously not taking any of these for granted. What we have already announced in my earlier call, was that we are starting implementation of Narrow Band IoT network and that is GSMA supportive. We have already started commercial trials in Jaipur, Cochin and two other cities. As the ecosystem evolves, we continue to invest into that network and making an all India NB-IoT network. We continue to partner worldwide to bring the best of the cloud and security products on the enterprise side. It is clearly a focus area, our strength area, and clearly a growth area that we will keep driving.

Vivekanand Subbaraman: Thanks. Just a couple of follow-ups, I also asked your guess of the share of the 4G smartphone market, the incremental subscribers who got added in 4Q. What is your sense there?

Balesh Sharma: Difficult to give that sense because Airtel has not given any details of their subscriber addition for this quarter. I would believe that my share of 4G, given all the changes and the lag in coverage that I was talking about, will be marginally behind theirs. Until Q2 we were neck-and-neck with Airtel's number, it was broadly 66 million 4G for both Bharti and Vodafone Idea. Last quarter, it was 75 million for us and 77 million for them. The gap could have increased a little more this quarter, but I don't have the details.

Vivekanand Subbaraman: Is it possible to infer this data, because Jio's numbers also include the Jio Phone 4G subscribers, so is it possible to arrive at the share of the 4G smartphone additions, excluding Jio Phone.

Balesh Sharma: Some broad calculations can be done. You need to account for two things, you need to account for the Jio Phones and you also need to account for VLR. When we look at Jio numbers you need to be looking at what is the VLR that they have reported to TRAI and multiply that, because typically when the rest of the industry talks of 4G, we talk about every day users, whereas Jio's overall number you cannot take as 4G probably. I would say that take those two, and then try and infer.

Moderator: Thank you ladies & gentlemen. Due to time constraint, that was the last question. I would now like to hand the conference over to Mr. Balesh Sharma for closing comments.

Balesh Sharma: Thanks everyone for taking out the time to join us and for the very valuable questions and the inputs that you've given us. To reiterate, we are a seven month old company with a clear strategy, clear plan and vision and we are going full steam on implementing that. With every passing day, we keep improving our competitiveness by quickly integrating on customer experience side and we look at getting even better share of the market in the coming quarters and years ahead of us. Very clearly on plan and very clearly going as planned on the strategy. Thank you again for joining us.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Vodafone Idea limited, that concludes this conference. Thank you for joining us. You may disconnect your lines now.