Vodafone Idea Limited Conference

November 15, 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 Ravinder Takkar – Managing Director and Chief Executive Officer of Vodafone Idea Limited, and Mr. Akshaya Moondra – CFO of Vodafone Idea Limited, along with other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking their valuable time to be with us.

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

With this, I now hand the conference over to Mr. Ravinder Takkar. Thank you, and over to you, sir.

Ravinder Takkar: Thank you, Janis. On behalf of Vodafone Idea, I welcome all participants to this Earnings Call. As this is my first Earnings Call, let me start with a brief introduction. I am Ravinder Takkar. Prior to moving in the role of Managing Director and Chief Executive Officer in August 2019, I was on the board of Vodafone Idea, which I still continue to be. I have been associated with Vodafone Group since 1994 and have handled several leadership roles in markets across the world. My association with Indian telecoms has been since the entry of Vodafone Group in India in 2006. At a point in time, I was also the CEO of Vodafone Enterprises Business in India and have been on the board of erstwhile Vodafone India Limited as well. In addition to this, I am the Chairman of Indus Towers Limited and I am also the Chairman of COAI, Cellular Operators Association of India.

Now moving on to results. Yesterday, on 14th November 2019, our Board of Directors adopted the un-audited results for the second quarter and six months ending September 30, 2019. The detailed Press Release, Quarterly Report and un-audited results have been uploaded on our website. I assume you had a chance to go through the same.

I will start off by providing 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 details on the company's financial performance for the quarter.

Our five-pillar strategy, which has been our roadmap since formation of Vodafone Idea, remains unchanged. Our topmost priority is to ensure that integration moves swiftly and without any hiccups, which will strengthen our overall position in the market. We continue to focus on driving 4G investments in our key markets, to expand coverage as well as to add large capacity. We believe this will improve overall customer experience and in turn drive better 4G additions, consequently improving revenue, profitability, cash-flows and our competitive position in the market.

Let me elaborate on the progress we have made so far on the integration exercise:

We continue to execute on network integration extremely well and with great efficiency. This quarter, we have completed network consolidation in four more circles, namely Orissa, Rajasthan, Karnataka and Kolkata, taking the total count to 14 circles. The remaining 8 circles, i.e. UP-East, UP-West, Kerala, Delhi, Mumbai, Gujarat, Tamil Nadu and Maharashtra are all major markets for us and integration is progressing well, cluster by cluster, ensuring minimal disruption.

At a district level, we have consolidated 78% of the 681 districts. We are thus tracking extremely well on integration and we are confident of concluding this exercise by March 2020.

We have the largest spectrum holding and have significant liberalized spectrum across 900 MHz, 1800 MHz, and 2100 MHz bands. We are continuously evaluating spectrum needs and re-farming spectrum across 1,800 MHz, 900 MHz, 2100 MHz bands from 2G or 3G to 4G depending on traffic patterns. On 900 MHz alone, we have launched LTE in eight key circles, including through DSR deployment, adding another 80 MHz spectrum in select locations or sites. Introduction of 4G on 900 MHz band has significantly increased the coverage footprint in our key cities, especially the indoor reach in congested markets and also improving the voice experience through VoLTE. The additional spectrum being released has helped us increase the 4G capacity. Based on customer usage trend, we will continue to re-farm spectrum in the remaining circles.

All the network integration activities, coupled with spectrum consolidation, deployment of TDD sites and Massive MIMO have started to yield results. Our data capacity in 14 integrated circles has nearly doubled since September 2018. This has improved utilization levels, leading to higher download speeds and thus has led to superior customer experience.

The download speeds have massively improved compared to pre-integration levels. In fact, given spectrum consolidation, TDD and Massive MIMO deployment, our capacity has substantially improved on an overall basis compared to a year ago. As a result, our 4G download speed continues to improve across all circles. We are now ranked number #1 or number #2 for at least one of the brands in 18 circles based on 4G download speeds for the month of September. This compares to 14 circles where we were ranked number #1 or number #2 as of June. As certified by Ookla, based on download speeds in Q2, we now offer fastest 4G download speeds in the circle of Delhi, West Bengal and MP, as well as in the cities of Chennai and Sikkim.

The recent report released by Ookla on 22nd August 2019 shows Vodafone and Idea bands improved much more than competition on mobile download speeds. We can confidently tell you that as we stand today, our download speeds have improved even further than July speeds referred by Ookla in that report. Additionally, Vodafone became the first operator in India to win Opensignal's new, first-of-its-kind Voice App Experience award.

The progress on network integration is thus clearly reflecting in improving network KPIs across all circles, which has led to enhanced customer experience. Our 4G trends have thus improved quarter-on-quarter. The 4G trends are even more encouraging when we look at month-on-month data for September and October. Our October 4G adds is the strongest we have seen over the last 12 months. As we have now started to integrate our major markets, we remain confident that 4G trends will further improve. Same applies to the trends of customers on UL plans where month-on-month trends are encouraging.

As a result of the integration exercise, we have removed surplus equipment from nearly 50,000 sites, out of the total of 73,000 co-located sites, further benefiting our cost base. As of September end, we have achieved 75% of our target synergies.

To summarize, we are moving at a great pace and are well-placed to realize full OPEX synergy of Rs. 84 billion by Q1FY21.

Moving on to other strategic action, that is network investment:

We continue to focus on driving 4G coverage and capacity, especially in our major markets or the high potential districts. On an overall basis, our target remains to cover 1 billion people by March 2020.

This quarter, our 4G FDD additions have further ramped up by ~12,000 sites. Our overall broadband site count now stands at around 405,000 as of September end. The redeployment exercise is still underway and the broadband site count and subsequently, the population coverage would further improve on completion of this exercise. We have also added more than 10,000 small cells till date to improve our coverage as well as capacity in dense urban areas. Our 4G population coverage now stands at 72.2%, compared to less than 50% for each of the brands in August 2018.

Our Capex guidance have been revised to ~Rs. 130 billion from Rs. 170 billion for FY20, primarily on account of savings resulting from better pricing and disaggregation of components while ordering and reduction in planned 4G footprint in non-priority areas. Further, lower capacity requirements during the year have also resulted in deferment of some Capex to the next financial year.

This quarter, we added ~6,000 4G TDD sites to augment our 4G capacity and most of the deployed capacity is in our priority districts. We continue to aggressively deploy Massive MIMO and till date have deployed nearly 10,000 Massive MIMOs, which remains the largest in India. We are thus progressing extremely well on the capacity creation front, not just on account of TDD and Massive MIMO deployment, but further supported by the integration activities including spectrum consolidation and re-farming. As a matter of fact, today, 70% of our liberalized spectrum is being used for 4G as against 59% for erstwhile Vodafone and 57% for erstwhile Idea. As already mentioned, such large capacity creation has reduced the utilization levels and improved our overall download speed, in turn improving customer experience.

As we continue to prioritize investments in the key areas, we are also rapidly consolidating traffic on the stronger network in the non-profitable districts and rationalizing weaker of the two networks. By the end of this quarter, we exited 16,000 low utilization sites. This exercise enables us to reduce operating expense as well as improve the coverage and experience of the weaker of the two networks, without impacting customer experience for the stronger brand.

Now let me briefly touch upon the various market initiatives we are taking to drive ARPU improvement:

As our network coverage and capacity is improving, we remain focused on driving UL penetration, which will help improve ARPU. We have already started to see benefits of the various strategic and pricing initiatives that we have taken over the last 3-4 quarters. We are seeing healthy adoption of UL plans on both fixed data as well as daily data plans, and our improving UL penetration has thus been leading to a better customer mix.

On the non-UL side, we had launched Rs. 45 plan at the start of this quarter, offering full talk-time at 1 paisa per second tariff, with the benefit capped at 28 days. This plan, which is available across all circles for all customers, has seen good traction, especially among 2G handsets. We believe this will help in further improving churn in the low ARPU segment.

Last week, we have launched "REDX" plan for Vodafone postpaid customers, which has some excellent features to attract high ARPU customers. The plan, which is priced at Rs. 999 per month, offers 50% higher speeds, which is an industry first. The plan also has an in-built Netflix subscription with full access on mobile as well as TV, and one year membership on Amazon Prime, ZEE5, Sony, along with other content. The plan offers some exclusive privileges such as industry-first complementary seven-day international roaming pack, airport lounge access, discount on hotel bookings and special deal on handsets. In just a few days since launch, we have already seen a very strong expression of interest for this plan.

Now let me provide a quick update on various monetization opportunities we are exploring:

On our Indus stake monetization, while the merger of Infratel-Indus has gotten delayed on account of regulatory approvals, we remain hopeful that it will conclude soon. The long stop date has now been moved to 24th December 2019. We intend to monetize our 11.15% stake as and when the merger concludes.

Further, we continue to explore various options to monetize our 160,000 kilometers of intra-city and intra-city fiber. We have already carved this asset out into a separate subsidiary and are actively engaged with bankers. Separately, we are also exploring options for monetization of our data center. We believe all these initiatives will provide us financial flexibility.

Moving on to operational highlights for the quarter:

Q2FY20, which is seasonally a weak quarter, was further impacted by severe floods in many of our major markets. We also continue to see down-trading of high ARPU customers. As a result, revenue declined by 3.8% this quarter. However, on account of improving 4G and UL additions, as I have alluded earlier, we have seen month-on-month increase in daily revenues, both in September and October 2019.

Subscriber churn continues to improve and is now at an all-time low of 3.5%, compared to 3.7% during Q1 and 7.2% in Q4 last year. During the quarter, gross subscriber additions have also increased quarter-on-quarter.

Overall subscriber base stood at 311 million. On the 4G subscriber front, we added 5.5 million 4G subscribers, compared to 4.1 million in Q1, and we continue to see improving trends on 4G net adds. Overall 4G base stood at 90.3 million. As we improve our 4G coverage and capacity through network integration and fresh Capex, coupled with other market initiatives on products, we expect to build strong momentum and further improve our 4G net adds.

Now, an update on the regulatory matters:

On the AGR matter, the Hon'ble Supreme Court on 24th October announced judgment which has significant financial implications for the industry. The Supreme Court has provided three months to pay the amount and report compliance. We have accounted for the estimated liability, the details of which will be shared by Akshaya. We are also in the process of filing a review petition.

Further, the company through COAI has made representations to the government to provide relief to the telecom sector, including, but not limited to, requesting not to press for AGR liability payment and grant waivers, not levy Spectrum Usage Charges on non-licensed revenue income, reduction of license fee and SUC rates, use of GST credit for payments of government levies and to allow payments to be made in installments after some moratorium and also to grant a moratorium of two years for the payment of spectrum dues beyond April 1, 2020, up to March 31, 2022.

While the Supreme Court order has created further stress and negative sentiment in an already challenged telecom industry, we believe the government is aware of the tremendous stress that the operators are facing. The government has recently set up a Committee of Secretaries (CoS) to evaluate the telecom operators' plea and suggest measures to mitigate the financial stress. We believe that committee has met several times already and is progressing at pace to make recommendations. We are hopeful to hear the recommendations of this committee in the coming days.

All is not negative on the regulatory front, as TRAI has taken several measures recently to help the sector. Recently, TRAI has passed a regulation fixing the call alert ringer to 30 seconds, in response to one of the operators' effort to distort the traffic patterns by having a shorter ringer duration, leading to generation of higher missed calls and thus higher incoming calls on their network. Separately, TRAI has initiated IUC consultation papers reviewing both domestic and international interconnect charges. Any positive development in this regard will help the operators and will be a positive step in the direction of reviving the ailing telcos.

To conclude, while this quarter was impacted by seasonality and ARPU down trading, the month-on-month performances of September and October are encouraging with strong momentum on 4G and UL additions, and thus improving daily revenues. Integration is progressing well, enhancing capacity and coverage leading to better speeds and overall customer experience. As we continue to integrate our major markets, we believe the 4G trend will further improve, improving our revenue, profitability, and our overall competitive position in the market.

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

Akshaya Moondra: Thanks, Ravinder. A very good afternoon to participants from India, and a good morning or evening as applicable to overseas participants. As mentioned by Ravinder, this quarter, which is a seasonally weak quarter, was further impacted by severe floods in many of our major markets. This coupled with continuing ARPU downgrading resulted in revenue decline of 3.8%. The revenue for the quarter stood at Rs. 108.4 billion, as against Rs. 112.7 billion in Q1FY20.

Adjusted for Ind AS 116 impact, EBITDA was Rs. 10.5 billion compared to Rs. 12.5 billion in Q1, a quarter-on-quarter decline of Rs. 1.9 billion, primarily on account of lower revenue of Rs. 4.3 billion, which was partially offset by continued cost synergy realization. There were one-off credits of Rs. 2 billion during the quarter, mainly related to network cost. Our overall operating costs, excluding license fee and spectrum usage charges and roaming and excess charges have reduced by Rs. 15.8 billion, after adjusting for inflation-driven cost increases and incremental network rollout, as compared to Q1FY19 pro-forma operating costs. This translates into annualized cost saving of Rs. 63 billion, which represents around 75% of our stated synergy target of Rs. 84 billion.

The 'Depreciation & Amortization' and 'Financing cost (Net)' for the quarter are Rs. 63.1 billion and Rs. 33.5 billion, respectively. This includes the effect of Ind AS 116 of Rs. 15.9 billion and Rs. 6.3 billion, respectively. If the impact of IndAS 116 was to be excluded for each of the quarters and compared, there is no significant change on quarter-on-quarter basis.

Pursuant to the recent judgment on AGR by Hon'ble Supreme Court, we have accounted for an estimated liability of Rs. 276.1 billion related to License Fee, and Rs. 165.4 billion related to Spectrum

Usage Charges up to September 30, 2019, including the interest, penalty and interest thereon of Rs. 330.1 billion. This estimate is based on demands received from DoT which have been adjusted for certain computational errors, and an estimation for the period for which demands have not been received. Whilst the company has provided for Spectrum Usage Charges, considering that no spectrum is used for generating non-telecom income, the company is evaluating the levy of spectrum usage charges on such income. After considering existing provisions of Rs. 17.5 billion, reversal of liability of Rs. 83.5 billion which was recognized at the time of merger for potential payments to Vodafone Group, plus potential payments by Vodafone Group to the company under the settlement mechanism capped at Rs. 83.7 billion under the implementation agreement, a charge of Rs. 256.8 billion has been recognized and is part of exceptional items during the quarter.

Additionally, as we are in the process of re-farming our 3G spectrum for offering 4G services, along with our network integration alignment exercise, we have provided for accelerated depreciation of Rs. 40.3 billion on the relevant 3G network assets.

In line with our above changes, we have reassessed the recoverability of deferred tax assets, stopped further recognition, and de-recognized the deferred tax assets amounting to Rs. 139.4 billion, recorded up to June 30, 2019.

The Capex guidance for the year has been revised to Rs. 130 billion from Rs. 170 billion, primarily on account of savings resulting from better negotiated pricing, disaggregation of components while ordering and reassessment of planned 4G footprint in certain non-priority areas. Furthermore, lower-than-expected capacity requirement during the year has also resulted in Capex deferral to FY21. Thus the Q2FY20 Capex was at Rs. 21.4 billion.

Net debt stands at Rs. 1,019.1 billion as against Rs. 992.6 billion in June 2019. The cash and cash equivalents balance as of September 2019 is Rs. 153.9 billion.

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 questions-and-answer session. We take the first question from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: A couple of questions. Firstly, I understand that you have reached out to the Government of India for some relief measures which you highlighted in the opening remarks. But because payment timeline is a bit tight, how are you thinking about the fund requirement in the interim? In the event that the relief measures don't come in the next few weeks, how will you address the capital requirement?

Second, I think last month, one of your largest competitors, Reliance Jio, announced some changes to tariff. How are you thinking about your own outlook on tariffs? Because that is something which potentially will result in meaningful increase in your own cash flow. How should we think about tariffs of Vodafone Idea? Thank you.

Ravinder Takkar: Thank you, Manish. Let me first address some part of both of your questions, and then I will ask Akshaya to talk about the specific details around funding. In regards to the government engagement, we have engaged very positively with the government. Our engagement had started even before this AGR case, where we were discussing with them about stress in the telecom sector.

We have had engagements all the way from several ministries and secretaries, as well as various parts of the government. I have to say that the response from the government, has been very, very consistent, and everybody has said the same thing. What they have all said is that they want this sector to be a healthy sector, as it is a very strategic sector and is too important for the country. It is too important for the Digital India vision, so clearly, this is something that is very important to the government.

Secondly, what they have said to us is that they want to see three private players and one public player in this sector. Again, they have emphasized that consistently. The other thing that they continue to also recognize is that there is stress in this sector which has further increased because of this AGR ruling, and large part of it has been caused due to predatory pricing that has continued in this market. That's been consistently the government’s response.

Now in terms of what actions that they have taken. As you are already aware, they have set up a Committee of Secretaries led by the Cabinet Secretary himself. This Committee has met several times. We understand that they are close to making some recommendations, obviously, these are rumors, but we understand that they are getting very close and they had met several times, so we are looking forward to hearing that.

Our discussions with them, as I mentioned earlier, have been that we would like to seek spectrum moratorium for a period of time, reduction in license fees, help in the area of GST blockage as well as a few other things which reduce levies on the sector. At the same time, on the AGR case, we would like to seek on the interest, the penalties, interest on penalties, we can be given relief from that. On the principal amount as well, after adjusted for errors, if we can have some type of payment plan which spreads over a large period of time that will be very helpful. We believe that the government is taking these requests very seriously. We believe that they are working on it swiftly. I also believe that they are looking at a comprehensive solution for the industry which will restore the health of the industry rather than just address a few small requests here and there. We hope to hear something from them soon.

Let me address your second question, and then Akshaya can add more in regards to funding. You had mentioned that Jio has made some pricing moves. I wouldn't characterize those as pricing moves, as it's not very clear that they have actually increased prices substantially, because on many of their plans, they have started to charge for off-net calling, but then they add additional value to the bundles or reduce validity. In some ways, they give something or take away something and many of these are conditional based on regulatory criteria.

One thing to remember is, even with these changes, we are still at a premium to them and that varies price band by price band, but for most price bands we continue to be at a premium to them. Having said that, we continue to monitor the situation and see what happens. Also, based on our discussions with the government and some media reports this morning, looks like the regulator may also be starting a review on floor pricing, and I think that would certainly be an important thing that could help the industry. Akshaya, anything to add on the funding?

Akshaya Moondra: No, at this point of time, this is all we have to say. We will await the decision of the government on the AGR matter.

Manish Adukia: One quick follow-up question. One of the relief measures that you talked about was offsetting of the GST credit for payment to the government. Can you just remind us what the actual amount of GST credit is receivable from the Government of India?

Akshaya Moondra: At this point in time, our GST amount that is blocked is roughly Rs. 7,000 crores.

Moderator: Thank you. We take the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question, you mentioned that the government has taken cognizance of predatory pricing. What is your solution to that? On floor tariffs, considering there are several variables in any tariff plan, how can this be implemented?. Second, on the VIL's debt excluding deferred payment liability, which is around Rs. 28,000 crores, is there a risk that you might need to prepay some part of it considering covenant breaches? Also, is there some pressure in getting vendor financing, especially as promoters do not seem to be willing to infuse additional liquidity?

Ravinder Takkar: Kunal, let me take the first question and I will ask Akshaya to talk about your second question. I don't want to speculate on how floor pricing can be implemented. What we do know is that this is the view of the regulator and the government, and it can be implemented, which is currently in forbearance. Also, it has been done in certain other countries in the region, so it's not out of possibility. But I don't really want to speculate on what exactly they would implement or how they will implement.

Akshaya Moondra: Kunal, on your question on the debt other than the DoT debt, today banks because of the covenant breaches have a right to accelerate the payment. From time to time, some banks have requested us whether we can prepay them any amount, and we have declined that. We continue to honour our scheduled payments. We continue to remain engaged with all our financial creditors, but there is no acceleration of payment that has happened. In terms of vendor financing, we have strong vendor partners and they are already supporting us through the vendor finance route.

Kunal Vora: Sure, one last question. Can you explain ~Rs. 83 billion amount you mentioned which might be receivable from Vodafone Group on the contingent liability? What form will it be in and what exactly the amount is?

Akshaya Moondra: The first thing is at the time of merger there were some contingent assets or largely tax refunds which were receivable for erstwhile Vodafone. The agreement states that as and when those tax refunds are received, they would be paid by VIL to Vodafone Group. That amount after some minor changes over the period is currently standing at about Rs. 83.5 billion. That is the liability which was standing to the credit of Vodafone Group.

Also, as part of the implementation agreement, there is an understanding that if there is any crystallization of premerger contingent liabilities, then there is a settlement mechanism agreed between Vodafone Group and VIL. As a part of that agreement, the payment by Vodafone Group to VIL is capped at Rs. 83.7 billion.

On one level, the liability of Rs. 83.5 billion to Vodafone Group which was created at the time of merger has been written back, because the cap on receivable has been applied. And secondly, a new receivable has been created from Vodafone Group in case this payment was to be made to the government. Hence, in all, there is a credit of about Rs. 167 billion against the liability of about Rs. 420 billion, net of the Rs. 17.5 billion provision already existing. I hope that answers your question.

Kunal Vora: Not completely, but I will take it offline. Thanks for response.

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

Pranav Kshatriya: A couple of questions. The provision that has been computed, it is said that is adjusted for certain computational correction. Can you quantify what are the computational correction adjustments? Secondly, what is the rate of interest used for computing the interest on the AGR liabilities? How much difference would it make if that comes down to SBI-PLR?

Akshaya Moondra: In terms of the computational errors, over a number of years audit has been conducted or assessments have been done by DoT. The major correction is that there was this discussion about whether pass-through or interconnect charges should be deducted on accrual basis or cash basis. All our filings in terms of annual returns have been basis the accrual. Whenever these assessments have been carried out, whatever was not paid during a year has been disallowed. The consequence of this is that over a number of years there are lots of disallowances of amounts which were claimed as accrued, but not paid during the year. However, the corresponding correction in the subsequent year's assessment of what was accrued last year but paid this year has not been done. This is the largest correction. There are some other items also, but this is the main amount which is resulting in the correction.

In terms of your question on interest rate, in the initial years, it was close to about 14-17% and was compounded monthly. I believe in the more recent years, there was some change in the license conditions, it was about 12-13% compounded monthly. While I cannot give you a figure for what would happen if the interest rate were to reduce or not compounded like this, but it will be significantly lower for sure.

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

Sachin Salgaonkar: I have three questions. First question to Ravinder. Since you have taken over, I would like to understand is there any change in strategy? Second question is, we now see your other equity becoming negative, so any more debt covenants getting triggered on the back of it? I you could share what are your debt covenants that could be helpful. Third question is, Akshaya, I remember you mentioning last time that your Capex guidance has a bit of a downside risk, any clarity on that will be helpful.

Ravinder Takkar: Overall, there is no significant change in strategy. What I will probably do is tell you a little bit more about where our focus has become a little bit tighter and narrower. We are towards the tail end of our integration, so it's very important. We have continued to accelerate and moved up the date, and now we are targeting that by March 2020 integration, most of the circles will be done. We are working very hard on it and that is certainly one of top strategic priorities for us.

Along with integration comes the delivery of synergies and operational efficiencies, more capacity and coverage and all the other things that I talked about in my opening statement. Separately, we have really started to focus strongly on 4G unlimited customer as well as ARPU growth. As I mentioned in my opening remarks, we are starting to see good traction of that, certainly in the circles where we have completed our integration. In other circles where we are integrating now district by district, which are our stronger cirlces, we have started to see better traction and that has been very positive. September was quite good compared to Q2 average and then October has turned out to be even better, so we are starting to see traction there and our focus is very much in that area. Similarly, we are also very focused on churn reduction, which obviously will drive better numbers.

The other priorities, which have clearly now taken much more front seat is our engagement with the government for relief of the sector. That has turned out to be a very important element and we continue to do that. I think there is significant opportunity to reduce this predatory pricing position that we have been in for several years, and that has a huge impact not only just on us but obviously on the overall industry. Also, we continue to work on asset monetization, Indus merger closure and several other things. These are our operational and strategic priorities and as you would imagine, not a huge change from where we were earlier.

Sachin Salgaonkar: A small follow-up, one number which we are looking is your overall revenue growth, or the overall absolute revenue. Since the integration has started, it has not inched up. Are we at a point where this number bottoms out or has already bottomed out and going forward we will see the revenue inching up?

Ravinder Takkar: As I mentioned, we are starting to see some green shoots. Exit for September was positive, and October has also trended up, so we are going in the right direction. It may be a bit too early to say whether it has bottomed out, but I am more hopeful that the trend has started. What is important to remember is that we started integration in our weaker markets. There we learned a lot from integration and we are applying those learnings to our bigger circles. The impact takes a longer time because we were weaker in those circles to start off with, and to build perception and to improve customer experience as well as get traction takes longer time. We are now starting to see better traction in that. In fact, we are seeing better performance on 4G in our already integrated circles, and that is a very positive sign. As we integrate our stronger circles, where both brands are strong for the most part, we have good market share and good presence, we are already starting to see positive impact in the already integrated districts in these areas. We have all the right signs for a positive trends, we will see where we go from there. It's hard to tell exactly if that has bottomed, but we are seeing positive trends.

Akshaya Moondra: Sachin, to answer your other two questions. As far as the covenant breach is concerned, while the reduction of net worth does create impact on debt equity, but as we have mentioned in our financial statements from March, we have had a breach of covenants since then, and we have got waivers from some lenders while other lenders are saying that they would want to keep a watch as they did not want to grant us waivers straight away, so that situation does not change very much as far as from a breach perspective is concerned. Secondly, in terms of Capex guidance, as I already mentioned in my opening remarks, and has also been alluded in our press release, our Capex guidance does stand revised from Rs. 170 billion to Rs. 130 billion for this financial year.

Sachin Salgaonkar: And this is taking into account integration as is? With the amount reduction from Rs. 170 billion to Rs. 130 billion, what has changed from our overall spending perspective?

Ravinder Takkar: Sachin, three things. One, we have negotiated better pricing which has given us benefit, which we did not know about at the time when we came up with this guidance. This benefit has come from lower pricing and the fact that we have actually done de-segregation of components which eventually ends up giving you better pricing. The second part is that capacity predictions that we had for the year, our demand is coming out to be slightly lower, so in some ways we move this Capex to the next year because obviously we don't need it. Although, if demands go up, we can add capacity this year, but we see that this will be rolled over to next year. The third part is that we have done some additional focus to make sure that our Capex is going in our high priority areas or the districts which are very important, and then we have de-prioritized some of the weaker areas where we didn't expect good returns and that also has reduced some of the Capex.

Sachin Salgaonkar: The number of tenancies from towers, you don't see that to change or the number of towers you are leasing from the tower companies?

Ravinder Takkar: Generally speaking, that is flat.

Akshaya Moondra: There is no change in that strategy. The change is only in terms of creating new capacity or coverage in some cases.

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

Sanjay Chawla: My first question is on the customer losses which are still happening, we saw almost 9 million reduction in the customer base last quarter, what exactly is driving that? When do we see customer base stabilizing? Also, if you could share your thoughts on what really will be the impact of Jio phone price cuts that happened in early October in the context of customer net adds and the customer losses? That is the first question.

Second question, are you still looking at 178,000 sites by the end of this fiscal now? Or are we looking at a higher number? A related question, your unique mobile broadband sites is not growing, when do we see a pickup in this metric, and how soon do we get closer to the 185,000 sites that you have in terms of MBB unique sites?

Ravinder Takkar: Sanjay, let me try to answer your first question around the customer losses or churn. As I mentioned in my opening speech, we are seeing consistent decline in churn, and quarter-on-quarter, we saw churn decline from 3.7% to 3.5%, and this is the lowest churn that we have seen. I can also tell you that September month has seen the lowest all-time churn as well, so we are seeing month-on-month improvement taking place as well.

When I see where exactly is this churn happening, the good news is that the churn on the 4G customer base is significantly lower than non-4G. On 4G which is our high-value customer base, there we are actually doing well and as you have seen the numbers, net additions are positive and improving. The churn is mostly on the 2G and we also see that it's happening mostly on the low end sub. When we introduced the minimum pricing plans, many of the customers churned out at that time, but there are people who still tend to be in that category, who still are staying, some time they decide to churn or they are using this as a second SIM, and at times we see an activity on those SIMs and sometimes they come back.

We are seeing better results in integrated markets and as we integrate remaining circles and especially our strength markets, we would see churn coming down even further. We see better strength in 4G and we will see that 2G base will also start to stabilize. Some of the other things that we have done on product side is the Rs. 45 product that we talked about, that has already started to show traction. By the end of the financial year, we will come to a point where we will have stabilized base. Also, our gross adds is going up, which is also helpful in getting our churn and our overall net additions in a more stabilized form.

Sanjay Chawla: Has this Jio phone price reduction caused an uptick in the churn since October?

Ravinder Takkar: It's a little bit too early to talk about that, but I don't think there is any particular thing that we can say. Our October trends, as I told you earlier, we were quite happy with.

Akshaya Moondra: Sanjay, on your question on number of sites, we are still targeting to achieve roughly 178,000 to 180,000 sites that we had guided at the time of merger. The only thing is that on some of these sites we would not exit because sometimes it's cheaper to continue paying rental instead of exiting, because the exit penalty is quite high, so some of those cases may be there. In terms of the number of sites required by us, that range remains unchanged. In terms of the broadband sites as disclosed in our quarterly report, we are currently at about 158,000, which is about 20,000 short of 178,000. This gap would be significantly bridged by March 2020, but as we said that we did decide that we will not provide 4G coverage in some of our non-priority areas, so it may not go up to 178,000, but the large part of this gap would be covered.

Sanjay Chawla: We expect some improvement in unique sites from this quarter onwards at least? Because there are only two quarters left, we haven't seen any uptake in the last three, four quarters.

Akshaya Moondra: It has gone up by about 3,000 in the last two quarters, it is not static, but probably we will see a faster increase in this number of sites in the two coming quarters.

Sanjay Chawla: Akshaya, if I could just squeeze in a couple of quick questions. What was the EBITDA you generated from domestic net interconnect revenues in this quarter? Also, there is gap in the total AGR liability that you mentioned of Rs. 440 billion and what you have charged Rs. 257 billion and Rs. 167 billion that you explained, gap of Rs. 17-18 billion. What exactly is explaining that?

Akshaya Moondra: As I said in the beginning, maybe you missed that, Rs. 17 billion is the provisions which are already made by us earlier.

Sanjay Chawla: That's already provided?

Akshaya Moondra: Yes, that's already provided for. In terms of the EBITDA impact of interconnect, that is in the ballpark of about Rs. 300 crores for the quarter.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Two questions. One, on the mobile broadband addition, though we are seeing 4G addition, but it is not driving your mobile broadband addition. I think it's very critical because until and unless we drive mobile broadband addition, it will not drive the revenue because subscriber moving from 3G to 4G really doesn't add too much value in terms of ARPU. So have we seen this trend changing wherein the 4G addition is leading to a meaningful addition in mobile broadband?

Ravinder Takkar: Sanjesh, we do see an increase. The best thing for us to do is also to move 3G customers to 4G, because these are our customers today and they trade up. In regard to saying that there is no ARPU improvement there, I don't think that's necessarily true as well, because as they move up, they end up being on higher data plans because they consume more data, which also in some ways leads to ARPU improvement. We are adding thus not only new customers from the market, we are moving customers from 3G plans over to 4G plans and many times that leads to more data and ARPU upgrades. We also continue to move 2G customers to 4G as they acquire 4G handsets. This number is still positive, but we are recruiting customers from all three of those categories that I talked about earlier.

Sanjesh Jain: Have you seen this trend increasing in September and October month, which we mentioned?

Ravinder Takkar: Yes, as I mentioned earlier, we had very good numbers in September and October. It certainly has improved. Also, as we move UL voice base to UL daily data plans, that also tends to improve ARPU markers.

Sanjesh Jain: The second one is on the outgoing tariff charge as being charged by Jio. Have you seen any benefit on that front in terms of either some of the 3G subs who are going to 4G or buying a new 4G handset over earlier? The portion of consumer moving to Jio has reduced or have we been able to regain some of our lost customer who continue to use our plan on minimum recharge, any of those behavior? Because it looks like Jio is changing tariff and it is making again all-in-one bundles to bring the convenience, so I guess they would have seen some pain, at least by just charging another voucher.

Ravinder Takkar: Sanjesh, it's a bit too early to comment because, they made these changes very recently, so I don't want to start speculating. I think what is clear is that strategy is a bit confusing and I imagine if it is confusing for me, it's confusing for customers as well, because you don't know which call is on-net, which call is off-net. This is obviously a challenge for them which they considered and then they made another move in which they bundled everything together, back in the way they used to earlier. Then they put limits and then they have some other data packages or reduced validity, so I believe this will have an impact, but it's too early to say what that impact is going to be.

What I can also tell you is that the trends on MNP port-outs have certainly reduced, although MNP port-out is a small part of the overall activity, which means that customers who are porting out potentially to Jio from us, that has come down. I think in some ways it is an indication, but probably a bit early to say.

Akshaya Moondra: Sanjesh, if I may add, we have seen the overall trend in the net port-outs under MNP improving over the last two quarters and in September and October, there have been further improvement.

Sanjesh Jain: My only reason for both these questions has been, how sustainable is this month-on-month growth or it is an effect of some competitive intensity coming down? Do you see this month-on-month revenue growth which we have talked in the month of September and October sustaining for the rest of the year?

Ravinder Takkar: I don't want to start predicting because this is a Q2 call, and I am not going to give guidance for the future. We have already given you an indication and then not talking about competitors and their intensity, the work that we are doing in integrating markets, the focus of that we have on 4G and unlimited base, as well as improvement in customer experience and network, we believe is what is driving our 4G base and is driving our unlimited base. That to me is the right way to try and grow revenue eventually.

The other part that has been talked about earlier in the call is that this is an investment cycle game. Our competitors invested earlier and they were getting benefit of that earlier than us. Our investments, as we integrate circles, are coming to fruition now, and we will hopefully enjoy the benefits of that investment as they continue to come live and our customers get to enjoy a better experience and capacity in those markets.

Moderator: Thank you. We take the next question from the line of Varun Ahuja from Credit Suisse. Please go ahead.

Varun Ahuja: I have got a few questions. First, on the liabilities from the AGR, need just a little bit of clarity. This Rs. 440 billion liability that you have recognized, is this based on your assessment or is it from the DoT that you received the absolute amount? It seems like a lot of the news articles suggesting that they have asked you to pay on a self-assessment basis, and some other media articles quoting that DoT internal estimate is around Rs. 540 billion. Any clarity on that front? Is that the final amount or there will be some adjustment on the lower side or on the higher side, irrespective of whatever waiver we get from the government or Supreme Court?.

Second, what role government has in this AGR issue? Clearly, there are lot of talks in the market that it has come from Supreme Court, so there is very little leeway that the government can have. In your opinion and in your legal discussion that you had, how much role government can play and how much of it has to come through Supreme Court review petition?

Third, also there have been some discussions that you may look to exit some of the service areas in order to improve your financial health. How do you see it in terms of exit in weaker service areas. Do you see that it is a critical part of a strategy to have a pan-India presence? Obviously, the telcos over the last few years have painstakingly increased their presence to become pan-India players. How do you see, if it goes other way round reducing service areas?

Fourth, looks like there are a lot of feature phones on your network. Bharti has clearly been taking a position where they want to focus on the higher end side, they are trying to get their customers move from feature phone to the smartphones. How do you see this segment as a whole? Because with Jio getting aggressive in feature phone segment, you seem to be getting impacted most. Where do you want to position yourself, more on preserving feature phone side or more on the premium side?

Ravinder Takkar: Thank you very much. I will answer the three questions and then will hand it over to Akshaya to talk about the liability of the AGR amount and the calculations.

You talked about where do we see the role of the government because it's the Supreme Court judgment? First of all, let me talk about what we believe are our legal remedies, which is we have a review petition that I mentioned earlier. We are working on it and we'll be filing fairly soon. We also have something called a curative petition which can be filed, it goes to a five-judge bench which could potentially be different than the bench that gave the original judgment. These are our legal remedies and of course we are looking at those very closely.

In regards to the government, our belief is that providing relief from this judgment is very much in the hands of the government. They have the ability to do it because they are the winners of this case. As a winner of this case, they can decide to choose how they wish to proceed on that, so I don't see any conflict in government being able to make a decision that they would like. Certainly, given the stress on the sector and the criticality of the sector, it gives probably additional ability to the government to act in the interest of overall economy and consumers. I think we don't see any problem there from our perspective, in terms of government being able to act.

Then you talked about exiting some of these service areas. No such intentions there, so there is not much to talk about. We are a pan-India player and we will continue to be. The only thing that I would say is that our investments are very directed, meaning most of our Capex goes into our high priority areas. This is where we are super competitive, and we will always want to remain competitive, whereas the additional investments in those areas where we are weaker go only in limited areas and places that we want to compete in. I think that part will continue, but no discussions about exiting any service areas.

Then your fourth question was around focus on the high end. I thought I was fairly clear in my earlier remarks and all I want to say is that our focus is very much on 4G and UL. This is where we are seeing strength, this is where we are investing all our Capex in, this is where our engine is going and this is where we are starting to see green shoots, so I think this is the right place to be.

Jio's attempt to be on the 2G Jio phone side, is not something that we will play on as we have never played in the low end feature phone category.

Akshaya Moondra: Varun, on your question on liabilities, as I had mentioned in my opening remarks, wherever the demands of DoT were received by us, we have used that demand as a basis and made fundamentally one correction, which is the cash versus accrual basis. There are many other things which need to be reviewed and these are demands pertaining to 22 separate circles, so each one has a separate demand. In the context of Vodafone Idea, there were two separate entities earlier, so there are separate demands for each of those two entities. Then it is over a period of 13-14 years, so to come to a more accurate number, it will take some time. Fundamentally, we have taken DoT demands and made very obvious corrections and I believe there is room to make some more corrections. Also, for the period where the demand was not received, we have estimated the demand ourselves that will be more realistic, but that is the last two or three years depending on circle and entity.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, we take that as our last question. I would now like to hand the conference over to Mr. Ravinder Takkar for closing comments. Over to you.

Ravinder Takkar: First of all, I want to thank all of you for taking the time to join this conference. As I had mentioned in my opening speech as well, we have started to see some positive trends in our operational results. We have a lot of work to do and we continue to move very fast on integration and we are accelerating it further to complete by March 2020. We hope to continue our focus on 4G and unlimited subscribers.

Our engagement with the government continues to be quite positive and we believe that there will be some action taken by the government and we hope to hear that in the coming weeks. Overall, we are driving our agenda and our strategy in the right direction and we hope to continue to do that. I look forward to talking to each one of you when we announce our Q3 results. Thank you very much.

Moderator: Thank you very much. On behalf of Vodafone Idea Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.