“Vodafone Idea Limited Q2 FY23 Earnings Conference Call”

November 04, 2022

Moderator: Good afternoon ladies and gentlemen. This is Faizan, the moderator for your conference call. Welcome to the Vodafone Idea Limited Conference Call.

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. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Akshaya Moondra – CEO of Vodafone Idea Limited and Mr. Murthy GVAS – EVP, Finance and Accounts of Vodafone Idea Limited along with the other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on 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 discussion on today's call may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risk that the company faces.

With this, I now hand the conference call over to Mr. Akshaya Moondra. Thank you and over to you, sir.

Akshaya Moondra: Thank you, Faizan. A warm welcome to all participants to this earnings call. Our Board of Directors adopted the unaudited results for the second quarter of FY23. All the results related documents are available on the website and I hope you had a chance to go through the same. I will start with a briefing on all our strategic initiatives and key highlights for the quarter. Post this, I will hand over to Murthy to share details on the company's financial performance.

<u>Let me first talk about recently concluded India Mobile Congress</u>

At IMC, the company showcased a wide range of real world 5G use cases for enterprise as well as retail customers including use cases which are targeted towards social transformation and benefits. All these use cases are being developed in partnership with leading technology companies and domain leaders.

The 5G use cases demonstrated for enterprise include Public Safety, Connected Healthcare with Smart Ambulance, Private Networks, Industry 4.0 with IoT powered Autonomous Guided Vehicle. We demonstrated how our future ready 5G capabilities combined with Artificial Intelligence and Augmented Reality can act as a catalyst to improve safety of construction workers using the Digital Twin technology.

The honorable Prime Minister of India made the first call on Vi 5G live network at IMC and experienced the Vi 5G Digital Twin technology to take an immersive tour of under construction Delhi metro tunnel in Dwarka and also interacted with workers at the construction site. This digital twin technology has immense potential at construction sites, smart manufacturing, crucial remote site such as oil and gas wells, mining or similar situations in remote high terrain and difficult environmental conditions.

With the focus on empowering businesses to grow and reinvent in a dynamic digital ecosystem, we are also working with partners and customers to build Private Network solutions to drive Industry 4.0 for real world deployments. In IMC, we successfully demonstrated how our Private Network can improve operational efficiency, meet growing connectivity requirements at large facilities and provide secure and seamless coverage for devices through a dedicated network.

We also showcased other digital and futuristic use cases like Cloud Telephony solutions, Unified Communications as a Service and Smart Mobility with Electric Vehicle. These solutions have widespread applications and usage, across many industries, in both large and small enterprises.

On consumer use cases, we showcased a preview of an industry first Cloud Gaming experience to our customers. Our demonstrations also included use cases for many social transformation initiative like SmartAgri which is a revolutionary deployment for agriculture sector using IoT, Sensors, Cloud and Artificial Intelligence to provide precise real time and localized farm advisories to small and marginal farmers and enhance their livelihood. Our endeavor to support Digital Education in the country continues with Gurushala which is a cloud based collaborative knowledge exchange platform for teachers and students.

To drive 5G ecosystem development in the country for faster adoption of services, we have partnered with leading device OEMs to have Vi 5G provision for its users in time for market rollout. We are ready for the next journey of growth with 5G technology where a connected world with limitless digital solutions will soon be the new norm and we will be playing the vital role in the same.

Moving on to update on our strategic pillars

The first priority area for us is to offer superior network experience with our focused investment approach. We continue to follow our focused approach to investments bias towards our 17 priority circles which contribute over 98% of our revenue. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas.

We continue to refarm our 3G Spectrum to 4G and closed ~19,000 3G sites during the quarter. In most cases, we already had one carrier of 2100 megahertz band deployed towards 4G and hence the net 4G site addition is only approx. 8,500. As a result, even though our overall broadband capacity has expanded, the broadband site count stands at 444,228 compared to 454,727 a quarter ago. We have deployed the 4G Spectrum we won in the recently concluded spectrum auction enhancing a 4G network capacity and coverage. Further, we have the advantage of having latest 4G equipment and technology which are capable of upgrade to 5G.

We continue to offer superior customer experience as reflected in our consistent top ranking in several league tables across data and voice. We have the highest rated voice quality in the country as per TRAI's MyCall app data for 20 out of 23 months between November 2020 and September 2022.

Moving on to the market initiatives

Our unified brand Vi celebrated its second anniversary in September by delighting the customers and trade partners through various on-ground as well as digital campaigns. The brand continues to garner good reception, building brand affinity across all customer segments in the country. We did one of the kind integration with Kaun Banega Crorepati introducing 'KBC golden week with Vi', giving Vi consumers a chance to sit at the coveted hot seat. This initiative offered an exclusive opportunity to Vi customers and created a lot of excitement and stood out as a great example of the differentiated value that the brand brings to the table.

In last one year, we have taken several tariff interventions including entry level plan. We continue to focus on getting more customers on 4G/Unlimited plans for further ARPU improvements even without the tariff increase. We have seen ARPU grow for 5 consecutive quarters now. Q2 FY23, ARPU stands at Rs. 131 compared to Rs. 109 in Q2 FY22, a growth of 19.5% year-on-year. However, it is important to note that despite the price interventions made in the last one year, the tariffs in India continue to remain at unsustainable levels and we believe that industry needs further tariff corrections to support the continued investment going forward.

Moving on to business services

Business services or enterprise segment is one of our strength areas owing to our longstanding relationship with our customers as well as our ability to leverage the learnings from Vodafone group in various global markets. We continue to make progress in line with our stated strategy of transformation from Telco to Techco. Our planned expansion of services beyond pure connectivity has seen good traction and we continue to work with multiple partners to make our offerings more relevant to enterprise customers.

Our leading solution Cloud Telephony is CPaaS that is Communications Platform as a Service, which is helping various enterprises across industries to automate and digitize customer connect and enhance their customer conversations on 24/7 basis. As enterprises continue to get benefited by Cloud Telephony Solution, we have further strengthened it with option of unlimited calling, so that customers can plan their operating expenditure with various unlimited call offerings as per their needs and automate business processes through multichannel communication and application integration.

On IoT, we continue to maintain our strong position with innovative solutions for large enterprises as well as for small businesses. We are the leader in Smart Metering as per Frost & Sullivan data for Q1 FY23. We are currently working with over 25 power distribution companies, powering 2 out of every 3 smart meters in India. We aim to strengthen the government's Digital India mission and transform the country's power distribution sector through our IoT Solutions.

Our partnership with C-DOT to collaborate and work jointly to simplify IoT solutions deployment is bringing standardization and interoperability among devices and applications as per 'one M2M' standard in the country. Our IoT Solution is the first to provide end-to-end Automotive Industry Standard 140 compliant solution that includes certified AIS 140 2G and 4G devices, dual profile eSIM, IoT connectivity, management platform and managed services.

Our IoT eSIM is also enabling connected cars for one of the largest automobile companies in India and we continue to witness adoption by others as well.

Our strength in the IoT segment has been consistently recognized over these years by our customers, the CIO community as well as reputed analyst firms including Frost, IDC, Counterpoint, and Berg Insight.

On our industry first integrated IoT, we have seen numerous deployments of our Smart Mobility and Smart Infrastructure solutions across FMCG, manufacturing and automotive sectors. Our strength in the Smart Mobility segment continues to grow as we are witnessing traction in the automotive and electric vehicle segment.

As part of our strategy to transform from Telco to a Techco, we continue to build our Cloud and Security portfolios. We are working on our cloud strategy through a combination of our own assets and strategic partnerships in order to accelerate digital transformation for enterprises. Our security services are serving the growing security needs of enterprises as they embrace digital ways of operations.

We continue to support SMEs and MSMEs in digital adoption, transferring their businesses and making them future ready with our recently launched 'ready for next' program which helps in assessing the digital needs of the customer and then offering them the right set of solutions.

In the growing hybrid working scenario, Vi Business Plus Mobility Bundling solutions are enabling today's mobile work force to connect, communicate, collaborate and do a lot more with their postpaid plans. With unique features like data pooling, Vi Business Plus provides superior customer experience with seamless and uninterrupted high speed data.

<u>The next strategic initiative is driving partnerships and digital revenue stream.</u>

We are aggressively executing our digital strategy through partnerships in our continuing journey of being a truly integrated digital services provider. Over the last several months, we have significantly expanded our digital portfolio with addition of music, gaming, jobs and education and we continue to add various features to our offerings.

We have also launched our own ad tech platform called Vi Ads in the previous quarter which empowers marketers to engage with Vi users as per their own targeting requirements on both Vi media assets as well as external media channels and publisher partners of Vi Ads. It is going to help us drive the monetization of our digital assets as we aggressively build and scale the same.

As you would be aware, the company had launched Vi Games which provide variety of individual hyper-casual games in partnership with Nazara Technology, one of the largest gaming companies in India. We further enhanced our gaming proposition with the launch of multiplayer games or what is commonly referred to as social gaming which enables Vi customers to play various games with their family or friends or compete on daily tournaments with other players on our platform. The uniqueness of our proposition is evident with the depth of engagement wherein on an average active game play time per user is almost one hour in a day. While we continue to expand our game catalogue within the existing propositions, we will soon be bringing E-sports into V-Games to cater to pro-gamer or Gen-Z. E-sports as you all know is a growing phenomenon especially amongst youth. We will not only enable users to engage in sports through the range of tournaments on our platform, but also introduced live e-streaming of e-sport tournaments for our user which again is a fast-growing category.

Further, in line with our focus to offer the best entertainment services to our customers and drive deeper engagement through music, we are in the process of launching live events and music concerts in association with our music partner, Hungama exclusively for Vi users where Vi users can watch Live music concerts by renowned artists on their smart phones. This will be a weekly affair with 52 events in the next 12 months.

On the back of all the digital initiatives, we have witnessed considerable growth in our monthly average users on our digital app over the last few months and we are confident of accelerating this further in the coming quarters as we continue to expand our footprint into the digital ecosystem. Our focus to build a digital ecosystem with our partners enabling a differentiated experience for Vi users will help us to drive consumer stickiness as well as provide incremental monetization opportunities.

<u>Moving on to other highlights for the quarter</u>

We registered the fifth quarter of sequential growth with revenue for the quarter growing 2% quarter-on-quarter and which now stands at Rs. 106.1 billion. ARPU improved to Rs. 131 versus Rs. 128 in Q1 FY23. On year-on-year basis, ARPU witnessed strong growth of 19.5% aided by tariff hikes and subscriber upgrades. The subscriber base declined to Rs. 234.4 million versus Rs. 240.4 million in Q1 FY23. However, the 4G subscriber base continue to grow and with 1.5 million customers added in Q2, 4G base now stands at Rs. 120.6 million.

The overall data volumes were up 5.4% quarter-on-quarter. We continue to see the increase in the data usage for broadband customer which now stands at ~15 GB per month versus ~14.3 GB per month in Q1 FY23.

Moving on to fundraising

As you are aware, between March 2022 to July 2022, company has raised Rs. 49.4 billion from promoters. This fund infusion clearly reflects the promoter's commitment to Vi and their belief in long-term prospects of the company. ATC India is one of the largest infrastructure service provider for the company and both entities have a strong long-term relationship. In the spirit of this partnership, we are pleased to announce that ATC India has agreed to subscribe to the optionally convertible debenture amounting to Rs. 16 billion. These funds will be used to pay certain agreed amounts over to ATC India under the master lease agreements and, to the extent of remainders, for general corporate purposes. The issuance of OCDs will be subject to certain conditions precedent, including the approval by Vi shareholders and the conversion of the interest from deferment of Adjusted Gross Revenue and spectrum dues to equity by Government of India.

The engagement, cooperation and support through this transaction reflects ATC India's underlying confidence in the company and its plans. Both parties remain committed to develop a top quality nationwide 4G and 5G network as well as contribute towards India's digital transformation. We believe that the step will facilitate further capital raised by the company.

Let me now talk about the recently released Draft Telecom Bill.

While we will be sharing our inputs with the government, we would like to laud the government on the new Draft Telecom Bill. Telecom and Digital industry is evolving at a rapid pace. The government has recognized this and has proposed a future for telecom law doing away with the old acts. It is a step in the right direction with simplified rules to guide the sector forward. It also allows government to respond to evolving situations in order to presume consumer and larger public interest and maintain competition. We look forward to this expeditious implementation of the new telecom law.

With that, I hand over to Murthy to share the financial highlights for the quarter.

Murthy GVAS: Thank you Akshaya. A warm welcome to each of you. On the quarterly performance, revenue for the quarter improved by 2.0% as compared to the last quarter. We have thus registered a sequential growth in revenue for each of the last 5 quarters. EBITDA for the quarter excluding IndAS 116 impact improved to Rs. 21.2 billion compared to Rs. 21.1 billion in Q1 FY23 driven primarily by higher revenue and savings in spectrum usage charges. These have been offset by higher network expenses primarily due to increase in power and fuel rates and consumption, AMC cost for warranty period where it has expired for certain equipment as well as new site rollouts. Additionally, the higher customer acquisition costs have also offset the benefit.

While the operational EBITDA has improved, the post IndAS 116 EBITDA has declined by Rs. 2.3 billion as compared to last quarter as the rental changes are accounted below EBITDA. The EBITDA margin improved as compared to year back and have increased from 16.6% to 20.0% clearly reflecting the operational leverage.

Excluding the impacts of IndAS 116, the depreciation and amortization expense and the net finance cost of the quarter stands at Rs. 43.3 billion and Rs. 51.1 billion respectively vis-a-vis Rs. 56.6 billion and Rs. 60.3 billion as reported respectively. As the recent acquired 5G spectrum is yet to be put to use, there is no amortization interest charge to P&L on account of this during the quarter.

The capex spend during the quarter stand at Rs. 12.1 billion vis-a-vis Rs. 8.4 billion in Q1FY23.

The total gross debt excluding lease liabilities and including interest accrual which are due as of 30th September 2022 stand at Rs. 2,203.2 billion. Out of this, Rs. 2,052.4 billion is due to the government towards deferred spectrum charge obligations of Rs. 1,366.5 billion and AGR liability of Rs. 685.9 billion. The debt from the banks and finance institutions stand at Rs. 150.8 billion. Cash and cash equivalent at Rs. 1.9 billion as of September end as resulting in the net debt of Rs. 2,201.3 billion.

In the last one year, the exposure to banks and other financial institutions have been reduced by Rs. 265 billion on account of debt repayment of Rs. 93 billion as well as return of bank guarantees worth Rs. 172 billion in line with the reformed package announced by the government.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: My first question is on the revenue driver, so you have seen 2% growth this quarter, what is the driver for that, it is mostly up-trading in top-ups?

Akshaya Moondra: Kunal, there is a revenue increase in consumer segment and also revenue increase in the enterprise segment. In the enterprise segment, it is a mix of multiple streams of revenue. In the consumer segment, I would say that there is an increase in ARPU which is driven by some pricing interventions and some upgrades which has been partly offset by the decline in subscribers, but all in all, it has been a positive impact on the overall consumer revenue.

Kunal Vora: And on the postpaid changes which you made earlier this week, would that have any impact on ARPU?

Akshaya Moondra: I think the postpaid proposition which have been launched was driven more from the point of view of revamping our postpaid offering and so it would ultimately have an impact on ARPU with attracting more customers to the postpaid segment. However, there is no price intervention of any nature which is increasing the price for the same offering, but this is basically to make the postpaid more attractive to get more customers onto the postpaid.

Kunal Vora: And my second and last question is, if I look at the bank borrowings, it has gone down from Rs. 23,000 crores to Rs. 15,000 crores over the last one year and again that like there has been an increase in vendor payables, how do we see this going forward, what would be the priority in terms of cash allocation going forward, like till the time funding comes through, will it be capex, vendor payables, bank repayment, if you can talk about that?

Akshaya Moondra: We are currently in discussions of funding with the banks. Definitely, the operational payments take priority and that is what we are trying to do. In terms of capex, given the time we have always said that till the time the funding is in place, any significant capex increase is not possible. So, I think our priorities are operational payments, lender payments and then capex investments.

Kunal Vora: But over the last one year, I think the priority seems to have been bank borrowings which have been repaid, so would like the Rs. 15,000 crores bank borrowings which you have, will that come down further ?

Akshaya Moondra: There is a schedule of repayment of loans which we continue to pay on the scheduled date, so that we continue to follow. We are trying to close the funding quickly, so that some of the backlog of vendor payments that we have that can be addressed.

Kunal Vora: Thank you Mr. Moondra and congrats for your new role.

Akshaya Moondra: Thanks Kunal. Thanks a lot.

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

Vijay: My question is about fund infusion and equity, we all know that it is going on for a long time and then is there any other end of the tunnel that you see or can you throw some light on that?

Akshaya Moondra: The funding discussions have been going on. This was largely dependent on two things, first was the return of the bank guarantees by the DOT which happened in early April and post that the second most important event which needs to be completed is the government conversion into equity. So, I would say that the discussions are in an advanced stage and we should be able to conclude those once the government conversion is in place.

Vijay: The subscriber churn which has been continuous flow quite some time is somewhere indirectly dependent on these two factors?

Akshaya Moondra: Yes, the subscriber churn may indirectly be related to this because as we have said that wherever we are operating our network where we have coverage and presence, we have the best quality network which is reflected in the external agencies reporting on our data download speeds, on voice quality, the TRAI report as I mentioned has rated our network to have the best voice quality in 20 out of the last 23 months and similar external reports on data speeds also corroborate to the same fact. So, I think our challenge is not quality of network, on coverage where we do not have 4G network currently that is definitely impacting us and yes, that part of the risk that we run to expand the 4G coverage that is dependent on the funding and to that extent you are right that the churn is getting impacted because of the funding not being available today.

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

Vivekanand S: So, my two questions, first of all could you talk about the growth across various segments of your postpaid business, corporate, retail and machine to machine and if possible, if you could share or give some sense of the contribution to your postpaid base? Secondly, on the network side, I am just trying to understand last time Akshaya, we were looking to expand our population coverage and that was dependent on external fundraising? Is 5G rollout also dependent on external fundraising and as a book keeping question on the network side, how many 3G sites are left to shut down now?

Akshaya Moondra: So, your first question is concerning the postpaid analysis, all that I can say is that if we look at this in three parts, one is the consumer business, second is the enterprise business, both has similar trends, they are the dominant segments. Generally, some of the work used to be consumed with corporate accounts, some of them are also converting to individual accounts. That is the general trend in the industry, but both of them continue to be strong segments for us. The third segment which you are talking about is the IoT plus M2M segment. That is the one which is actually seeing the best growth and so I would say that this is the smallest segment today, but this is the one which is showing the fastest growth. Beyond that I think we will not be able to share more details on the specific bifurcation of these segments.

Your second question was relating to network and the dependence on 4G population coverage expansion on funding and also the same question about 5G rollout, so it is right that both the 4G coverage expansion and the 5G rollout would both depend on the funding. The plan that we have presented for the purpose of arranging funding includes the 5G investment, so both the 4G and 5G rollout expansion coverage increase and the 5G rollout is dependent on funding. On 3G, I will not be able to give you exact details, but let us say that 3G we have almost shut down about 50% of our sites and the balance are also being closed in a graded manner. This is somewhat dependent on two factors. One is the number of handsets which are on 3G in a given geography. Secondly, it also depends on what is the marginal benefit of getting the capacity, so if you have more than one carrier of 2100, then sometimes it makes more sense and if we have only one carrier, it may make less sense and it also depends on whether your hardware is already enabled on 4G, so those are some of the finer points which have to be considered, but in general I would say that we are expecting to get out of 3G at the earliest possible. In some circles we have exited 3G completely.

Vivekanand S: Just couple of follow-ups, so one is, what is holding back the government as far as the conversion of the deferment of AGR and Spectrum dues into equity is concerned because you are highlighting that the discussions are in an advanced stage and waiting for the government's equity conversion, so that is one follow-up? And secondly, I missed the explanation you gave on the number of sites in total not increasing that much despite rather reconciliation between the total broadband sites and the disclosure on how much you shut down in Vi and addition on 4G?

Akshaya Moondra: So, let me continue with the second question first which is in line with the network discussion we were having and then I will come to the conversion part. Generally the way broadband sites are counted is that 2100 3G site is counted as one site and the 4G FDD site on 2100 is also counted separately. So, suppose you had the site on which you had 2100 3G as one carrier and 2100 4G as one carrier existing and if you convert the 3G carrier into 4G, then it would actually appear as reduction of one site on the broadband portfolio, so this is what is happening, if there is a carrier already existing on 4G and another carrier is converted from 3G to 4G, then you would see it as a reduction in the number of broadband sites which would offset the increase in the new rollout of 4G sites.

On the second question relating to the government conversion, you see, basically we are in discussion with the government and I also do not know exactly the reason why this is not happening, government is taking some time. From our point of view, we had exercised this option to convert in January. Post that, we also had a discussion with DOT, they had sent a letter to us in March and then we had confirmed the amount of conversion which was agreed between DOT and us in the month of April. Post that, we have had no communication from DOT in this matter, so we continue to be engaged with DOT and we expect that this should happen soon.

Moderator: Thank you. The next question is from the line of Rishabh Dhancholia from HSBC. Please go ahead.

Rishabh Dhancholia: So, on the new postpaid plans that we have launched, Rs. 700 and Rs. 1,100 price points also have unlimited data plans which is new in the industry, can we learn more about the rationale behind the same and what it could signal for the competitive intensity in the market?

Akshaya Moondra: I would not specifically be able to comment on what is the rationale for a specific plan. As I had mentioned earlier that we have kind of revamped our postpaid offering, so that more people are attracted to the postpaid which generally is a sticky proposition. People stay there longer, there are more offerings which we can give to them in terms of the OTT content which is bundled with these plans, so ultimately it is an analysis of what is it that we are offering and I mean even whether you have an unlimited plan or you have a large data plan, the usage is somewhat governed by what the person will use, but it just gives the freedom for the person to have that comfort that I am not constrained. So, I would say, ultimately the whole objective of this postpaid offering is to kind of come back with the postpaid offering which then is attractive to the market and we can grow our postpaid portfolio.

Moderator: Thank you. The next question is from the line of Akshat Agarwal from Jefferies. Please go ahead.

Akshat Agarwal: I have two questions, firstly, your enterprise revenues have grown quite rapidly in the second quarter, what has driven this growth and what sort of growth can we expect from this revenue line? The second one is just a book keeping question, why our network and SG&A cost increase rather sharply in this quarter again?

Akshaya Moondra: So, the network cost I would request Murthy to answer and in the meanwhile I will come back to the enterprise revenue growth question.

Murthy GVAS: So, Akshat, the increase in network cost largely is on account of few factors, higher power and fuel cost on account of both consumption and rates, additional one day in this quarter as compared to the previous quarter, then as I mentioned earlier the AMC cost has also increased on account of equipment coming out of the warranty and then of course we had some additional sites which were rolled out this quarter. So, it is a mix of all of them and while the post 116 obviously shows an increase, I think you need to look at it from operational perspective which would take care of rental changes and therefore that element is much lesser.

Akshat Agarwal: And the SG&A cost?

Murthy GVAS: The SG&A cost increase is on account of largely certain advertising spends that we have done during the quarter as well as increase in the gross ads in the quarter.

Akshaya Moondra: So, on the enterprise revenue, there is a significant amount of increase which is coming from the wholesale voice business which also results in a consequent increase in the connect cost, so that is reflected in the cost increase there also, but other than that there is an increase in revenue and other streams also. One of the major revenue increases is coming in the India incoming calls where there also has been some price intervention and also the international SMS, so these will continue to grow. Again, as I said, IoT is a segment which is showing good growth, so this is the segment which will continue to grow. So, while I cannot give you specific guidance, but enterprise space is an area where in the interim we had some losses when there were concerns before the reforms package. Post that, we have been getting good traction. Even in the FLD business and all, our new order while some of this would convert to revenue a little later. Our order booking has been good, so we will see some conventional streams of enterprise business which will grow in the normal way, but there are items like IoT, smart metering and all where there is a large opportunity where growth will be fast. One of the areas which I talked about is smart metering where I understand that the government has vision of getting about 250 million meters connected, out of which I understand today only about 10% of those meters are connected. We have a leadership in that segment with almost 2 of every 3 meters which are from our connections. So, that is again a very high growth opportunity. So, as I said enterprise business would continue to be a mix of conventional growth which is at the steady rate, new revenue streams which will grow at the faster rate and as I said we have also showcased multiple opportunities in the IMC on the enterprise business and we continue to work in with our partners to develop some of those use cases which can then become new business opportunities going forward.

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

Pranav Kshatriya: I have two questions, firstly, you have done this deal with ATC for optionally convertible debentures, can you just detail what are the contours of the instrument in terms of how much is the duration and at what level or when it gets converted and can you try and use the similar instrument for reducing your almost Rs. 15,000 odd crores trade payable, so that is my first question? And second question is regarding the 5G rollout timeline, I mean you did mention that it is contingent on the fundraise, but what I am trying to understand is that after the fundraise, you think you will be able to rollout very aggressively considering the competition is already at pretty aggressive plans for their rollout at a pan India level, so those are my two questions?

Akshaya Moondra: On the ATC transaction, we have sent out EGM notice which has most of the details of that transaction, but the specific terms are OCD tenure is 18 months and there is some redemption which happens in between, there is some redemption which happens at the end of 18 months, the instrument is convertible anytime at the option of the subscriber which is ATC in this case. There is also an agreed threshold at which level VIL can also ask for a conversion for at least half of that quantum, this becomes available after the one-year lock in period. So, does that answer the question on the ATC before we go out to the next one?

Pranav Kshatriya: So, can you use this similar arrangement with other parties as well?

Akshaya Moondra: We have proposed this to other large vendors, you cannot do it for very small vendors, but I mean the few large vendors that we have, we have offered that. Of course, this is also governed by a regulatory requirement, so wherever it is possible there is a large vendor and by regulation it is possible, we are happy to continue doing this with other vendors also, of course that depends on what the vendors' policies and what are they interested in doing also.

Moving on to the 5G rollout, I would say that we are ready with our plans, we are engaged with our vendors, so once the funding is in place, we will be able to rollout and execute quite quickly. As you are aware, generally the rollout is fairly modular and so rolling out will not be so much of an issue also from a perspective of the back-haul now the E-Band has also been offered by the government, so that sometimes becomes one of the bottlenecks for kind of expanding any high-capacity network, so with the E-Band available I think that would also be addressed. So, we believe once the funding is in place we should be able to roll out quite quickly. Of course, I do understand that the competition has already started rolling out, so we will be behind them, but given the way that 5G handset ecosystem has now started evolving and it will take some time, so we don't think it will be a major disadvantage or any significant disadvantage if we are able to have the funding done in a couple of months and then roll out on that basis.

Moderator: Thank you. The next question is from the line of K. Thakkar from KSL. Please go ahead.

K. Thakkar: My questions are in regards to the conversion thing, I mean just now Mr. Moondra said that since April onwards, they have not heard anything from DOT, so what are their future plans regarding engaging with the government in these regards so that the funding gets concluded over a period of time because we have been hearing all these things from the investors who wish to infuse funds, expecting some clarity from the government as such and I know that the AGR thing has been long, it has been a story of the past now, but are there any plans of the company on the review petition or a curative petition in this regard in the Supreme Court for the reworking, I know it has not been allowed in the last judgement, but still any management can throw light on the same?

Akshaya Moondra: On the GoI conversion I have nothing more to add except saying that we are engaged with the government to say that what was communicated to us as a part of the reforms package, based on that the conversion should happen. We already have an agreement on the amount to be converted, so we are pursuing the matter with the government that the conversion happens quickly because that paves way for many other things, specially funding that we are planning. So, that is as far as the government conversion is concerned. Now, as far as the review or the AGR matter is concerned, the review petition is in the Supreme Court. Just to be clear, there is no bar against filing a review petition or filing a curative petition in the judgment itself. So, that is permitted. The review petition was filed last year, it has not come up for hearing, but that we will pursue it at a suitable time.

K. Thakkar: So, is there a delay in the conversion in regards to the review petition that in case there is reworking and the amounts are brought down, how would the conversion and everything take place in that regard, is there a delay due to that working or something like that?

Akshaya Moondra: No, I don't think that. Two subjects are totally unconnected and let me say that suppose an agreed amount is converted today, that gets reduced from the amount which is to be paid. Now, the installments are calculated on the amounts calculated before as per the demand and the conversion which has happened. If there is any revision in the overall amount of the AGR demand, then the conversion amount would still get deducted and the changed balance amount would determine the installments. So, the two matters are totally unrelated. There is no link between the two.

K. Thakkar: So, sir I request from you all guys to pursue with the government, the government is like, in the world it says that we are very fast enough in doing business, but these kind of things happening from DOT not replying, I think that is probably halting the fund infusion and all that and by that I will just end my question and wish you all a very happy New Year and success in the New Year itself.

Akshaya Moondra: Thank you very much Mr. Thakkar and we are continuing to pursue this with the government.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: Question is on the churn that we are seeing going up and also probably as you mentioned that our SG&A has also gone up, when we see other Telcos in this quarter because of the SUC benefit they have all seen very strong incremental margins, so just wanted your thoughts on going forward, first of all on SUC what kind of additional gains we can see? And secondly, given the fact that churn has gone up, what are the kind of trends we are seeing and what is the kind SG&A cost increases we should see because of that, should that continue to go up or we should expect them to normalize from here and see better incremental margins?

Akshaya Moondra: Before I come to churn which is a long reply, let me just address the point relating to SUC, so the SUC gains is reflected for let us say roughly half of the quarter in Q2 and balance for the full quarter will come first time in Q3. Very roughly, this would be a benefit of 3% on mobility AGR or 2% on the reported revenues because there are multiple revenue streams on which we kind of calculate the SUC. I think the overall amount is very roughly Rs. 200 crores per quarter of the overall saving. So, that is as far as the SUC is concerned. On the churn and SG&A which are related topics, as we said that one is of course this is the seasonally weak quarter, so you would have seen that while there is some differential, but everybody has seen reduction in the net ads compared to the last quarter. So, this is not specific to us, but applies to everybody. Of course, as we said that our net ads are negative because of the impact of lack of coverage. Also, we had kind of had some pricing interventions at the entry level towards the end of the last quarter. Those have given us some revenue benefit, but that has also resulted in some consolidation of the SIMs which has increased the churn a little bit. So it is a mix of some subscribers have upgraded to unlimited plans which is positive, it has resulted in some consolidation of SIMs which is negative. Overall terms, it has been positive, so that is a factor which is specific to this quarter where it has had some impact on the churn.

On SG&A, my comment would be that this cost has gone up over the last few quarters and there is a need to address this in some way, but before I come to that I would say that you would have seen our trends both in terms of the gross ads where I think 3 quarters in succession we have improved our performance and not only improved our performance, we have at least come to the point where we are getting the rightful share of the gross ads market which was very important to us to establish our competitiveness. Also, in the MNP segment, we have actually been able to address the churn to some extent and our overall performance in terms of net ads or net loss on the MNP side has actually improved quarter-on-quarter. So, I would say that while the SG&A cost has gone up, however, at the same time, this has enabled us to establish our competitiveness in the market and to give us fair share of the market where we participate them. However, having said that I think the SG&A cost go through a cycle from time to time and so this has happened in the past that these continue to go up and we then see some corrections where the trend is reversed because nobody can really sustain this kind of a cost for a long period of time. So, we do believe that there will be some correction, but basically our objective is to compete in the market, to participate in the market, get our fair share in the market. Within that premise, we would also be looking at getting more rationality to this SG&A cost which has been increasing over the last few quarters.

Aliasgar Shakir: Just one quick follow-up, so from your comments, I understand that we are certainly not at the end of that cycle of increase, I would say, aggression towards acquiring customers, right, we may see the current trends continuing for some time?

Akshaya Moondra: I mean I only said that these things go through a cycle and when does the cycle end and fresh cycle starts, I am not commenting on that right now, but definitely these are cycles we have seen several times in the past.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as the last question. I now hand the conference over to Mr. Akshaya Moondra for closing comments.

Akshaya Moondra: Thank you, Faizan. I would like to summarize by saying we have reported 5 quarters of sequential growth in several key metrics including ARPU and 4G subscribers. We remain focused on providing superior data and voice experience and are building a differentiated digital experience adding several digital offerings in the recent months. The transaction with ATC also clearly reflects the relationship that the company shares with one of its key vendors, their belief in long-term prospect of the company and build confidence towards further capital raise. We also continue to actively engage with our lenders and investors for further fundraising. All these initiatives coupled with liquidity provided by the government reforms package, direct corrections and positive impetus from Draft Telecom Bill will enable VIL to make network investments and compete effectively to improve its overall position. Thank you all for joining this call. Have a good evening and a good weekend.

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