# Idea Cellular Limited Q4FY12 Results Conference Call

**April 27, 2012**

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

We have with us today Mr. Himanshu Kapania, Managing Director of Idea Cellular and Mr. Akshaya Moondra, Chief Financial Officer of Idea Cellular along with other key members of the senior management team. 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 conference call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces.

With this, I hand the conference over to Mr. Himanshu Kapania. Thank you and over to you sir.

**Himanshu Kapania:** Thank you Marina. On behalf of Idea, I welcome all participants to this earnings call. Yesterday our Board of Directors adopted the audited results for the fourth quarter and full financial year 2011-12. The press release, the quarterly report and the results have been uploaded on our website and I assume you had a chance to go through the same.

I am sure the investor community would be keen to know our views on the emerging regulatory environment especially, after the latest recommendation by the Telecom Regulatory Authority of India on spectrum auction, its availability, timing and pricing. But we would like to remind all of you the TRAI spectrum pricing and related proposals are recommendatory in nature. The Telecom Commission and EGoM would be the governing body who would finalize the final government view on various ticklish issues as regards to spectrum pricing.

Idea Cellular has actively participated in the TRAI pre and final consultation process. Idea's view on 1800 MHz spectrum especially on eligibility, quantum of spectrum to be auctioned, pricing, 900 MHz refarming, 700 MHz auction and spectrum trading has been submitted to TRAI, available now in public space and can easily be downloadable by all from TRAI website. We assure the investor community, Idea is a serious long-term player in the Indian telecom space, has faced similar policy hurdles in the past and has always been able to find long-term profitable solutions, meeting expectations of all stakeholders especially our shareholders. I would be happy to address any investor concerns and assure them that your company will stay on course with its long-term vision and mission for the telecom market.

Now for the key highlights of Q4 – The company continues its trail blazing growth with 6.7% sequential quarterly revenue growth in Q4FY!2, in spite of one day less, on back of 8.8% quarter-on-quarter growth in Q3FY12 reaffirming the trust the Indian consumers are reposing on brand Idea. Idea continues its enviable 4-year record of being the fastest growing Indian mobile operator with financial year 2011-12 gross revenue growth of 25.8% against FY11, nearly double the wireless industry growth rate. Idea has during the last one year added 23.2 million quality satisfied customers and now serving overall 113 million customers. Our strongest franchise, this loyal customer base, provides the maximum cushion to Idea against all regulatory uncertainty and macroeconomic weakness.

The company prides itself on the quality of its subscriber base as it maintains unblemished leadership on active subscriber ratio, measured in VLR terms, across the industry. We have over 103 million customers active as on 31st March 2012, i.e. over 93% VLR of the reported base. This loyal consumer base is providing us the platform for future growth not only in the voice segment, but also in the emerging wireless data business and evolving related wireless telecom services in fields of banking, commerce, logistics, education, health, cloud, machine-to-machine etc. The company is committed to participate, invest and help to realize the potential in the new business growth area.

Before going any further, let me update you on latest development on the legal front. On 2nd February 2012, the Hon'ble Supreme Court delivered its judgment on consumer public interest litigation in the matter of telecom licenses granted on 10th January 2008 where they quashed all the 122 telecom licenses issued on the same date. Idea Cellular, one of the original mobile operator had applied for 9 new licenses in June 2006, long before the government took a decision to award licenses in 2008. It is unfortunate that a serious pioneering telecom operator like Idea Cellular is being made to suffer due to this cancellation of licenses, despite being fully compliant at each stage of the license allocation process. Idea Cellular is impacted in 7 service areas which currently has over 7.8 million subscribers i.e. 6.5% of total base. These service areas accounts for cumulative Rs. 3,500 crores of gross capital investment including EBITDA losses, 4% of our overall revenue and these are still loss making circles.

On 24th April this year in the recent clarificatory judgment, the Supreme Court has extended the date of 1800 MHz spectrum auction by the Government of India to 31st August 2012. All affected operators whose operative licenses have been cancelled can continue to operate till 7th September 2012. We are gearing ourselves to participate in a fair and transparent auction while we continue to explore all other options to protect our investors, employees and customers' interest.

As regards, Idea Spice Company's merger dispute, hearings against our appeal before the Appellate Division Bench of the Hon'ble High Court of Delhi challenging the single judge bench order dated 4th July 2011, was completed during the last quarter and the judgment is reserved. Similarly on 3G ICR case, as I had mentioned in the last earnings call the company believes it has always followed the highest standards of compliance to the telecom licensing conditions. The hearing on the 3G ICR dispute has been concluded in the Hon'ble TDSAT and the judgment had been reserved. The details of other significant regulatory and litigation matters have been separately covered under Notes to the Accounts as per Clause 41 of the Listing Agreement. All these matters are in the court and sub-judice. Thus, as a matter of abundant caution, Idea management team will not be able to take any further questions beyond the disclosure given at this stage.

Moving on to the business performance, as per TRAI latest Q3FY12 gross revenue report for the Indian mobile sector, Idea has further strengthened its revenue market share to 14.4% consolidating its third ranking in the sector. The company is happy to share that during the last one year, Idea has improved its standing in the Indian mobile industry by 1.1%. Company has for the last 8 quarters consistently delivered not only 20% incremental revenue, but over 20% VLR and minutes market share quarter-on-quarter. The performance of the company on 5 critical parameters, which we internally monitor, with reference to this quarter is as follows:

Point No. 1 - Gross revenue: With an incremental revenue of Rs. 3,383 million over Q3FY12 in spite of one day short, the company maintains its growth momentum. The company has grown by 27.6% against last year fourth quarter maintaining our momentum of double the growth rate of the sector. As predicted**,** the uptrend of an average realization per minute was halted with the decline in rate realization by 2.5% during this quarter to 42.2 paisa per minute, down from the last quarter realization of 43.3 paisa per minute, a crude reminder of market place battle and overcapacity. While challenges on the voice rate realization continues, the company remains focused to improve non-voice revenue which contributed 14.3% of revenue in Q4FY12 against 13.7% in the last quarter. We believe Idea's relentless pursuit of data business from its core customers in the mid-sized and small-sized towns in the hinterland, would be our hedge against any long-drawn price battle in the hypercompetitive urban markets.

Point No: 2 - Cash profit and EBITDA margin: This high revenue growth over the previous quarter would have naturally translated into an EBITDA margin improvement, but for one-off regulatory provision in the 'license and WPC Charges' which has been considered prudently by us. We hasten to add that Idea reconfirms no specific payment is due or likely to become due in future. The standalone EBITDA stands at Rs. 12,070 million at 22.3% margin and the same margin would have been around 25% excluding one-off regulatory provision. In spite of this large one-off regulatory provision, persistent volatile environment and multiple inflationary cost pressure, the absolute EBITDA for the company has grown by 35.8% on an annual basis from Rs. 33,262 million in FY11 to Rs. 45,159 million in FY12.

If we chart out our journey over the last two financial years, the company in difficult times has managed to increase EBITDA margin by 1.6% from 21.3% in FY11 to 22.9% in FY12. Similarly the earning before interest and tax known as EBIT has grown by 55% from Rs. 11,535 million in FY11 to 17,876 million in FY12, an improvement of 1.7% margin to 9.1% in FY12. The company's profit after tax on standalone basis in this quarter is at Rs. 2,016 million, an improvement quarter-on-quarter from Q3FY12 PAT of Rs. 1,687 million, despite significantly higher one-off regulatory provision in this quarter.

We are happy to continue our trend of generating free cash flow after fully accounting for capex and interest payments. The full year cash profit for FY12 stands at Rs. 36,079 million. Idea expects to continue on its strategy of growth. Next year capex guidance stands at Rs. 35,000 million. FY12 had frontloading of 3G investments, in FY13, capex demand for 2G and 3G business would be in line with our last 3-year journey without a specific need to bunch investments. With declining overall capex demand, improving margin and absolute EBITDA, the company is confident, that the free cash flows will provide the cushion to tide over emerging regulatory challenges and will set the company into the next orbit of competitive standing.

Net debt to EBITDA is at 2.48 level based on Q4FY12 performance providing the company enough headroom to support future strategic intents and any one time large demand.

Point No. 3 - Active subscribers: While Idea commands only 12.1% of the customer market share based on industry EOP customer count on 28th February 2012, we continue to improve our subscriber market share on VLR basis and the same now stands at 15.3% as per TRAI February 2012 report, a clear lead of 3.2% over reported subscriber market share. In terms of incremental VLR market share, Company has added 22.4 million VLR subscribers during this period of March 11 to February 12 with an incremental market share of 20.7%, thereby providing all future indications of improvement of Idea subscriber market share.

Our belief is that there is still a lot of potential in the voice business and presently less than 60% of the Indian population is active users of mobile services. As per TRAI report of February 2012, industry VLR is only 674 million and Idea is extremely well positioned to capture the future voice growth. According to our assessment, another 300 to 400 million new VLR customers are likely to join the 2G wireless business in the next 3 to 4 years. Using these bases and continued voice business VLR growth, we have presented a white paper on how the country is not ready to abandon 900 MHz GSM use and refarming will have a major disruptive impact on the existing 450 to 500 million 900 MHz users, if the current use of spectrum for voice business will be abandoned. Our white paper seeks to discover answers on objectives to be achieved from refarming including; a) is proposed refarming anti-consumer or beneficial for pure voice users? b) is an emerging market like India with less than a dollar per day per capita income ready to lead the abandonment of GSM services for futuristic data led services when developed markets like US, China, rich nations of Europe and South East Asia have no plans to abandon voice use from 900 MHz or to refarm their existing services? c) is write-off of existing 900 MHz national assets of public and government companies in country's interest and who will bear this cost? d) is the society prepared to go through the pain of refarming? e) how does nation benefit from refarming? f) how does competition improve when scarce spectrum is withdrawn from market to achieve refarming?

I would urge the investor community to study our summations on refarming and share your views in the interest of the country, society, consumers, competition and financers. Our views are available on TRAI website carrying our summations on spectrum auction.

Returning back to VLR growth, Idea has added 6.4 million net VLR subscriber additions during Q4 after previous quarter VLR net adds of 7.5 million. In the last financial year, Idea has reported an additional 23.2 million subscribers and the same is backed by 22 million VLR customers addition in FY12. Our gold standard reporting is further collaborated with the fact the company stands apart from existing industry trend of falling ARPU and is happy to share the company for the second quarter running has improved the ARPU. This quarter, average revenue per user is up by Rs. 5 to Rs. 160 against Q2FY12 ARPU of Rs. 155.

Point No. 4 - Minutes of usage: With the pitch battle in the market place, this quarter voice minutes growth has exploded by 9.1% when compared to last quarter. The daily voice minutes now exceeds 1.4 billion, an emphatic reminder of the global scale of operation, quality of company processes and its ability to manage operations even at world's lowest voice tariff. In spite of high minutes growth, the company has been able to generate an excellent brand pull on the strength of the quality of its network.

The company has consistently met all TRAI quality of service norms, in all its 22 service areas, leading in number of circles with lowest call drop rates, least TCH or other channel congestion far below TRAI's stringent thresholds. As most of our network expansion is with the latest equipments, our judicious use of soft power with the latest evolving network features like Adaptive Multi Rates known as AMR and road map for spectrum efficient features like VAMOS. The company has managed to improve the productive use of its assets. While our internal benchmark shows improving customer satisfaction scores and brand track index, when benchmarked in comparison to competition, we would continue to introduce world's latest technological innovative practices to improve asset utilization not only meeting, but exceeding all customer expectations with efforts to delight his network experience.

Over the last one year, the absolute minutes has grown by 22 billion minutes when compared to Q4FY11 minutes of 102 billion minutes. This quarter 124 billion minutes, a growth of 21.7% over last one year, is a clear reminder of the juice still left in the Indian voice mobility market and the superior quality of Idea voice network.

Point No. 5 - Mobile number portability: MNP across the country has been operational for more than 15 months. While we heard mobile number portability was not a game changer, the fact remains that over 33.4 million customers i.e. 5% on the Indian mobile active users have ported their existing mobile connection to new operator. Therefore MNP remains an important parameter for Idea to exhibit its strength in network, customer services, brand power and employee resilience. Idea is pleased to report we are a number one MNP operator and we extended our overall leadership in MNP space with over 2.9 million net port ins. Nearly one out of four MNP customers in India who chooses to port out has given its verdict in favor of Idea.

Moving on to the 3G business, Idea continues its major strides in 3G network coverage expansion. We have aggressively expanded our wireless broadband footprint and are among the few operators offering services deep in hinterland to over 3,000 towns and 10,000 villages in 20 service areas, including 3G roaming arrangement. Similarly our progress on building a future proof 'Idea Data Factory' is on course with investments spreading over transmission backhaul strengthening, transforming existing billing, provisioning, customer care and related IT capabilities and building large capacity of network packet to manage future surge in the wireless broadband data business.

No doubt while internet is becoming pervasive across the developed world, the adoption of new digital services in India is very slow and limited to a few educated elite classes. We continue to hold a view the expansion of ecosystem for 3G is a slow process and the relevance of 3G services for mass market is a key for wireless broadband growth. We remain committed to develop a broadband market by demonstrating through the audio-visual multimedia campaign, power of 3G on Smartphones via the route of applications and its potential to have a meaningful change in the common man's life.

Another key element of wireless broadband growth is devices. We believe Idea is supplementing efforts of existing handset manufacturers by distributing Idea branded handsets. This will in the long run help the company build channel competencies and servicing skills. These trends are necessary in future as more devices based wireless data services will become the order of the day. Our strategy remains to ensure availability of handsets to small towns, the core market of Idea, thereby giving consumers choice in its handset replacement cycle.

To continue on our promise to share 3G KPI, this quarter 3G subscribers information is as under. To remind while we have provisioned services for most of our existing Idea users in the 3G coverage area with 3G handheld devices, we would share with you only relevant information on active subscribers. Similar to the 2G subscriber EoP, we tend to keep 3G reporting's only to active subscribers. Idea as on 31st March 2012 has 2.6 million active subscribers on 3G platform with an average usage of 315 Megabytes per month and 3G data incremental ARPU of Rs. 91. These customers naturally have a higher ARPU as their voice and VAS, other than 3G access data revenue is separately accounted.

To summarize, the Rs. 3,383 million representing 6.7% sequential quarterly revenue growth, reaffirms increasing customer preference for brand Idea. With growing scale of operations, improving margins, larger free cash flow and focused execution, the company is confident to overcome the current uncertain regulatory phase, emerge stronger, consolidate its position in the telecom voice market and participate aggressively in the evolving wireless broadband business.

I now request Akshaya to give more details on the financials. Thank you.

**Akshaya Moondra**: Thanks very much Himanshu. A very good afternoon to participants from India and good morning or evening as applicable to overseas participants.

Firstly our reporting on standalone and consolidated basis for our quarterly report and media release remains unchanged except for one change which is that the IT outsourcing expenses which were earlier included in Other expenses had been reclassified to the more logical grouping of Network and IT outsourcing expenses.

Moving to the quarterly performance, the QoQ growth of 9.1% in the total minutes of usage resulted in a revenue growth of 6.7% compared to the last quarter despite the ARPM decline from 43.3 paisa in previous quarter to 42.2 p in this quarter. The healthy growth in non-voice revenue also contributed to this overall topline growth.

On the cost side, as most of you are aware there are several continuing litigations on various regulatory matters at different forums. We have reviewed the whole situation and have prudently made a provision of Rs. 1.5 billion under the heading 'License and WPC charges', while we continue to contest these matters. Since these matters are sub-judice, we will not be able to provide any further details on this subject. Hence, while the reported standalone EBITDA margin for this quarter at 22.3% shows a quarter-on-quarter decline, if you were to look at EBITDA without this additional provision, it would have actually increased to about 25%.

The interest and finance charges are lower compared to last quarter primarily due to a forex gain of Rs. 135 million in this quarter against a forex loss of Rs. 313 million in Q3 FY12.

During the quarter, the rupee appreciated against the US dollar from Rs. 53.27 to Rs. 51.16 resulting in a mark-to-market gain of Rs. 1.05 billion on long-term foreign currency loans, which has impacted both the loan funds and the fixed assets. The net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at 2.48 which is a significant improvement from the level of 3.04 touched just after the 3G auction.

Total CAPEX for the year stands at Rs. 42.5 billion after including around Rs. 5.6 billion on account of mark-to-market forex loss. Our capex guidance for FY13 is Rs. 35 billion.

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

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Sachin Salgaonkar from Goldman Sachs, please go ahead.

**Sachin Salgaonkar**: I have three questions. Firstly I understand TRAI recommendation are not yet final guidelines, but if indeed a scenario arises wherein DoT accepts these, then will Idea bid for licenses in the impacted 7 circles? Second if you could help us breakdown the MoU growth in 4Q between the old and new circles, , what is the approximate growth rate for the new circles versus old circles? And last question is, any steps you are planning to take to migrate these 7.8 million subscribers on affected licenses through any 2G or 3G ICR agreements.

**Himanshu Kapania**: Let me take the first and the third question of yours and I will hand over for MoU breakup to Akshaya. I think as regards TRAI recommendations and subsequent auction by the DoT, what would be the action of the company at this stage is purely hypothetical. There are multiple bridges that need to be crossed before it. At this point of time, we are getting geared to participate in a fair and transparent auction and we have a certain set of views, which have been clearly articulated in terms of what is the total quantum of spectrum that needs to be auctioned, what should be the entry price etc. Our current objective is to continue to agitate to make sure that the overall auction is closer to the views, the industry holds. We will continue to represent ourselves to the administrative wings or take any other course of action that we feel necessary to protect our customers as well as to protect our employee interest and shareholders interest. At the current point of time, your question #3 is completely hypothetical and has no relevance at all. We are not even considering that at this point of time.

**Sachin Salgaonkar**: And sir just a follow-up question, you said that Idea will only participate if it is a fair and transparent auction, so do you consider the current recommendations gearing towards a fair and transparent auction?

**Himanshu Kapania**: I am sure you must have heard my views. We are a part of the industry body COAI and COAI has clearly articulated the views of the industry on the set of TRAI recommendations. Let me repeat their views. As per the views of COAI the recommendations are inconsistent, they are regressive. The telecom sector has been the poster boy of liberalization in the country, it has actively participated in building the infrastructure. The current recommendations are regressive and retrograde and will take the country behind. We obviously reject the recommendations of TRAI and we are sending necessary information to the government of India as well as coordinating with them, hopefully with the view that they will reject the recommendation of TRAI.

**Akshaya Moondra**: Sachin, on the question of MoU, actually we don't share the separate MoUs for the circles. But, I think the revenue growth is a fair indication of the MoU growth in those two categories of circles.

**Sachin Salgaonkar:** And Akshaya is it fair to assume that in these new circles, your revenue per minute is slightly lower as compared to revenue per minute in incumbent circles?

**Akshaya Moondra**: Yes, that could be logical. That is true of the whole industry anyway.

**Sachin Salgaonkar:** And just one last follow-up question is on your capex guidance, so this is for all the circles or this is only for the incumbent circles?

**Akshaya Moondra**: No, this is for all the circles and of course this does not include any spectrum related payments.

**Moderator:** Thank you. The next question is from Suresh Madhavan from UBS, please go ahead.

**Suresh Madhavan:** Two questions from me. One is, I want your views on the competitive dynamics in India because it seems to me that probably only Bharti, Idea and Vodafone are left and hence it gives an impression that you guys are competing aggressively for market share, so just want your views on that. And second thing is, I think you briefly talked about the growth potential left in India. I was just wondering how comfortable are you with the growth potential? Is there still a lot of growth left because some investors seem to think that the sector is probably going to ex-growth soon. So just wanted you to throw some light on the growth potential, a bit more color than what you did in your initial address.

**Himanshu Kapania**: Let me address the second part and hopefully which will link to the first part of your question. The way to study the growth of this country especially on the wireless side is to focus on the right statistics and we believe the right statistics to look at is, the VLR subscriber growth. The information is available from September 2010 to February 2012. As per TRAI report, on an average there has been a growth of 9 million VLR subscribers month on month, which means over a hundred million customers continue to enter the category of mobile services. The similar information is available on the handset purchase. Both these key indicators really say that the voice business continues to thrive in the country. The fact of the matter is that if you were to look at our results this quarter, an explosion of 9% minutes of usage with a 6.4 million customers that got added in this quarter after having added 7.5 million in Q3, reflects the huge power of voice business in the country. This is one way to look at the statistics.

Other way to look at the statistics is based on the per capita income. If you look at the growth which is happening in similar countries you will notice that current penetration level in India are just about 50-52% on an overall basis. In February 2011 the total VLR subscribers in India are just about 675 million, in our assessment, comparing this with the developed world which has more than 100% penetration, there are at least 350 to 450 million customers that are likely to join in the category. The coverage has been expanded to almost 80 to 85% of the villages in the country and almost 90% of the Indian population has an opportunity to join the mobile category. So putting all these factors together, our assessment is a growth of 100 million customers on VLR basis will continue for a few more years. That is why we say as far as voice business is concerned, it will continue to grow for a period of 3 to 4 years.

The second part of your question is competitive dynamics. I think it would be unfair to say that the market is skewed towards 3 operators. In all fairness, there is currently anywhere between 9 to 11 operators per service area. The battle is never to be seen on a nationwide basis. The battle needs to be seen on a circle wide basis and while there may be elements for different performances of different competitiors, the fact remains that capacity is available to all the operators. Ignoring that may not be the right attitude.

**Moderator:** Thank you. The next question is from Shobit Khare from Motilal Oswal Securities Limited. Please go ahead.

**Shobhit Khare:** Thanks for the opportunity, few questions. One is you mentioned on asset utilization as an important growth lever, just wanted to get your thoughts on how much more headroom is still there for Idea to improve the asset utilization and any metric if you could share which we should be tracking to get a perspective on that. Second is on free cash flow. If I look at the net debt consolidated for the year is up by almost Rs. 25 billion, of which around Rs. 20 billion increase is due to change in the working capital. So just wanted to get what is happening and especially going forward how we should expect it to pan out? And lastly wanted to understand how will the service tax increase and implementation of telecom consumer protection regulations impact the business?

**Himanshu Kapania**: Let me address the question number one and number three and I will request Akshaya to answer the free cash flow question. First and foremost, while we have never given guidance on asset utilization, we are seeing completely divergent reports from what we believe are bulls and bears in the market place. Some of the reports talk about Idea's good performance on account of better asset utilization. Another is saying that our headroom for asset utilization is very low. So we wanted to clarify through this medium our overall position.

We have been aggressively expanding and you have seen that we have been adding on an average annually between 8000 to 9000 new BTS on the 2G side. Now whenever a new BTS is introduced, it is a natural process that you will put a limited capacity and the capacity is vertically expanded only when that is necessary to expand. You look at Erlang table and do a vertical growth, there is absolutely no opex increase and Erlang growth or capacity growth is extremely high. This is point number one. Besides the hard capacity, which is the current principle of reporting, the most important component to look at is not the hard capacity which is what is available on TRAI's website or what is reported, but a soft capacity that is why features like AMR and VAMOS become extremely important. Today with the technological innovation, it is possible to provide same quality of service, in fact we would say from physics, even a better quality of service. It is possible to deliver capacity utilization far in excess of 100%. So I think it is necessary to understand the physics behind it rather than trying to look at it as a traditional sector.

Regarding service tax and consumer related regulation of TRAI, let me first address the consumer related regulation of TRAI that definitely had some impact. You can see some of its impact in the month of March because of certain type of vouchers, which we were allowed to operate earlier, withdrawn from the market. We are happy that some of the concerns have been addressed by TRAI, allowing us to increase the processing fee from Rs. 2 to Rs. 3, impact of which will only be seen by the middle or the third week of April.

As regard service tax, you are aware that 10% service tax has gone up to 12% and in a natural process, this service tax we should have been able to pass to the consumers. However, currently given the overall battle that is happening in the market place, though we have made every effort to pass it to the consumers, but we cannot confirm that is happening at a 100% level. I hand over to Akshaya to give you the answer to your second question.

**Akshaya Moondra:** Shobhit on the question of free cash flow, I think your question was that while there is free cash flow i.e. EBITDA minus capex, the working capital has gone up and is it likely to be at this level in the future or is it more like a one-off? What has happened, Which I think we had also mentioned in some of the earlier quarters is that at the end of March'11, there was a significant higher level of capex creditors because the 3G equipment had just started coming in. So actually from March'10 to March'11, our capex creditors or our overall creditors had gone up by about Rs. 1,300 crores. This year, a lot of that has reversed. So the larger impact on the working capital is coming from the capex creditors which have been paid off and the rest of it is on account of receivables, tax payments and security deposits which have been given in the normal course of business. I would say this year would represent somewhat of an exception. Going forward, we should have a more normal movement of working capital. The free cash flow should actually continue including even the impacts of working capital movements.

**Moderator:** Thank you. The next question is from Srinivas Rao from Deutsche Bank. Please go ahead.

**Srinivas Rao:** The first question is could you throw light on the metrics related to the subscribers who have ported-in to your network and whether the qualitative metrics like the ARPUs or MoUs are better than what is the Idea's average? That was the first question. Second, just wanted to confirm that you have mentioned excluding the forex impact, would the cash capex be about 33 billion for the full year or about 3 billion for this quarter? Just wanted to check on that aspect?

**Akshaya Moondra :** Let me answer the capex related question first. I think for the whole year, as I had mentioned in my opening remarks, our capex is reflecting as Rs. 42.5 billion, out of which roughly Rs. 5.6 billion is represented by the capitalized forex loss. In effect, the actual cash out flow on account of capex is about Rs. 3,700 crores.

**Himanshu Kapania** On the metrics for MNP, we don't have a current practice to share the metrics between various types of customers that we are acquiring. But I can assure you that terms of performance in ARPU, in terms of minutes of usage, in terms of number of days on the VLR, our early trend shows that MNP customers perform far better than new acquisitions.

**Srinivas Rao:** This question is again on your P&L. As you said you have shifted some of the costs from other expenditure to the network cost,is that the reason for the other expenditure to come down for this quarter on a percentage basis?

**Akshaya Moondra:** No, I think the re-classification whenever it is done, it is done for the preceding periods also. I think the figures are comparable. If the other expenses are coming down it is because of the expenses contained in that category. I think there are elements, which are not regular in nature. So, reduction is not related to the re-classification.

**Srinivas Rao:** I mean so this was fitting in your legacy accounts in other expenditure, right?

**Akshaya Moondra:** As I said the previous quarter figures have also been reclassified, so figures are comparable.

**Srinivas Rao:** Any comment on what is that one time provision, which you have made for the regulatory cost? Is it linked to any particular case or expected outcome because that will be helpful if you can just throw what exactly that number relates to?

**Akshaya Moondra:** Srinivas, I think I had given you some guidelines in the opening remarks. As I said since most of these matters are sub-judice, we would like to reserve our comments to that extent right now.

**Moderator:** Thank you. The next question is from Rajiv Sharma from HSBC, please go ahead.

**Rajiv Sharma:** Sir, do we have any legal recourse or any stuff which we can do on the spectrum refarming issue? For example, given that the operators are saying that this is license extension and the regulator is saying this is renewal. So is that enough a legal ground to really fight and contest for refarming or it is more about sitting with government, discussing with various departments about this? Second question is, given that it is now very certain that the spectrum cost going forward is likely to rise, do not you think the top three telcos, Vodafone, Bharti and Idea which have been focusing on minutes growth should now move to improvement in voice yields so that these spectrum costs can be recovered and shareholder returns generated and third where do you see RMS equilibrium among the top-three operators?

**Himanshu Kapania:** I think it is premature to start discussing legal options, that is why in my opening comment I said the important thing is to start a debate on refarming. It is not a discussion so much about A operator or B operator. I think the impact of refarming is more on our customer, more on our society, more on our nation, more on the competitiveness of India against other countries. In light of this, it is our belief that this discussion should happen in the public forum. legal recourse is obviously a last recourse and I am very-very hopeful that it will not be necessary. What is important is that there are currently 500 million customers, what is important that most of these

500 million customers today own a 2G handset and what is important that currently 900 MHz voice services is spread almost to over 400,000-450,000 villages across the country. It covers nearly 90% of the population. What happens if you refarm and who will bear the cost of refarming? Who will ensure that there is no degradation in the quality of service and that no customer ever loses his connectivity? I think these are the pains which the society has to discuss. It is not a question about regulator or operator or a few policy makers. Its impact will be wide scale, so we would rather take it across to the society and have a larger debate rather than trying to limit it to benefit to A operator or loss to B operator.

Coming to the spectrum cost, you are absolutely right that the spectrum cost appears to go up. We will wait and watch what would be the final impact of spectrum cost. But it is our belief, given the fact that India has a low per capita, given the fact that it is a responsibility not only of government of India but also of private operators to focus on an inclusive growth, we have to participate in the growth of the GDP of this country. Telecom has extremely an important role to play so that this country can continue on its path from a 1 trillion economy to a multiple trillion economy. From that perspective we have to balance the need of the price that is available to the customer and the costs that have been incurred. If you have to see the vision of NTP2012 it has repeated itself that it does not have a vision of revenue maximization, the vision remains on larger growth from the rural subscriber and those subscribers who never had an opportunity to join the telecom revolution. The vision to be able to grow deep and offer high speed broadband services. If that vision has to be achieved and the masses have to join hands, we have to balance the pricing in the country and that is why cost has to be kept under control.

As regards to the revenue market share, I think it is a battle on a daily basis. It is a battle of better productivity, it is a battle of efficiency, it is a battle of execution, it is a battle of brands, it is a battle of service, it is a battle of network quality, and those are the battles which will continue to happen. I think it is premature to be able to offer in a public space any of the views how RMS will move into the future. You have to draw your own conclusion based on past trends.

**Rajiv Sharma:** Well just a small follow-up you mentioned about more than 100% capacity being available on 2G and one can draw that, do you think such a possibility on 3G as well that one can move to higher Erlangs from 3G because we have seen western world facing a capacity crunch on their network. And most of the regional global investors have been worried about 5 MHz of allocation of spectrum on the 3G side but could be that there is a lot of leeway left with the way Indian operators have maximized the 2G spectrum they could do similar things with 3G?

**Himanshu Kapania:** I am sure technological innovations have moved at a super-fast pace. As I mentioned there is AMR feature which currently help in improving an overall asset utilization, VAMOS is coming in, there are a lot of improvements and latest handset which helps the better capacity utilization. We, as operators, are in continuous dialog with the equipment supplier who are actually the ones who do all the R&D works so that they can improve the capacity utilization. It is no secret to know that the growth what we are all seeing, in terms of surge of data volumes is extremely high and the similar kind of experience is what we are seeing in our country. I am sure solutions will be found which will be beneficial for not only our country but across the globe, we expect higher capacity in the same spectrum,solution will also be found for 3G.

**Moderator::** Thank you. The next question is from Reena Verma from Merril Lynch, please go ahead.

**Reena Verma:** Firstly the moderation in your capex outlook for fiscal 2013 relative to what you have spent in fiscal 2012, are there any specific reasons or pointers that you can offer in terms of where the savings will happen because going by your broad revenue outlook of growing at twice the industry that implies very low capex intensity for fiscal 2013. That is my first question.

Secondly, can you share with us some color on what is happening in the data market both in terms of what kind of applications are driving the usage growth and what is happening to competition in the data market. And my third question is on your exit voice revenue per minute at the close of the March quarter, can you offer at least qualitatively some commentary on whether it is far lower than the average levels which we have seen for the January to March quarter?

And my last question is on the regulatory outlook – since 2008 or perhaps for longer now the industry has been repeatedly surprised by TRAI's recommendations on various issues. Is there an assessment of why there is such a disconnect with the sector regulator which has repeatedly manifested itself in surprise on recommendations? Those are my questions. Thank you for your input.

**Himanshu Kapania:** You have got mouthful of questions. I am not sure whether I can meet your expectations but let me attempt to do that. Starting on capex, qualitatively let me repeat, our company around 2008-2009 was a pure voice company and since last two year we have expanded into multiple segments. Besides 2G we had last year a front loading of our investment on the 3G side. We also had to aggressively invest in MNP business, in ISP business and ILD business, all of these businesses are new for us. If you have noticed there is only a marginal drop in an overall capex, in fact if you look at the number it would be just about Rs. 100 crore to Rs. 150 crore. But the fact remains that we were going to continue our growth trajectory and while we will continue to invest in all segments. There is no need what was required last year, a large chunks of investments on 3G. We can have a far more phased investment this year.

Moving to the second question of yours which is related to data market. In our assessment we are making lots of efforts to create a relevance of wireless broadbands in the minds of mass market. As I mentioned in my opening remark that currently the educated elite requirement and understanding of broadband and the power of internet is well established but our core markets obviously does not stop at this kind of market. We are addressing the home segment, we are addressing the mass market retail segments and we are addressing the markets which have had blackouts of broadband for decades to be very precise. We are addressing markets which have never had an opportunity for broadband. So this is a long drawn battle and that is why we are making significant investments in marketing communication. We are making investments in distribution of low priced, Idea branded handsets and making sure this helps us to reach the mid-sized and small-sized towns. The competition is high in the dongle side of the business, which is not the core business Idea believes to invest in. We remain focused on small screen and we will make all efforts to expand our services, that is the reason why we have expanded to 3,000 towns. We have gone to locations where we have seen earlier good 2G data growth and in the same places now we invested in 3G sites. We are very hopeful in coming times these markets which were earlier good 2G markets will adopt to the 3G phones or 3G data services by migrating into the new phones.

The third component of the question is that you have noticed the voice ARPM has fallen and you are asking is the exit rate significantly lower than the average that we have given. Let me respond to that, there is no doubt that in the month of March consumer regulation came in and that one single event had impact on our realized rate but some sort of recovery we are hoping in April, with the change in the processing fee from Rs. 2 to Rs. 3. But our belief is, if you leave that event out on our overall basis the average and exits are of a similar nature. We are hoping the kind of battle that is happening last quarter will ease out because in the long run we believe that it is in interest of all players to be able to operate at the earlier level than operating at the current level.

As regards to regulatory outlook, I think I have said enough. My views are well-known and I have made significant comments in my opening remark. I do not want to say anything additional to what I mentioned.

**Moderator**: Thank you. The next question is from Sachin Gupta from Nomura, please go ahead.

**Sachin Gupta:** I have two questions. Firstly, just on the pricing environment only about 6 months ago all the telcos, we are talking about inflationary pressures and we are pretty much back into the environment of prices drop again? Just wondering , is that something tactical or something we can expect to continue? Second, sorry to ask the question on regulations again but given the impact of this spectrum refarming and given the TRAI has not really backed down from there based on timing and the implementation on refarming, is the company thinking of any contingency plan?

**Himanshu Kapania:** We have been very consistent in our views. I am not sure about what others think. There is no doubt there is an inflationary pressure, the macroeconomic environment is extremely weak , currency depreciation is a challenge. We need to make very significant investments to expand into rural areas. All of these are the cost pressures that are on the company but we have consistently maintained that the hyper competition phase in the marketplace and the desire of all operators to improve their competitive standing remains the driving force for tariffs to do a flip-flop, until there is a little sense of appreciation and acceptance of market standing by each of the operators, this dynamics of pricing will continue to exist. Having said that looking at pricing in isolation may not be the right way to be able to see the Indian market. I consistently repeat that there is still a lot of juice in the Indian market, that is why the industry continues to add over 100 million VLR subscribers year-on-year as well as there is an explosion in voice minutes. So you have to see more from a context of an overall growth of the market. If you have to study this, though we do not have quarter 4 results as of now, but if you see the first three quarters' results of the sector this has been one of the higher growth year than the previous years. So I think we have to see it from an overall context rather than just looking at one single KPI.

Come to the second part, as regards to regulation and do we have a contingency plan? I do not think that the time has come to start discussing contingency plans. I think time has come for all of us to have a healthy debate of objectives of refarming, the benefits of refarming and how the society is going to handle the pain of refarming. I think those are far larger issues, company's perspective in my mind it is a far smaller issue. Country comes first, customers come far ahead. Answers to the society have to be found. I am sure firms like us who have long term objectives will find their own solutions if this is inevitable, but I think, that is to my mind too narrow a view to take. We need to take a far larger view, refarming is not something which is only for A operator or B operator or A operator wins and B operators loses but in the whole game how does the country gain, or how does society gain and how does consumer benefit is far more important discussion. We need to concentrate all our discussions around that.

**Moderator:** Thank you. The next question is from Rahul Singh from Standard Chartered, please go ahead.

**Rahul Singh:** I had a question on the new circles, the EBITDA losses continue to be very sticky, despite the good revenue growth there and I also presume that your capex guidance of 35 billion would include a disproportionate share of capex in the new circles. Is there any chance of a EBITDA breakeven at all in the new circles especially with likely increase in spectrum cost across the board or is it just something which will keep sucking in money. That is the basic question I had.

**Himanshu Kapania:** Rahul I will say then I will give it to Akshaya. I will repeat the stand which we have taken Around 2008-2009 all analysts wrote this report and if you revisit in 2012, we again were to state that it is a very tricky business case for anybody who has to set up fresh operations where capacity utilization is low and as mass coverage has to be provided to be able to compete with the incumbent operators, it is very difficult to make an EBITDA until you have had a very intensive coverage and a good capacity utilization. The reason why we provide these numbers is to remind everybody that the challenges of the new operators can clearly be seen in our numbers. Some of the other new operators are also declaring their numbers and you can consistently see the challenges that we face in the marketplace. The second part is, let me repeat again that our strategy for new circles always remains a calibrated approach. Our capex allocation has been at a particular pace , whatever cash-flows that we generate or the margin that we make, we have decided a certain percentage of the cash needs to be invested into the new circles. Even in the next year, our plan is to maintain that approach so we are not going to be over-aggressive in these markets but we will continue to expand the coverage in the new circles till we believe that we have reached full scale level. It takes a long time to be able to get returns and these are the challenges of all new circles, for all new operators.

**Akshaya Moondra:** I would just like to add, basically following from what Himanshu is saying is that you also have to realize that as we are following a calibrated approach, the percentage of this loss to the total EBITDA is also reducing and I think it is more strategic in nature at this point of time. To convert it to a breakeven we will first have to increase our losses before we reduce our losses, and the choice we have made is that we would like to restrict the losses at this point of time and still be present there. There would be opportunities to take a position where then we would start moving to breakeven. Probably the timing for that has not come as yet.

**Rahul Singh:** If I look at your number of cell sites, total it is now 70% of the number sale sites which Bharti has and you have revenue base which is roughly half of Bharti. So in terms of the capex guidance for next year, I had a slightly different question. I thought that 35 billion is on the higher side given that you had a lot of front loading in this year on 3G and a lot of the capex spent on 2G, etc.. As the capex comes down, I would have thought the capex would have declined much more. Is Rs. 35 billion an outer limit in your view or is it a realistic number?

**Himanshu Kapania:** It is a realistic number.

**Moderator:** Thank you. The next question is from Sanjay Chawla from J M Financial, please go ahead.

**Sanjay Chawla:** One is follow-up on the last one. My question is would your new circles still be EBITDA negative if your average tariff over there were to be the same as in the established circles? That is the first question. Second is, for every Rs. 100 that you are adding on the non-voice side, what percentage is coming from incremental 3G.. Third is, you have a tenancy ratio of 1.55 on the owned tower of around 9200, can you confirm if the PI rentals on these towers are excluded from the wireless AGR for payment of license fee and spectrum charges?

**Akshaya Moondra:** Okay, I think what you are saying is that on the tenancy which we have on our own towers and as far as we are recovering a rental ,are we paying license fee on that? Some of these towers are in our subsidiary and if they are in a separate entity, which is having an IP-1 license which is not subject to license fee, then it is not applicable. If they are in Idea Cellular there is a license fee payment.

**Sanjay Chawla:** If I could intervene, just to make sure that I got it right, I mean excluding the Bihar and Orissa towers which are obviously in an IP1 subsidiary the remaining towers are in Idea so are you paying the license fee spectrum charges on the entire tenancy 1.55 or is it only on 0.55 tenancy?

**Akshaya Moondra:** It is only on 0.55, I mean there is no internal billing mechanism. That is the way it is and that is why this debate is happening that tower companies were created for getting the benefit but if it is within the same entity then there is no question of billing yourself.

**Himanshu Kapania:** Coming to the non-voice revenue, we are currently providing an overall basis, non-voice revenue which is at 14.3%. We have also given you the overall number for active 3G subscribers which is currently at 2.6 million. We have also provided you an incremental ARPU on 3G. Beyond that we had committed that we will start giving a breakup of non-voice but we are not ready for it. May be in a quarter or two we will start providing that number. All I can say is that while we are not fully convinced on the volume of data that we get for 3G and the overall realized rate has been falling because the consumer demand is slower than what we had initially expected but we are completely focused to create relevance of 3G services for the customers and we are making all efforts to be able to improve the ARPU from a 3G handheld customer by being able to find the right kind of applications and offering the right kind of content.

**Sanjay Chawla:** Sir is the decline in realized rates for 3G data, is it due to like actual price cuts in the market or is it due to customers using up the data close to the maximum allowed under the bucket or the bracket.

**Himanshu Kapania:** It is closer to the second part.

**Sanjay Chawla:** Just a hypothetical question. Would your new circle EBITDA still be negative if your average data were to be the same as in the established circles?

**Himanshu Kapania:** I would not be able to give you an off-hand answer because we have not done any such calculation at this point in time but because it is very hypothetical, we would rather focus on real life issues. Currently, if I were to give you a sense and because there is a lot of questioning on the new circles, if you were to look at circles that we had launched in the period of 2006 and 2007, they have become profit making circles. So you have to make an assessment how long does it take for circles to become profit making. So that is a more important part of the question.

**Akshaya Moondra:** I mean I would just say that while we have not done that maths. But I think the price differentials or the ARR differentials are not so high. It is basically a question of what volumes you can generate and what market share you have in a circle. I think it is not so much a matter of the realized rate.

**Himanshu Kapania:** I think we have consistently given a thumb-rule that until you are at 8-9% of revenue market share to be able to generate profits is very difficult in any market irrespective of the realized rate.

**Sanjay Chawla:** Your gross subscriber additions for fourth quarter were similar to what you reported in third quarter but your sales and marketing costs still went up, I mean are you seeing any upward pressure on the trade commission and also a related question is in the churn rate we have seen the decline, has the churn rate finally turned the corner now or we should not see any uptick anymore?

**Himanshu Kapania:** I think a two-line answer for this question is that the marketplace battle continues. The marketplace battle is not only on tariff but also on trade, on costs in the sales and marketing and on churn. These are just reflections of the battle which is happening in the marketplace.

**Sanjay Chawla:** Just to be specific have you seen any upward pressure in the last quarter in particular on the trade commission?

**Himanshu Kapania:** Every quarter the battle remains high so I would not say that we have seen end of any life or is there a changing trend. It is very similar to what we have seen in the past.

**Moderator::** Thank you. The next question is from Vinay Jaisingh from Morgan Stanley, please go ahead.

**Vinay Jaisingh:** Firstly congratulations for a good set of numbers and an EBITDA margin as well. Sir you just mentioned about voice tariffs sometime coming down as well on your note and you spoke about battles. You know with so much happening on the spectrum front or the regulatory front, do you think there is a chance for the incumbents now to,as they are done earlier, stop these promotional packages and at least to see stabilization back in the voice tariffs? That is my first question.

The second question, sometime ago Akshaya had mentioned about the admin cost and how they have been regrouped and pushed back up to the other cost but even net of that there seems to be a margin improvement out there, now is that sustainable? My last question on data tariff or data revenues, it seem to have grown 11-12% for the second consecutive quarter, Rs. 700-800 million, do you think that number is a good target number to put as an incremental growth every quarter for the next few quarters or do you think that number would be increased? That is it from my side.

**Himanshu Kapania:** Idea Cellular is focused on non-voice revenues especially on wireless broadband business, we are making significant investments and I have alluded to this fact of various investments that the company is making. It is a very important segment of our business and we are extremely hopeful that there would be a point when we will get an exponential growth. I have also been maintaining that while the investments in terms of effort level is extremely high, the returns at this point of time are far lower than what we believe that we should get, but there would be a time when the adoption of seervices will surprise all of us. So we have to wait for it, whether it will happen in a quarter or whether it is going to take a year ,we will continuously share with you. But we believe that demand for data is on the upward swing obviously it is nowhere near what the developed world has seen.

Come to the second part of your question, which is voice tariff, do you think that there will be stoppage of promotional tariff at this point of time? We also are hoping that the battle in the marketplace reduces. You are fully aware, we have 13 established circles and it is in our interest as it is in interest of all operators to be able to operate in the marketplace with a lesser number of battles but we have to report the exact situation as it is and we are also hopeful in the long run all of this will settle down. As per administrative cost I will ask Akshaya to respond.

**Akshaya Moondra:** Vinay on the other expenditure one is that these are amounts which are relatively small in the overall picture and secondly these include items which may not be consistent over different quarters. So I would say sustainability is not the right way to look at it but you can look at an annual average and that is what the right figure should be. In a particular quarter this can go up or down a bit. An annual average is a clear representative.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand over the floor back to Mr. Himanshu Kapania for closing comments.

**Himanshu Kapania:** Thank you so much. Every time I attend this investor call, I am surprised with the incisive questions that we get and the follow-up reports that subsequently become available. It is a great learning experience. Thank you so much and looking forward to all your support in helping Idea and the telecom sector to grow.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Idea Cellular this concludes the conference call.