



“Idea Cellular Ltd. Earnings Conference Call”

January 22, 2009



Moderator

Ladies and gentlemen, good afternoon and welcome to IDEA Cellular conference call. This is Rochelle the moderator for this 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, on the call today, Mr. Sanjeev Aga – Managing Director of IDEA Cellular, Mr. Akshaya Moondra – Chief Financial Officer of IDEA Cellular, along with other key members of the senior management. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

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

I must remind you that the discussions today may include certain forward looking statements and must be viewed therefore in conjunction with the risk that company faces.

With this I hand the conference over to Mr. Sanjeev Aga. Thank you and over to you sir.

Sanjeev Aga

Thank you, Rochelle and on behalf of Idea I welcome all participants to this call. Yesterday our board of directors have adopted our limited review results for the quarter and for the 9 months ended 31st December, 2009. The media release, the quarterly report and the un-audited results, have all been uploaded on our websites.

During this quarter, IDEA Cellular launched five new service areas i.e., Jammu & Kashmir, West Bengal, Kolkata, Assam and North East. IDEA Cellular has now become a national operator.

The last nine months of this fiscal year have been most unusual. The nine months period ending December 2009 of this fiscal year could be said to represent a double stress test upon the IDEA Cellular business model. On the one hand, the Indian telecom market, with already the world's lowest tariffs has seen savage competitive price cuts during this period. IDEA has had to incur erosion in average realized rate per minute of approximately 15% in just these last nine months. So this was one stress. And as a second stress point, IDEA has rolled out operations in seven new service areas during this fiscal year i.e. the last nine months. We have therefore had to absorb an incremental EBITDA loss of about Rs. 1920 million for these brand new launches, which did not exist in the last fiscal year, and correspondingly the loss at the PAT level is a little higher.

Now, despite these double stresses, for the first nine months of the fiscal year FY 09-10, compared to last year, our standalone PAT is up 12.1% and cash profit is up 28.9% to Rs. 21,384 million. If you look at the numbers for Quarter 3 alone, they are even more telling. Between Quarter 2 and Quarter 3, we have had an almost 8% erosion in rate per minute, and we have had an approximately 10% increase in the count of cell sites, yet very remarkably, the quarter-on-quarter revenue growth has been almost 6% for the company as a whole and even in the 11 established service areas the revenue growth has been 4.2% quarter-on-quarter. EBITDA margin for the established service areas is unchanged from the previous quarter, which means that the absolute EBITDA for the established service areas has gone up in line with the increase in revenue.



Now the key reason, of course is, the huge 14.9% of growth in MoU that we have had in Quarter 3 over Quarter 2. Some of this growth is seasonal, coming, as we know, from the lower base of Quarter 2, when rural demand was subdued, but there are some other unmistakable signals.

To us, it does show that, companies which have inherently strong business models are far better placed to withstand the pressures of the kind of hyper competition that we are seeing. It is our belief that the pricing pressure that the sector is going through, while it will place short term pressures, it will only fast forward the eventual shakeout in the sector.

I now handover to Akshaya for more details.

Akshaya Moondra

Thank you Sanjeev. Good afternoon to participants from India and a good morning or evening to overseas participants, depending on whether they have just come to work or are waiting to leave for the day after the call. Firstly, let me wish you all a very Happy and a Prosperous New Year, this being the first call in this year.

On to our results, we continue with our reporting structure of previous quarters. In the quarterly report, the media release, and also on this call, Idea's standalone results include all its subsidiaries and all operations of mobility, long distance and passive infrastructure, but exclude the joint ventures of Spice and Indus. However, Clause-41 standalone results represent Idea as a single entity, that is, excluding subsidiaries as well as joint ventures. As for the consolidated results, these are on the same basis across the board, i.e. including all subsidiaries and proportionate results of joint ventures Spice and Indus.

On a standalone basis, revenue growth was 5.9% on a Q-on-Q basis. In case of 11 established service areas we registered a growth of 4.2%, in revenue on a Q-on-Q basis, while the EBITDA margin for these services areas was maintained at around 30%, despite the price decline.

Depreciation for the quarter has increased by Rs. 223 million, in line with the capex for the quarter.

The net interest and finance cost for the quarter is lower by Rs. 139 million, due to a forex gain of Rs. 118 million during this quarter compared to a forex loss of Rs. 38 million in the previous quarter.

If we look at the standalone PAT, it has declined from Rs. 2507 million to Rs. 1953 million Q-on-Q, which is a decline of Rs. 554 million. The factors which have resulted in this decline are mainly, the increased losses from New Service Areas due to new launches of Rs. 590 million, the absence of a one time income of Rs. 317 million which was there in the last quarter, and an incremental charge of Rs. 179 million in Q3 on account of ESOP of re-pricing. On the positive side the forex gain in Q3 resulted in a Q-on-Q gain of Rs. 156 million. The net negative impact of these factors is Rs. 930 million, which implies that, on the operational side for all circles, except the new launches, there is a net gain of Rs. 376 million, at the PAT level.

IDEA is now a PAN India operator, which means that the peak funding period for 2G operations is now behind. The balance sheet of the company with a net debt of only Rs. 37 billion against a net-worth of Rs.



141 billion as of December 2009, together with an average cash generation of around Rs. 7 billion per quarter, provides a strong base to support future investment and any competitive pressures going forward.

On the ESOP charge we would like to clarify that the total charge for the quarter has been Rs. 199 million against the charge of Rs. 20 million in the previous quarter. This includes the one time impact of re-pricing. For the next quarter the total ESOP charge is expected to reduce to an amount of around Rs. 37 million.

At a consolidated level, revenue and EBITDA stood at Rs. 31.5 billion and Rs. 8.1 billion respectively. The decline in consolidated PAT at Rs. 1.7 billion, compared to the last quarter is Rs. 500 million, which is less than the decline in standalone PAT. This has been because of the improved performance of Indus Towers.

With this I will handover the call back to Rochelle and open the floor for the question and answer session, thank you.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press * and then 1 on their touchtone phone. If your questions have been answered and you wish to remove yourself from the questioning queue please press * followed by 2. You are requested to use your handsets while asking a question. To ask a question please press * and 1 at this time. Our first question is from the line of Srinivas Rao of Deutsche Bank. Please go ahead sir.

Srinivas Rao

Thank you very much sir. Congratulations on a very strong set of operating numbers. I have two to three questions. First could you clarify, how you have accounted for the charges which subscribers have paid when they transition from per minute to per second plan, can you quantify that number? Secondly, you mentioned the stability of the legacy circles. Would it be fair to assume that some circles which had lower margins have turned around? And lastly the Spice numbers have been fairly weak at the margin levels could you comment on that too?

Sanjeev Aga

Hi Srinivas, we will distribute your three questions. On the stability of legacy circles, actually all our circles are showing improvement. Obviously, there are differences, but there are very broad similarities and when circles are more than two years old, we take them off from the list of new service areas. Everywhere, we are finding similar trends, now seasons are different, Quarter 2 and Quarter 3 is different. Similarly, the competition has not come at the same time all over India, it comes at different points of time. So you might find differences in numbers but you are not finding an underlying difference in the resilience of the business model. I think it is more an all round phenomenon. In any case, we do not share details at a circle level, so I cannot go beyond that, except to say that this is a pretty secular phenomenon in terms of competitive strengthening.

Your third question is related to Spice. We have taken over the management control a year ago and by and large there are two things. One is on the revenue front, there is improvement and I expect to see more. These will really start speaking for themselves in the calendar year 2010. But just to give you some short term factors, at least the southern circle, that is Karnataka, was the epicenter of a lot of new competitive



launches and savage price cuts, so revenue at the overall level was under pressure there and at the same time, we are rolling out a number of cell sites in anticipation of the future. Punjab has been a circle, which again at overall level, has not been among the faster growing circles across India. So these are some short term phenomena. That's why you are not seeing an improvement. But I can tell you that, underlying strength is improving and that is going to manifest in terms of improvements in relative numbers going forward.

On charges, let Akshaya answer that.

- Akshaya Moondra** Okay, Srinivas on the recharge fee which we collect, for migration from one plan to the other, is basically amortized over the validity of the new plan, which customers are migrating to.
- Srinivas Rao** Okay, so in this case, from per minute to per second, there is no validity right? It is lifetime validity. So is it on an 18 month basis or something like that?
- Sanjeev Aga** What Akshaya is basically saying, and correct me if I am wrong, is that if you migrate from one plan to another plan and that new plan has a migration charge but the new plan is a permanent plan, that means it has no time period attached to it, then it is recognized upfront. However, if the new plan is a six month plan or a nine month plan, then it is accordingly apportioned and that is true, both for charges that we collect and any benefits that we give away. So, similarly if we give a benefit like talk time, with no time limit attached, it is debited upfront, but if we give it with a time period attached, then it is proportionately apportioned, is that right.
- Akshaya Moondra** Yes!
- Srinivas Rao** Thank you sir. You would appreciate, because there would have been a lot of transition this quarter, would you like to put any range in this quarter especially because of the transition or what kind of impact has it on your revenue?
- Sanjeev Aga** We will not give that number because that gives too much away, but it is not going to change your analysis.
- Srinivas Rao** Okay, thank you, this is very helpful.
- Moderator** Thank you Mr. Rao. Our next question is from the line of Mr. Shubham Majumdar of Macquarie. Please go ahead.
- Shubham Majumdar** Hello, I have three questions. One is, could you give us a sense of what percentage of your subscribers and also percentage of volume or minutes, if you can, have actually gone over to the new pricing plans that were introduced in October, this is both on the per second billing platforms and also on the lower priced per minute billing platforms? The second is, if you could just give us a sense of what is actually happening to the postpaid pricing and whether corporate clients and high value postpaid customers are indeed asking for cuts in pricing, in line with what is actually happening or transpiring in the prepaid world? It is unlikely that they will sit quiet especially when Reliance and Tata and some of the other new players have already launched postpaid prices, which are significantly lower than where current incumbents postpaid plans are,



so a color on that? And thirdly, how much would you put your MoU increase to the seasonality effect between 2Q and 3Q that generally happens in every year based on the festive season and so on and so forth. How much of the MoU jump, in terms of the total network minutes of 15%, would you sort of break that up between what was inorganic, based on new launches, in the circles that were launched through the quarter and how much of it was organic buildup, if you can help us with that? Thank you very much.

Sanjeev Aga

Okay Shubham you have asked six questions but you described them as three, so let me go one by one. For most of them, I will not give you precise answers A) we do not have them ready but B) We would not like to go into that granularity, but I will give you a good enough indication.

In our stronger service areas, which would make up the majority of our revenue, which is over 50% , in most cases the migration to the new price plans whether they are per second or whatever, they are not necessarily per second everywhere, it is an opt in process. and we try to accelerate it but it is a process which takes time. As of end of December, the majority of consumers would have migrated, some of them for various reasons, may or may not, want to migrate. So the price is not static, if you see a price of 51 paisa for the quarter obviously the price at the exit or 31st December is lower than that and what is true of subscriber is also true of MoU. But in many of the very new circles, maybe we do not have an opt in, and we just have a price plan, so everyone is on the lower price. However, since the bulk of our revenue comes from our older circles, I think it would be fair to say that majority are migrated here, but there would be still some residual migration which may still be happening in a trickle.

The second question is about postpaid pricing. What you see in the newspapers, are one off events but what happens in the market, it happens with much greater rapidity. Anytime there is a change in the frontline prepaid tariff plan, eventually it finds an echo in all plans, but it is not done instantaneously, in fact it cannot be done instantaneously. Over a period of time all other plans are also aligned to make them equitable and to make them fair, but other than that apart from the price, it is also possible that there might be people at higher plan which is still a little higher, but they could be getting some offers which may or may not be available to the new people. So there is some broad equity built into our overall pricing structure.

Now your last question is about the seasonality and how much of this 15% minutes growth is seasonal? Again seasonality is largely a rural phenomenon and approximately 40% of our revenue comes from sites, which are described by the census as rural. That was the number sometime ago. It could have changed slightly. It is very difficult to say how much is seasonality, how much is new subscribers and all that. But my guess is that in the 2nd Quarter we had both, (it is) normally a bad quarter and this year rains came very late, towards the end of the 2nd Quarter. Urban India is not that dramatic seasonality factor, so this is one part. The second part is that we would have also benefited from persons in urban India who may have continued to be our subscriber, but would have been flirting with other operators with second or third SIM cards and some of our outgoing traffic could have gone to them, those subscribers might have gone wholesale and might have reverted, so surely there is some pullback of that nature also, which is difficult to quantify. Apart from that there is an underlying trend that Idea, as a company, over the years, has been strengthening in terms of customer preference, so that also plays a part.



- Shubham Majumdar** That is helpful. If you could just help me understand what percentage or what share came from the inorganic launches during the quarter of that 15% jump in total network minutes?
- Sanjeev Aga** Okay what I will do is as I go onto the next question, I will see if that is already provided in our data?
- Akshaya Moondra** Actually Shubham if you will look at our revenue growth which is shown separately, the revenue in 11 service areas has grown 4.2% and the revenue in new service areas has grown by 31% quarter-on-quarter. While we are not giving that breakup for the volume growth separately, but I think that is fairly representative of the volume growth in the two categories.
- Shubham Majumdar** What would be your reaction to the, I mean it is just a month or two months trend and it probably is early days, but how do you look at your net adds market share slipping significantly in the December numbers, in spite of actually matching prices, even while the Greenfield operators, so to speak especially Telenor, have managed to get significant 17% net adds market shares and IDEA has been the sort of key operator, that has been hit here?
- Sanjeev Aga** I have not looked at net adds market share for the last 18 or 24 months or ARPU. In my opinion all subscriber based matrices are unreliable and in any case these are not indicators of the health of the business. The whole business model has changed, but the method of measurement has not changed. We look at revenues, we look at (total) MoUs, we look at margins, we look at profits and we look at revenue market share, which you can more or less accurately derive, after a lag, when you read the TRAI figures. So I have nothing to comment because I do not even look at it.
- Shubham Majumdar** Okay, thank you very much.
- Moderator** Thank you Mr. Majumdar. Our next question is from the line of Reena Verma of Merrill Lynch. Please go ahead.
- Reena Verma** Thank you very much for the call. Just couple of questions, firstly on your long-distance segments margins, please can you help us understand how much more upside there could be to these margins that are reported at the segment level and also if you can explain the dynamics that led to such a significant improvement in the margins for 3rd Quarter? If you can help us understand what is working there in terms of the EBIT margin? Secondly on churn, just any comment on where you think this level will stabilize because it is been steadily rising for the last 4 Quarters at least? So if you can please bring in some comments in light of your emphasis on competitiveness. And thirdly on capex, please can you help us gauge what should be a steady capex run-rate either quarterly or on an annual basis for FY 11 or for the next couple of quarters, whatever you are comfortable sharing with us? And finally just slightly big picture, wanted to know how your business planning in the established operations has changed over the past quarter because tariffs are very easy to drop so I do not think there is much to discuss there, but what else have you done in the past quarter, in your established circles to deliver such a strong performance there? Thank you.
- Sanjeev Aga** Hi, Reena, welcome back.



- Reena Verma** Thank you sir!
- Sanjeev Aga** Let me start with your NLD question and the other three are somewhat interrelated. As far as NLD is concerned, this quarter has been a bit of a jump. Now this is quite transitory because between Quarter 3 and Quarter 2, three things have happened at the same time. One is, during Quarter 2 the STD rates across India were slashed by competition and then we eventually more or less matched it or came close to it and this has led to a big inflation in the total amount of NLD traffic. So NLD traffic has gone up. Then secondly, as you are aware, Idea has been increasing it is OFC rollout or fiber optic rollout and there was a pretty sizeable increase in rollout and consequently the share of Idea NLD traffic, that we carry on our own media, went up. Most importantly once this happens there is a change from what you can call an opex model to a capex model because now the costs are basically being incurred in terms of capital costs which effect below the line. Therefore, for the combination of these three factors, there is a nominal or an apparent jump in the margin. Some of it is real, because we are getting more efficiency but some are a way of accounting for it, but these things will stabilize going forward.
- Reena Verma** Sir I may just stop you there, so 48% EBIT margin in long-distance you think that will be stable going forward is that what I should take away?
- Sanjeev Aga** The margin today represents the rate which was prevailing in a particular paradigm, if the rate remains the same, you would say it would remain similar, but in case rate is adjusted in line with new economics then there could be a change. But this will all be within divisions, it would not affect at the company level.
- Reena Verma** And can you please give us the percentage captive share now, it was 65% if I remember correctly in 2Q?
- Sanjeev Aga** It was not 65% it was less than that. I do not remember for the quarter, but as of date it is about 70% to 71%.
- Reena Verma** And on your network expenses, if your fiber rollout expanded that much, how come the network expenses did not move at all?
- Sanjeev Aga** Most of it is capital expenses.
- Reena Verma** Okay sure, thanks.
- Sanjeev Aga** That is the point that I was making, that it goes from opex to capex.
- Akshaya Moondra** Reena actually the network would not be affected by OFC so much, it would primarily be impacting the pass through and access charges.
- Reena Verma** Yes, thanks.
- Sanjeev Aga** Now on Capex, again we would not answer. The reason is that we have given an indication that our capex in this fiscal year will be in the ballpark of Rs. 4000 crores, maybe a little more than that, but in that ballpark. Now next year, we have not started our planning and there is no point doing planning in a vacuum, because if you have 3G auctions then the split, circle to circle, between 2G capex and 3G capex



has to be worked out and if you do not have 3G auction, which is unlikely, then obviously our expense would have been much lower because all our circle rollouts are over. It would have been only for any small replacement capex or expansion of capacity, but with 3G around the corner it is hard to place a figure. We would probably do that in our next call assuming that auctions are completed by then, but in a normalized way, if there had not been discontinuity because of 3G, then the capex would have gone down dramatically.

Your next question is on churn and business planning. Actually churn is a question of how you recognize subscribers, and the point is that we today, for example, have got in the Idea brand about 58 million or 57 odd million subscribers, and we chose our own definition which I dare say is much stricter. But if you see the number of valid SIM cards that we have sold which are still valid, the numbers will be incredibly higher. So, there is this phenomenon that the whole business model in India has changed. Particularly in urban India, people are hanging around with 2, 3, 4 SIM cards, that is why this number portability is meaningless except for about 5% of the population. So, the same individual is counted as a subscriber by different people and you can recognize it or not recognize it. So, churns across companies are not comparable, that is because everyone follows different policy. That is why, I said that subscriber based metrics are losing value. We do have a problem in India that subscriber management is becoming harder because people keep flirting from not just operator to operator, but sometimes call to call. But that is a new paradigm and we try to do well under that paradigm because we do not control all of that, but in general all subscriber based metrics will take you down the wrong path.

Reena Verma I am sorry Sanjeev, but the churn would not matter if it was not accompanied by a sharp rise in subscriber acquisition expenses. So this churn is not fictitious, right? You actually have to spend more.

Sanjeev Aga I agree with you, go ahead.

Reena Verma Sir, I am just saying that at some point, it has to stabilize or you must have a sense of beyond what point you do not chase the subscriber?

Sanjeev Aga I will have to have a separate discussion with you Reena; it is a more complex subject. The simple point I am trying to make is, this is a reality, subscribers are changing not because of you or me but they are changing because of various other circumstances. Numbers of gross additions are going up and the newspapers report that India had another record, but actually the number of human beings with new mobile phones, who are brand new, is much-much smaller, so this is a reality.

Now under the new reality, you change your business model and you chase the right metrics. That is why, I mentioned that, look at the end of the day there are revenues and there are costs and there are revenue market share and there are EBITDA and there are profits. Of course there is gestation period but you have to see after the gestation period, are you heading south or heading north. So we are going back to more classical metrics like any conventional company should have. These so called pseudo telecom measures like ARPU and churn, in India do not mean in 2010 what they meant in 2002 and more than that I'll have to have a longer discussion with you.

Reena Verma Thank you and just final comment on business planning sir.



- Sanjeev Aga** What about business planning?
- Reena Verma** I just wanted to know what you have done in your established operations in light of the new scenario other than matching tariffs.
- Sanjeev Aga** We may not have match tariffs exactly but certainly we are not going to give anyone a free run. So we may not need to match exactly but we need to blunt any significant threat. Basically there is no magic to it, you do the old fashioned thing, look at depth of our distribution channels, look at the sophistication of our IT processes, look at our service delivery, look at our network and the amount of what we put into it, look at where we keep working on our brand and merchandizing and look at our channel management and then there are some backend processes which involve a lot of data. All these things contribute to customers developing a sense of comfort with a particular company or a set of companies, and when you find that the difference in price is not too significant, then you will find a consolidation of market share across whoever are the stronger companies. That is something which is happening.
- Reena Verma** Sure, thank you very much gentlemen.
- Moderator** Thank you Ms. Verma. Our next question is from the line of Tien Doe of GIC. Please go ahead.
- Tien Doe** Hi, good afternoon, thanks for the call, I just got a couple of questions. If I look back at your 2nd Quarter result, that was relatively weaker than your 3rd Quarter; your 3rd Quarter result was very good. I take onboard the answers that you said to Shubham and to Reena but, what were essentially different in the 3rd Quarter on the positive side versus the 2nd Quarter. You have produced revenue growth, one of your competitors that's just reported today, did not reported Revenue or EBITDA growth on Q-on-Q. You know, you sound just a hell of the lot stronger than all the four. Given that there was a full quarter effect of steep amount of competition from your newer competitors, what was essentially the difference in the 3rd Quarter versus the 2nd Quarter, do you think? The second question is just on your new circles, are you going to adjust your capex to keep the time period when you will go positive free cash flow in these circles. Are you not adjusting capex there, are you doing anything to try and alter payback period, in the light of this higher competition or you are just carrying on irrespective of what the competition is doing and it is short term?
- Sanjeev Aga** Thanks for your questions. I have not studied the results of the other competitor that you have mentioned because that has come just a while ago. I guess you are talking of Bharti and they are a very formidable top class company. I do not know the difference, but I mean they are very formidable competitors. I would not attach too much importance as to why in a particular quarter it is a little plus or a little minus. So let me leave that aside, on your first question you are trying to see what it is, other than seasonality?
- Tien Doe** If you produced a flat or down quarter I think the market would not have been surprised.
- Sanjeev Aga** Yes, I have got your question. Let me give you an answer although I would not be able to explain how much of this 15% MoU growth is because of that and how much of it will be because of other elements. So I would not put a number to it, but I think there has been a fundamental shift in Quarter 2, in the business paradigm. There is this contraption, which sell for about 40 cents US by which you can have two SIMs in



the telephone at the same time and this phenomenon grew like wild fire in Quarter 2. and that made price arbitrage more important than it normally would have been. What it does is, so long as you have the security and quality of your main operator, you can always flirt with the cheaper price of any fringe operator because you have the security to come back to the main operator whenever you want coverage or quality or roaming. In fact what it did is, it reduced the switching cost which used to be high in telephony. It reduced it for some people almost to zero. This was not a national phenomenon but it was growing and in a way this is also an answer to the question. I did not complete to Reena because this phenomenon has to be understood. So I would say that the Quarter 2 represented a bit of a free run for some of the new entrants, not because of their inherent strength but because this new thing had suddenly erupted on the telephony scenes in India for the first time and once the stronger companies have blunted the price arbitrage, that would show also as a delta between Quarter 3 and Quarter 2. Now why it has shown more for us and less for another, I do not think, is very consequential, but I think the long-term trends will be similar.

On your other questions which is about new circles. We have not adjusted our capex, because we adjusted our capex two years ago. In fact all of the last one year when we say that we have a calibrated and measured and tailor made approach, we understand the levers of business and how much to spend, where to spend, how much is strategically sound, how much is financially sound, is something which we had planned one or two year ago. Measured means measured in terms of time and Calibrated means calibrated in terms of financial returns. We have had no reason to change it because I believe our inherent strategy was very well thought through.

Tien Doe

Okay, thank you very much.

Moderator

Thank you. Our next question is from the line of Sachin Salgaonkar of Goldman Sachs. Please go ahead.

Sachin Salgaonkar

Hi, thanks for the call and congratulations for a good set of results. I have three questions, first one is related to your capex guidance, is this capex guidance reduction mainly related to expansion or you see less of a maintenance capex? Secondly your press release mentioned about improving capacity utilization, could we have some color what capacity utilization it was some six months ago and how it has moved? And lastly now that you are a PAN India operator what kind of operational efficiencies could we see that would start kicking in and is it possible to quantify that and if that could change your cost structure significantly in coming months? Thanks.

Sanjeev Aga

Capex guidance is down to about Rs. 4000 Crores. There has really been no change; no strategic change. Whatever we intended to do, we are doing, but there are two reasons for this, why it has come down. One is that despite a relatively strong showing in Quarter 3, and in fact as I said even on the first nine months over last year, capex, when it was planned, we had thought minutes of use in the sector would be even higher. Therefore, since the minutes of use in the sector has been little lower than what we have thought, so to that extent the capacity requirements go down and that has led to a reduction. Secondly when you plan a year in advance, some of the rates are not finalized and it could happen that some of the prices got finalized and so it is a combination of these two factors, there is no strategic change.



Your second question was about our press release and how much is Capacity utilization. There are so many measurements in telecom, I mean there is switch capacity, BTS capacity, there are low utilization sites etc. So there is no one measure like in any other machinery. But the simple point is that if you see our total capex we have today approximately 63000 cell sites. If I am not mistaken about 90% of these or maybe 85% have come in the last 40 months, something of that magnitude. We were late starters, had we put it up 5 years ago, our market share would have been much higher, but what this therefore means is that we have greater headroom than say another company which might have done its investment over the last 10 years in a steady manner. A lot of our circles are new and a lot of our sites in existing older circles are also new. So we have headroom and when you have a surge in volume growth of this nature, we do not have opex increase in line with the revenue or the minutes of use increase, and that has come to our benefit. You can add something to it, Akshaya.

Akshaya Moondra

Actually it is the same point. Basically we have not really taken any specific parameter. What we are saying is that, if you look at this quarter, the volume growth is higher than the number of sites that we have added, which is not a trend which you would see in the past. So once this starts happening which would be the case once our rollout is complete, going forward if the volume is increasing and the sites are growing but at slower rate because the rollout is complete, the capacity utilization is expected to improve in the future.

Sanjeev Aga

On your last question on what are the benefits of pan India, again I will have to do mathematics. But I will tell you some of the things which we have uniquely, which another new operator would not have. We would also not have, if we were starting brand new. One is our advertising now gets apportioned over a larger number of circles. We have advantages of almost 58 million people who roam into the new circles of our own, so that is something which was going elsewhere now it comes to us. Termination traffic comes to us. Our OFC which maybe passing through those circles for linking other circles, that starts helping us and the most important thing is the knowledge which is developed the hard way, the methods, the processes. So, just to give you an example, I was in Tamil Nadu three days ago and it is a brand new circle, but it operates with all the sophistication of an old operator, with brand new equipment. So these are things which you cannot place a number to, but they all sort of kick in. These will not be available to us had we been starting all over in India. So there are significant benefits which are unique to a company like ours.

Sachin Salgaonkar

Okay got it. Just two follow-up questions on that. So could we see some kind of margin improvement in coming months or 6 to 8 months because of this? And secondly you did mention about volume growth coming in this quarter. Now is this a trend which we could see sustainable going forward?

Sanjeev Aga

The answer is, I do not know. But it is a simple thing. Had the market not had this disruption, had it being the same number of operators, which was already a very competitive market, than undoubtedly we would have had margin improvement because we are getting scale benefits and so many other benefits and our processes are becoming more and more efficient. But we have a situation where there is hyper competition and prices are determined not by economics, but by desperation. So, it is very difficult to say in the short run whether the former will overtake the later or the later will overrun the former. But in the long run once the dust settles, and I do not know what the long run is, undoubtedly these things will help us in terms of efficiency and margins.



- Sachin Salgaonkar** Okay thanks. And about volume growth, going forward, do you think that trend could be sustainable?
- Sanjeev Aga** I heard my colleague from my competitive company, speaking on the TV very briefly in the morning, and he was right that there is not that much elasticity among the high income people, but we had increase in number of people who are middle income and lower income, who are coming on to our networks. Particularly companies like Idea which get a lot of revenue and subscribers from rural India, which is a strength, which people do not realize because that puts up huge competitive barriers for anyone else. These people, certainly many of them, are targeting a spend which is based on their affordability and not based on their need and there could be elasticity as their incomes improve over the years. But in the long run, you are not going to see dramatic elasticity, like when the prices came down from Rs 2 to Rs 1, but there will be the elasticity of demand. That is the law of economics.
- Sachin Salgaonkar** Okay got it, great, thanks a lot.
- Moderator** Thank you Mr. Salgaonkar. Our next question is from the line of Rajiv Sharma of HSBC. Please go ahead.
- Rajiv Sharma** Yeah thanks for the opportunity, I have got couple of questions. First is Sanjeev, you mentioned on this elasticity from the lower end of the segment and the middle end of the segment. Now given that you earlier also mentioned that these are deals seekers and sometimes value seekers, and they move between offers, so even elasticity is being witnessed there, if tomorrow Etisalat comes with another freebies or DoCoMo gets even more aggressive, do you think this will be a sustainable trend in terms of traffic growth? Second question is on your Capex. If 3G was not there, can you give some estimate of FY2011 capex numbers, given that peak funding is behind and your PAN India rollout is done? And thirdly, just digressing a bit to regulatory aspect that TRAI is working on the M&A paper and the spectrum allocations paper, what do you think would be better or what would your preference be, will it be stringent subscriber base norms spectrum allocation or auction of 2G spectrum? Thanks.
- Sanjeev Aga** You were asking what happens if ABC comes and drops tariffs, and XYZ comes and drops tariffs. You see that could happen because they have very little alternatives, but this is how the things play out and as I said, all these things will only fast forward the shakeout. That is the reason to the earlier gentleman's question, I did not give an answer because I cannot predict what others will do, but I can predict almost certainly that no one is going to get a free ride and in case prices get into any kind of a free fall, you know who will come out with a few scratches and who will come out with a few fractures. It is hard for me to predict and except to tell you that my assessment is that no one is going to get a free ride. The other point is that you also have to make an assessment that at the existing price levels, now this is my assessment that out of the one dozen operators, not more than two, three, four can ever make a money, given in the very long run. So going below (cost) would just expedite the shakeout.
- The second question what capex would have been? We have never done that exercise. If you just wanted indicative thing, it would be much less than half of FY10 capex. Because my guess is that, out of Rs 4000 Crores that we have spend this year, approximately half might have gone into new circles, so that would not have been there. Of the balance, for capacity expansion, since we are not having dramatic increase in new towns, having already expanded very far, it would be less than half. But that situation is not going to arise. So it is a very hypothetical situation.



The third question of yours is, the subscriber link is a right criteria if followed the right way. At that point of time, this will take me very long to explain to you, when India did not have enough spectrum to have enough number of licenses, but was getting spectrum, they said take this much and you will get more as you need it, and your need is determined by the number of subscribers you have. There are assumptions of course, that the subscribers are paid subscribers and genuine subscribers. There has been so much abuse of that definition by some operators that I think this change was inevitable. We have broadly, under the given circumstances, in our response to the TRAI said that the NTP 99 document did not require any change. But between 1999 and 2009 there have been so many adhoc and some of them not too smart changes in policy that you do not have NTP 99 any longer. It is all bits and pieces and therefore the policy has to be thrown away and you have to come with a brand new policy. We have broadly supported the thrust of the Spectrum Committee report with one or two suggestions here and there.

Rajiv Sharma

Thank you very much, that answers my question.

Moderator

Thank you Mr. Sharma. Our next question is from the line of Anirudh Gangahar of JM Financial. Please go ahead.

Anirudh Gangahar

Thank you very much for opportunity. Three questions. One, could you just tell us a little bit about the starting of improvement of financials that we are seeing on the Indus tower side? Anything that you can shed some light on the operating financials over there? The second thing is that, have we seen any impact on dealer commissions or any other element of subscriber acquisitions which have been heading north given the kind of new operators who are coming into the picture and I think the operational efficiency levels, your margins have sustained pretty much at 30% plus in the established circle which is quite commendable. Do we see these kinds of margins or rather not margins but the cost being sustained and not going up and if at all certain cost items can be kept more in control? if you can probably give your views on the same. It is bit of an abstract question if in case you can throw some light on it? Thank you.

Sanjeev Aga

Let me take the second and third, then Akshaya will answer you about the Indus towers. Of course for reasons of capacity utilization but more than that reasons of scale, reasons of pushing the frontiers of management in all our functions, our cost curves going forward will only improve. But if price curves fall faster than the cost curve and whether minutes used will or will not compensate in the short run, no one can answer that because this is a period when there are three times the number of operators who are eventually going to survive. So in the next 1 to 2 Quarters, 3 Quarters, no one can give you an answer, but, if you ask me beyond that, I would say, yes, we would improve, we should improve.

Your second question was about dealer commission. You know what is happening in the market, and this is again related to the question I could not answer to Reena, is that you have a certain price point in the market and in their heart of hearts many of the challenger operators would know that this price point is not good enough for a business and therefore there will be a reluctance to go further down. However, that has its own pitfalls and the steroid they, therefore, use is to pump more money into dealer commissions or retailer commissions and sort of buy a subscriber. But the danger of that is that those retailer commissions are passed on to the consumer. This is not just one company, this is a industry wide phenomenon and many consumers find it cheaper to buy a new connection instead of recharging their old connection. That is why, you have churn numbers that are just not comparable. So yes, dealer commissions is the next pressure



point before the pressure comes back to baseline tariffs and that is a question which Reena had also asked that churn has gone up. So the whole thing is not the same model that you expected two years ago, there are changes, some good and some bad. Indus towers, Akshaya will answer.

Akshaya Moondra

On the Indus towers, generally speaking, their scale is growing. They are right now at about 103,000 towers. The tenancy is improving and in this business, tenancy is one of the major factors of improved performance and that stands at around 1.70. In terms of financial performance, in this period it has been marginal but we have been discussing this and operationally, we find that the whole team is working on improving the processes. You would realize that this was a company which inherited a large number of towers and things have started operationally moving in the right direction. When we discuss internally, we find a lot of actions happening, a lot of automation happening, which is resulting in operational improvements and ultimately the cost will improve with those actions. So, while the general direction is seen here in terms of marginal improvement in financials, on an operational basis, we see a lot of progress.

Anirudh Gangahar

Sir thank you, just a two related very quick clarifications. The rationalization that occurred in the 2nd Quarter, those cleanups are behind us now as far as Indus is concerned? And the loan given to Indus has it been repaid or it is the end of the year that you were expecting the repayment?

Akshaya Moondra

It is like this, As far as you are talking about some accounting adjustments which were done last quarter, I would say that, audit or physical verifications of sites and what all is there is still under process. It is almost coming to a completion. So there are still some one off adjustments, but the magnitude is significantly lower than the previous quarter.

On the repayment of the loan by Indus, we can call it back whenever we want, but we have not asked for it right now. Indus has sufficient facilities to repay the loan whenever we ask for it.

Anirudh Gangahar

Right, thank you very much for your time sir.

Moderator

Thank you Mr. Gangahar. Our next question is from the line of Rahul Singh of Citigroup. Please go ahead.

Rahul Singh

Yeah hi, good afternoon everyone. I had two quick questions, one on the incoming/outgoing ratio in the last quarter, it has deteriorated and it become more incoming. Have you seen that improving in the 3rd Quarter and if you can quantify whether it is come back to 50-50 kind of benchmark. The other issue was again going back to the regulatory spectrum policy changes etc. Given that there is a risk that in your new circles you maybe stranded at 4.4 in the worst case. Is there any thought because that will constraint your coverage rollout beyond the urban areas especially in the 1800 megahertz? Is any thought being given to intra circle roaming, if at all?

Sanjeev Aga

Yes, what has happened in this quarter is that, if minutes have grown by 15% both incoming and outgoing have grown, incoming has grown because prices have come down of our competitors, and the number of competitors are many more. The incoming has grown but outgoing has grown faster, and therefore the ratio has improved. I will not give you the number. That is proprietary information and that outgoing has grown faster, which indicates that some of the people who had left us and was flirting here and there, have come back.



Now your second question is about regulatory. Yes, as we grow, we will need more spectrum, but if we do not get it through the subscriber link criterion, then the government is going to come up with an auction criterion. So one way or the other, spectrum should be available in the long run. Also we are waiting for the policy to be clear, but we will not be indefinitely stranded without spectrum, and who knows when the M&A policy changes, there maybe a lot more 1800 megahertz spectrum coming into the market through so called consolidation.

Rahul Singh So any discussions on intra-circle roaming in the meanwhile you are just keeping fingers crossed at this point in time?

Sanjeev Aga No, I am just keeping my lips sealed.

Rahul Singh Okay, thank you sir.

Moderator Thank you Mr. Singh. Our next question is from the line of Vinay Jai Singh of Morgan Stanley. Please go ahead.

Vinay Jai Singh Thank you so much. I have two quick questions, firstly you did mention 2G capex peak is behind us, are the losses also peaked already, which means do we expect maximum losses in this quarter in the new circles? That is my first question. The second question, you have spent sometime on this subject already, I am trying to just gauge what is not the additional minutes of usage, but what is the additional revenues which would have come for people who transitioned onto the cheaper tariffs and which is one off which may not come in the next quarter? Sanjeev you did mention that different tariffs have different numbers and different amortization periods but it is difficult to gauge how much of the chunk would have already come in this quarter because of which you had a healthy 6% odd growth of revenues for the quarter? Let me stop here.

Sanjeev Aga Vinay, let me take your second question first. I have the numbers, but I do not want to share. But as I said, the majority of this migration, the majority of our revenue migration is with a time period, by majority I do not mean 90%, I mean more than 50% and therefore any such money would be recognized, if the time period is 12 months, over 12 months. It is only migrations which are permanent, where it is recognized upfront, which are not the majority, which are a minority. There is a number but all I would say is that it is not going to change your analysis. A couple of percent here or there is not going to change your outcome of whatever the numbers speak. It is not significant to come to any different conclusion which you otherwise might come. Neither this is a phenomenon which is starting in this quarter; it has always been there to some extent. I do not even know whether quarter-to-quarter it is of any significance.

Akshaya Moondra Actually Vinay, I think one of the concerns which people have is that, is this revenue growth coming from people migrating and is that a significant portion? All that I can say is that the growth in revenue from these recharge migrations, is less than the average revenue growth, so it is not getting inadvertently influenced by this particular fact.

Sanjeev Aga It is not significant.



- Vinay Jai Singh** Pardon my ignorance, the only reason I asked that is if I take half your subscriber base and put a number of Rs. 50 I get Rs. 1.5 billion and that is exactly your revenue growth, which is why I asked this question.
- Sanjeev Aga** No but that is not so.
- Akshaya Moondra** Actually that Rs. 50 which you are calculating would also get amortized over a period of time, if there is a validity clause. So that amount of Rs. 50 is not right, it is much lower. I think it is sufficient to say that revenue increase is not high because of this reason. Those calculations which you are doing, we have not really seen in that fashion, but definitely that is not the reason for the revenue jump.
- Vinay Jai Singh** Sure. The first question on losses?
- Sanjeev Aga** What I will do is, since I do not have the numbers, before the end of the call if I get clarity (on migration revenue), though it is not going to change anything, but if I am able to just calculate in the back and I will try and share it before the call is over.
- As far as loses from new circles are concerned we have rolled out everything so as such this should have been our peak loss period, which is a quarter ending December. But out of these four circles which were launched last quarter some of them were launched only in December. So their full impact may come next quarter. So I would say that it will either be this quarter, which is just ended or the quarter which you are going through, is the peak loss quarter and after that things will look up.
- Vinay Jai Singh** Thank you so much sir.
- Moderator** Thank you Mr. Singh. Our next question is from the line of Sanjay Chawla of Anand Rathi. Please go ahead.
- Sanjay Chawla** Hi, good afternoon, thank you for the call. I have two to three questions. One is on the tax rate, your effective tax rate has been going up over the last two quarters, what kind of a rate would you say is possible next quarter as well perhaps on a next year? I know it is only deferred tax but still from a profit modeling point of view it is relevant. Secondly, it is more of a hypothetical question, can you quantify based on your experience, what kind of a price premium let us say a brand like Idea can command specially in the established circles, over the new entrants who maybe, let us say offering an ARR or realizing an ARR of 35 paisa or 40 paisa? What kind of a premium do you think based on your experience, you think, you have managed to charge and still maintain your traffic market share?
- Akshaya Moondra** Okay Sanjay I will first take your question on the tax rate. One is, as you know that, these tax calculations are rather complicated and with things changing, with projections changing, the deferred tax calculation in light of the tax holidays and all that can also change. I can just give you two basic points which would influence the tax going forward. One is that, essentially the deferred tax charge is coming because of the difference between the tax depreciation and the book depreciation. Since most of our assets are established in the last two to three years timeframe, with each passing quarter this gap is increasing. So basically to that extent there would be a gradual buildup of the deferred tax charge. I would not be able to quantify how much. Generally this should be the trend, the only other thing is that we may have some of these



restructurings, which are in progress and that may have some impact on deferred tax calculations going forward. But it is quite complex and it is difficult to quantify it right now. The general trend looking from an operational side alone would be, as I said, that this could gradually increase.

Sanjay Chawla Mr. Moondra if I could ask, when do you expect the current tax to start kicking in especially with the expiry of section 80-IA in some of the circles? When do you expect the current tax rate and start paying cash taxes?

Akshaya Moondra I do not think we will pay any taxes until FY2012 and maybe it will spillover to FY2013.

Sanjay Chawla So until FY2012, because of the section 80-IA tax shield and your carry forward losses, is that the reason?

Akshaya Moondra Yes.

Sanjay Chawla Alright thanks for that.

Sanjeev Aga Before I take the next question, I just have, Akshaya has already answered that but I have understood it also. Our quarter-on-quarter revenue growth is 5.9%, now this revenue growth comes from many streams airtime revenue, out roaming revenues, intra connect revenue, recharge revenue, value added services revenues and so on. The point which Akshaya said is that the growth in recharge revenue, that one time revenues which Vinay was referring to, is lower than 5.9% quarter-on-quarter. So this certainly is not any factor in the overall revenue growth.

On the price premium, there is no answer to it. But let me also tell you something which will confuse you even further. It is also a question of time, when there is a bit of a wave in the market, at that point of time, its difficult to have the premium. But after sometime, when people settle down and they understand the overall benefit of being with a good operator, with good roaming, with good network, with good service, it changes. So certainly in our stronger circles in one form or the other, we get a price premium. Having said that, we are not in the premium business, we want to make sure that we give good value for money, but naturally because of our strength and because of what we give to the customers, we do get a little extra.

Sanjay Chawla Alright, thank you very much.

Moderator Thank you Mr. Chawla. Our next question is from the line of GV Giri of IIFL Capital. Please go ahead.

GV Giri Hi, can you please let us know why the access charge of the IDEA standalone increased only by 6.9% whereas in Spice they jumped Q-on-Q by almost 20%. And secondly, in one of your competitors' results the tenancy of Indus towers is 1.66 whereas you mentioned 1.7. Maybe it's splitting hairs but I thought that it is worth asking?

Sanjeev Aga No, it is not splitting hair. One must have been the average while other one must have been as on date. As of date, that is on 20th or 21st (January) because we had a meeting two days ago, but it is the same number exactly between the two shareholders.



Akshaya Moondra

On the access charges, basically in case of IDEA, what has happened is that earlier for most of our traffic, we bought minutes from other operators. Now as you have seen that we are carrying more and more of our own traffic on our own system, for which we are not incurring those access charges. I think that is the main reason that why the volume has grown up so much whereas the access charges have not grown in that proportion.

As far as Spice is concerned the major reason is that most of the ILD, where the access charge is per minute are higher, has moved there and that business has grown. So as a percentage, it appears higher and also the NLD business which Spice was having, has moved to IDEA So in net effect, it would appear that the excess charges in Spice have grown significantly and also as a percentage of revenue, but that is primarily because the dominant segment there is the ILD segment which has a higher absolute amount as a percentage of revenue or the access charges.

GV Giri

Okay, thanks a lot.

Moderator

Thank you Mr. Giri. Our next question is from the line of Samir Naringrekar of BNP Paribas. Please go ahead.

Samir Naringrekar

Good afternoon gentlemen, my question is for Mr. Aga. I was just looking at different scenarios which would probably drive consolidation. I basically tried to look at scenarios of different level of net adds market share for new entrants, different levels of tariffs almost going down to tariffs which we had pretty much envisaged by our Honorable Telecom Minister and also different levels of operating cost. What I pretty much find is that the cash flow in some of these new entrants would pretty much be within the \$2 billion to \$3 billion US Dollar kind of range, and given the fact that lot of these new entrants are raising capital by selling assets or by plans of listing or already have cash rich foreign partners, I just want to know, what do you see would be the stress point in this system that would drive the consolidation. Do you still stick to your viewpoint that consolidation will happen quickly or do you believe that it would probably take much longer than that?

Sanjeev Aga

Samir none of what you said is eventually important. Eventually what matters is that, whether you put in money or whether the banks put in money whose threshold for risk should be lower, but sometimes they get adventurous, or the equity people put in money, whether you are going to get a return on your equity or on your money or are you going to get the money back at all. As I shared in response to another question, in my assessment, and our company has operations in 22 circles, we believe we have strengths as an existing operator, which if I was to make a fresh start, we would not have. We have experience of operating in these circles started in 1998, started in 2006, started in 2009 and we believe it is a challenge. I have already said that the prices at which the market is operating, of the 12 or 14 licenses, it does not matter how many subscribers you have or what cost you have, in my assessment, I maybe wrong, majority of them would never make a cash profit. So that is my assessment but that may not be a popular assessment. So lets see, who can say what will happen, but the way these things normally pan out, is that assuming I am correct, once this belief is held by others including the rest in the eco system, that is when you start thinking of what to do next. At the moment perhaps there could be a period of figuring out what is happening, what is not happening, I am sorry, I cannot give you a good answer.



- Samir Naringrekar** No that is fine, I think that was helpful, thank you so much.
- Moderator** Thank you. Our next question is from the line of Miten Lathia of HDFC Mutual Fund. Please go ahead.
- Miten Lathia** Good afternoon sir, I think you have answered this in a way but if you look at your current revenue per minute of 51 paisa, would it be fully reflective of tariffs from the ground or whatever tariffs on the ground are there, it is yet to show up in that 51 paisa?
- Sanjeev Aga** No, our exit tariff as on 31st December would be lower than 51p. So 51p is the average we have had during the last quarter. It is not a trade secret to say that in Quarter 4 the average realized rate would be lower than 51p, but the larger point is that when our tariff went down from 56p to 51p, Quarter 2 to Quarter 3, you are seeing the kind of resilience we were able to show. Some of that resilience maybe one off because it is a seasonal factor, but a lot of it is indicative of the polarization between strong operators and challenger operators when pricing is not too disparate. I think that is not going to run away. So that is why I said that all of this will only accelerate the shakeout.
- Miten Lathia** Could you give us some sense of whether that 56p going to 51p in this quarter have taken most of pain along with it or no?
- Sanjeev Aga** We are not feeling the pain, you are feeling the pain. The reason is that we have seen this ever since 14 people took a license, so this is say two and half (2.5) years old. We knew this was coming, we are ready for it. Now as our press release says we are battle ready this is not the time to look at pain.
- Miten Lathia** Okay, thanks very much for the opportunity, thank you very much.
- Moderator** Thank you Mr. Lathia. Ladies and gentlemen due to time constraints that was the last question I now hand the conference over to Mr. Sanjeev Aga for concluding remarks.
- Sanjeev Aga** Well thank you Rochelle and thank all of you. We have had a lively discussion. We always try to, both in our website data which we put up and in our answers to query, share as much as possible so that you understand not just what is happening to the sector but also how our company is dealing with it. I personally and so has Akshaya found this exchange very meaningful, we often learn a lot from your questions, different ways of looking at the same business. So thank you so much for joining us and at the end of it, I would wish all of you a great 2010. Good luck to all of you and your families. Thank you.
- Moderator** Thank you Mr. Aga, Mr. Moondra, and gentlemen of the Idea Cellular Management. Ladies and gentlemen this concludes the conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.