“Idea Cellular Earnings Conference Call”

October 21, 2014

Moderator: Good afternoon ladies and gentlemen. This is Inba, 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 on this call.

I want to thank the management team on behalf of all the participants for taking valuable time to be with us. Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management's time.

I must remind you that the discussion on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this, I hand the conference over to Mr. Himanshu Kapania. Thank you and over to you sir.

Himanshu Kapania: Thank you Inba, On behalf of Idea, I welcome all participants to this Earnings Call. Yesterday, our Board of Directors adopted the audited results for the second quarter of the financial year 2014-15. The detailed Press Release, Quarterly Report and Company Results have been uploaded on our website and I assume you had a chance to go through the same.

Idea, the fastest growing large Indian Mobile Operator, contrary to all expectations, has reversed the last 2-year trend of revenue decline in the quarter of July to September, traditionally weak quarter for telecom due to seasonal steep decline in Minutes of Use as Network Access & Power availability is a challenge for rural subscribers during the Monsoon Period. Inspite of these factors, the company is pleased to report a positive revenue growth in Q2 FY15 of Rs.111 million on sequential quarterly basis. When we compare last 2 years Q2 v/s. Q1, against FY15 positive revenue growth performance, Idea FY14 Q2 revenue declined by 3.5% and FY13 Q2 revenue declined by 3.3% over corresponding Q1 period respectively. The reversal of declining trend and standalone Gross Revenue reaching Rs. 75,673 million was an outcome of –

a) Robust Y-o-Y subscriber growth of 20.5 million VLR subscribers ;
b) 17% Y-o-Y expansion in 'Minutes in Use' to 162.5 billion Minutes in this quarter ; and
c) 125.9% Mobile Data Volume explosion in Q2 FY15 when compared over same quarter last year.

On 15th October, 2014, the 'Telecom Regulatory Authority of India' (TRAI), released an important 'Recommendations for Auction of Spectrum of expiring licenses in 2015 & 2016'. After detailed Consultation with all Key stakeholders & realizing the telecom sector is at a critical stage, TRAI recommendations are a fine balance between government short term revenue needs and long term health of the industry to meet objectives of –

a. Ensuring continuity of consumer services

b. Security of Network investment

c. Achieve Digital India Vision.

To quote from the TRAI Recommendations -

"there is an obvious and compelling need to make available additional spectrum for the conduct of a fair and equitable auction"

In summary, TRAI has made several recommendations to increase the availability of spectrum so as to prevent the deleterious fallout due to short supply like frenzied bidding, predator competition, etc. not only for the telecom sector but also for the economy as a whole, including –

1) Augmenting 900 MHz spectrum quantum by taking back 1.2 MHz from 900 MHz band with BSNL.
2) Increase further availability of 900 MHz equivalent spectrum by implementing the E-GSM band solution on 800 MHz.
3) Utilise idle 1,800 MHz spectrum in the Defence band and vacate spectrum held in excess of 20 MHz by Defence in 1,800 MHz band.
4) Announcing the Road Map for Auction of 700 MHz band
5) Ensure availability of entire 2x60 MHz spectrum in the 2,100 MHz band for commercial use.
6) Assist in harmonizing the existing 900 /1,800 MHz allocation between unliberalised spectrum and recently acquired liberalized spectrum to create chunks of contiguous Pan Circle spectrum blocks with Operators.
7) Simultaneously, auctioning spectrum in 800 & 2,100 MHz band along with 900 & 1,800 MHz Spectrum Auction.
8) Dialogue between the political leadership at the Finance, Defence & Telecom Ministry to ensure additional Spectrum for Commercial Use.

We wholly support TRAI's prudence and advice for caution and holding off current Auctions till the spectrum supply constraints issue is resolved. The company is very hopeful the Department of Telecom and the political leadership would heed to TRAI's advise and prescription; and Spectrum Auction for expiring Licenses of 2015 & 2016 would be conducted after vacating defined spectrum from various users in the four bands and conducting auction simultaneously for 800, 900, 1800 & 2100 MHz bands.

Separately, besides actively participating in the Consultation process with TRAI, Idea is pursuing its legal recourse. On 1st May 2014, Idea has challenged 31st January 2014 TDSAT judgment, dismissing Idea's 'Right for Extension' and filed an appeal at the Supreme Court for its 9 Circles 'License Extension' as per the terms of our existing License Agreement.

The company has also separately filed an additional Appeal at the Supreme Court against another TDSAT order on flaw in February 2014 Auction Design thereby resulting in insufficient 1800 MHz backup spectrum for Licenses of 2015 & 2016, similar to the benefit extended to Metro Circles while renewing their licenses. The company has sought the Supreme Court's intervention in ensuring continuity of Operations for its licenses expiring in 2015 and 2016.

Both these Petitions have been admitted by the Supreme Court and necessary notices issued to the DoT. The first hearing on both matter is presently scheduled on 26th November 2014.

Moving on to Current Business Performance Update

Based on latest TRAI gross revenue release for the period 'April to June 2014', Idea on sequential quarter basis improved its 'Revenue Market Share' to 17.1% by an impressive margin of 0.5%. When comparing Q1 FY15 RMS against last year same quarter, the company improved its Share from 16.2% by 90 base points. The incremental RMS during the last one year is at 25.7%, indicating improvement in market standing will continue.

The performance of Idea on five standard parameters for the period July to September 2014 is as follows:

1. **Gross Revenue:** The 19.8% Y-o-Y gross revenue growth to Rs.75,673 million in this quarter is driven by increased Subscriber additions, balanced growth in Voice Minutes, explosion in Mobile Data Volumes and improvement in 'Average Realisation per Minute' while maintaining 'Average Realisation per Mb'.

During this quarter, the company carried 162.4 billion Minutes on its network, registering 23.6 billion Minutes growth i.e. unprecedented 17% Y-o-Y Minutes growth. The seasonal Minutes sequential decline this quarter was less pronounced at 1.7% in comparison to 5.8% sequential quarter decline between Q2 and Q1 FY14 and 4.0% between Q2 and Q1 FY13 respectively. In comparison, the Mobile

Data Volume exploded to 39.4 billion megabytes this quarter on Idea's 2G & 3G Network platforms, highest Q-o-Q growth of 6.9 billion MB @ 21.3%, reaffirming strong consumer demand for brand Idea.

The Voice rate realization was under pressure due to higher volume contribution from the low market share Circles. But a steep jump in Mobile Data Contribution at 14% of Service revenue helped Idea improve overall 'Average Realisation per Minute' (ARPM). The sequential ARPM improved by 1.8% i.e. 0.8 paise /minute from 45.1 paisa in Q1 FY15 to 45.9 paisa in Q2 FY15. Due to decline in Voice Minutes, the Value Added Services (VAS) Contribution has improved sharply by 3.2% in a single quarter to 21.1% of overall service revenue.

Similarly, on consolidated basis including 16% contribution from Indus, the absolute Idea consolidated revenue is at Rs. 75,699 million growth of Rs.12,466 million @ 19.7% on yearly basis.

2. **Cash Profit & EBITDA:** The standalone EBITDA at Rs. 22,398 million annually grew faster than Revenue @ 29.5% driven due to multiple factors including scale benefit, better cost management, robust voice and data volume expansion and ARPM improvement. The standalone EBITDA margin has improved by 2.2% to 29.6% over Q2 FY14.

In the 15 Established Service Areas, Idea's combined RMS improved to 20.2% in Q1 FY15 and standalone EBITDA margin is at 33.9%. The 7 New Service Areas revenue growth picked up with sequential quarterly growth of 5.5% and annual growth at 27.9%. But losses from these 7 New Circles, where company won back spectrum in November 2012, remains high at Rs.1,782 million, as Idea expands its presence in 20% of Indian Mobility markets.

On consolidated basis, including 16% contribution from Indus, Idea EBITDA has grown to Rs. 24,907 million at a margin of 32.9% and Y-o-Y growth of 27.2%. Idea consolidated EBITDA margin has improved by 1.9% in last one year.

Including Indus dividend receipt of Rs. 1,026 million, the company standalone 'Profit After Tax' (PAT) is at Rs. 7,794 million, growth of 96% from Rs. 3,984 million in Q2 FY14.

In July 2014, Company allotted Rs. 7,500 million worth equity on preferential basis. With additional Equity infusion and strong Cash Profit of Rs.18,155 million in the quarter, Idea has reduced its Net Debt by Rs.21,500 million to Rs.118.3 billion. The Net Debt to Annualised EBITDA ratio now stands at 1.32, lowest in the industry, providing the company sufficient headroom to participate in the forthcoming

900 MHz 2015 and 2016 license renewal spectrum auction, as and when DoT decides, after resolving supply constraint.

Similarly, the consolidated PAT at Rs. 7,559 million has grown sharply by 69% from Rs.4,476 million in Q2 FY14 a year ago.

Even though the present quarterly financials do not reflect full utilization of 157.7 MHz 3G and 4G spectrum purchased through Auction, Idea's Financial 'Return Ratios' are steadily increasing. Return on Investment 'ROI' measured in terms of annualized current quarter EBIT at Rs. 11,621 million to Net Capital Block at Rs.372.7 billion has risen to 12.7%, highest in the industry. Similarly, ROCE & ROE (including Indus Dividend receipt) annualized on this quarter numbers is steady at 9.3% and 13.6% respectively, we believe highest among our Indian telecom peers.

3. **Active Subscribers :** The company has accelerated its Subscriber growth momentum with 4.6 million net New Customer Additions in this quarter. During the last one year Brand Idea has added 20.5 million subscribers on VLR in comparison to 16.0 million Net Subscriber additions between October 2012 to September 2013. With 36.5 million Net Quality Subscriber Additions, the Idea EoP base has swelled by 34% to 143.6 in last 2 years.

On Industry subscriber front, the positive story is the country new customers uptake has accelerated. Based on TRAI VLR reporting 71.4 million new subscribers were added between September 2013 to August 2014 more than double of 33.9 million industry VLR Consumer Net Adds between September 2012 to August 2013. Idea has maintained its absolute leadership status on subscriber Net Adds Share during both these years. As per August 2014, TRAI VLR release, Idea Net Subscriber Add Share is 28.7%, highest among all operators.

The company has steadily strengthened its Subscriber VLR Market share from 16.7% in August 2013 to 17.8% in August 2014, an improvement of 1.1% VLR Market share in the last one year.

Inspite of 34% Mobile Subscriber addition over the last 2 years to Idea Consumer base, the company has stayed focused on improving quality of subscriber Net Additions. Idea 'Average Revenue per User' (ARPU) improved by sharp 18.9% from Rs.148 ARPU in Q2 FY13 to Rs.176 ARPU this quarter.

But, with increased focus on Customer growth, specially from low market share Circles, the subscriber churn levels remained nearly flat at 5.0% in this quarter against 5.3% in Q2 FY14.

4. **Minutes of Use** : Idea repeated pronouncement that there is sufficient opportunity in Mobile Voice Market has again been corroborated by high new Subscribers addition & sharp Minutes growth on the Network.

The company registered a high 23.6 billion Minutes growth during last one year from 138.8 billion minutes in Q2FY14 to 162.4 billion minutes this quarter @ 17% Y-o-Y growth. The seasonal sequential quarter Minutes decline in Q2 FY15 v/s. Q1 was far less at 1.7% in comparison to 5.8% decline between Q2 v/s. Q1 FY14 and 4.0% decline between Q2 v/s. Q1 FY13.

But, as the company managed substantial Minutes growth from low Market Share Service Areas in this quarter, the Voice Rate Realisation was under pressure. The MOU /Subscriber Voice usage has steadily risen from 359 Minutes /User in Q2 FY13 to 368 Minutes /Customer in Q2 FY14 and now at 384 Minutes /Consumer in Q2 FY15, an improvement of 7.0% over the last 2 years.

In the last one year, Idea has integrated 11,653 2G sites expanding the Network footprint to 107,605 sites covering 7,417 census towns and nearly 3,50,000 rural villages. During the last one year, Idea coverage presence has expanded by 2,745 census towns and over 39,000 uncovered villages.

The company is also making steady progress on Intra City and long distance connectivity through Fibre. Idea Optical Fibre Cable is currently laid over 87,600 km, an expansion of 10,000+ km in the last one year. The company overall (2G+3G) OFC 'Points of Presence' (PoPs) has also expanded to 4,450 Nos. with focus primarily in the Top 200 Key identified 3G & 4G towns.

5. **Mobile Number Portability :** Since its nationwide launch in January 2011, nearly 100 million customers have availed MNP facility offered by Indian Mobile Industry, Idea has consistently maintained its leadership on overall MNP Net Adds and is steadily increasing its lead over other leading operators. As on 30th September 2014, Idea has a net gain of 10.8 million MNP customers from other existing Mobile Operators. One out of four existing customers who chooses to port out from their existing mobile operator prefer to shift to Idea Services. For us, the success in MNP remains the lead indicator of growing popularity of Idea Mobile Services across the country.

Moving on to Wireless Data Business: In line with the emerging Digital Services connectivity demand, Mobile Data Volume exploded to 39.4 billion on its 2G + 3G platform, QoQ highest ever increase of 6.9

billion Megabyte @ 21.3%. Idea annual Data traffic volume growth of over 22 billion Megabytes @ 126% from Q2 FY14 to current quarter, is the company's response to naysayers and critics who doubt Idea's ability to manage and grow Mobile Data business. Idea is proud of its technical prowess and capability to manage seamlessly global scale Mobile Data volume across length and breadth of the country. The company's Mobile Data Network architecture, latest & best in class equipment, support services and investment in right mix & quantum of spectrum profile provides Idea the ideal platform to capture the emerging digital services connectivity growth.

Till now, the company has managed a balanced growth both on high speed 3G platform and 2G Edge Network. Recently, Idea has also received nearly 50% of allocation from DoT of 60.2 MHz spectrum won in February 2014 Auction and we wait for remaining 900 & 1,800 MHz allocation. To remind, this 1,800 MHz Spectrum gives Idea the ability to launch services on LTE technology for over 57% of Idea current subscriber base, whenever the ecosystem and technology evolves to meet Indian consumer affordability demands.

The company blended '2G & 3G' Mobile Data Usage per Data Subscriber is at 447 Megabytes in Q2 FY15, a sequential QoQ improvement by 9.3% from 409 Mb in Q1 FY15.

The Mobile Data Consumer base, after eliminating Users with less than 1 Mb has been steadily rising. This quarter 3.1 million incremental Customers were added to the growing Mobile Data Base. The number of Idea Mobile Data Users are now at 30.9 million. Presently, only 21.5% of Idea's current 143.6 million customers EOP is accessing Mobile Internet from their devices reminding us of the huge potential for growth. The company is making best efforts to upgrade its existing Pure Voice Users to Mobile Data Services and encouraging existing Data Users to increase their Mobile Data Usage Volume.

This quarter, 'Value Added Services' (VAS) contribution improved sharply to 21.1% of Service Revenue, a gain of 4.9% over last one year. After a regular fall for over 2 years due to new VAS activation TRAI norms and onslaught by OTT providers, the 'Non Data VAS' has grown this quarter and contribution to Service Revenue improved to 7% in Q2 FY15 from 6.4% in Q1 FY15. With only 39% of existing Idea Users sending Text Messages and even lower %age availing of the Voice & Text based VAS Services, it is premature to write off this revenue stream.

Obviously, the biggest boost to VAS services was 22.5% jump in quarterly Mobile Data revenue. Idea managed to maintain the Mobile Data 'Average Realisation per Mb' (ARMB) at 26.5 paisa against 26.3 paisa in Q1 FY15. The explosive Mobile Data volume growth and steady ARMB has helped Mobile Data quarterly Revenue cross the Rs.10 billion quarterly mark. The Mobile Data contribution to Service Revenue has sharply risen this quarter to 14%, a sequential quarterly improvement by 2.5%. During the last one year, Mobile Data contribution to Service Revenue has surpassed all expectation, an increase of 5.3% from 8.7% contribution to Service Revenue in Q2 FY14 to 14% this quarter.

The blended Mobile Data ARPU on 2G and 3G platform has increased to Rs.119, an increase of over 10% just in one quarter driven primarily by increased Data Usage per Subscriber from 409 Mb in Q1 FY15 to 447 Mb this quarter.

Moving on to 3G business: From this quarter, company is reporting separately EOP base of 'Voice & Data' 3G Users and Pure Data Users on 3G platform.

Idea added 2.8 million new 3G Voice & Data users in the last quarter. The overall 3G customer base including customer using Voice & Mobile Data Users on 3G Network has been growing steadily and Q2 FY15 EOP is at 13.3 million. But, even after 4 years of services launch, only 9.3% of overall Idea 143.6 million base utilise Idea 3G network. However, the positive trend is the number of existing Idea Customers, procuring latest 3G devices is sharply increasing and over 24 million of Idea User Base as on 30th September 2014 own 3G devices. The company is now focusing on reducing the existing gap of 11 million 3G device owners who do not use Idea 3G platform by Sales & Marketing intervention and expanding 3G Network coverage.

In comparison to 13.3 million 3G EOP, only 10.5 million access Pure Mobile Data on 3G platform in Q2 FY15. From this quarter onwards, for calculating all 3G Data KPIs we will be using the 3G Data Subscriber base only.

The 3G Mobile Data Volume has expanded by 26% on sequential quarterly basis to 19.8 billion Megabytes representing 50% of overall Mobile Data Volume of 39.4 billion Megabytes. The 3G Data Usage per 3G Data Subscribers is at 693 Mb/User, an increase of 60 Mb per user i.e. 11% over last one year. The 3G Data ARPU for 3G Data Subscriber is at Rs. 195, a growth of 16% Y-o-Y basis.

Last quarter, Idea expanded its own 3G Services to Punjab Service Area. On overall basis, company has integrated 25,164 own 3G sites in its 11 Service Areas, an increase of 7,133 Node Bs during the year.

To conclude, the strong consumer demand and increased association with brand, expanding Network footprint across 2G and 3G Services, increased quantum and mix of spectrum portfolio with steady cash flows from operations reaffirms Idea's ability to deliver consistent, competitive, responsible and profitable growth. The company besides building large capacities and expanding footprint to capture Mobile Data boom is firstly embracing new technology and services allowing us to interplay and use the power of Mobile, Social Media and Big Data. Secondly, building future ready leadership pipeline by attracting the right talent and investing in requisite employee and partner capabilities to handle Data explosion and finally creating an agile, employee oriented, inclusive work culture so as to meet the needs of all Idea 144 million customers across geographies and socio economic pyramids. We believe, the company is well geared to meet all volatile, uncertain, complex and ambiguous developments and remains on course of its mission to improve its market standing both in Mobile Voice and Data business.

Finally, on this auspicious occasion, let me wish all of you on the call Happy Diwali and Prosperous New Year. I now handover to Mr. Akshaya Moondra for details on financials.

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

Before moving to the quarterly performance, let me explain two presentation changes made in the quarterly disclosure this time. Firstly, the forex loss on Accounts Payable, which was earlier grouped under financing cost, has been reclassified under other expenses and it therefore impact EBITDA. Accordingly, the EBITDA for past period has been restated in all reports. Secondly, the Finance charge and Treasury income are reported separately on gross basis. Treasury income is shown as other income in unaudited accounts. However, the presentation in the quarterly report and press release remains unchanged as far as treasury income is concerned.

Moving onto the financial performance, we saw a marginal increase in revenue over the previous quarter which is a significant departure from the historical trend of Q2 being a seasonal weak quarter which normally witnesses a quarter-on-quarter revenue decline. This was driven by a much lesser decline of only 1.7% in Total minutes of use as compared to decline of 5.8% last year and a robust growth in data revenue of 22.5% quarter-on-quarter basis as against 17.3% growth in the same period last year. With this robust growth, the data revenue contribution improved to 14% of total service revenue in this quarter, an improvement of 2.5% over the last quarter. The EBITDA margin is lower by 0.3% and stands at 29.6% as compared to 29.9% in Q1FY15. There were certain higher credits in network expenses amounting to around Rs. 250 million and these have enabled to partially offset the 0.7% impact on EBITDA margin due to higher personnel cost in this quarter.

The treasury income during the quarter was higher as company raised a sum of Rs. 30 billion through the QIP in June 2014 followed by a preferential allotment of Rs. 7.5 billion to Axiata Group in July 2014. Idea also received an interim dividend of Rs. 1.03 billion from Indus during the quarter. After taking this into account, the standalone profit after tax for the quarter stands at Rs. 7.79 billion and the cash profit is Rs. 18.16 billion.

The net debt as of the end of this quarter stands reduced to Rs. 118.3 billion, a reduction of Rs. 21.5 billion compared to Rs. 139.8 billion for the last quarter. The net debt-to-EBITDA ratio based on the annualized EBITDA for the quarter stands at a level of 1.32 and with this the company is well placed to participate in the forthcoming spectrum auctions.

As per the consolidated financials, the contribution from Indus to the net profit was Rs. 790 million as compared to Rs. 787 million in the previous quarter. After accounting for Indus contribution and eliminating the dividend income, consolidated PAT stands at Rs. 7.56 billion.

The Capex for the quarter was Rs. 10.1 billion and the cumulative capex for the first half has been Rs. 14 billion. The capex guidance for this year remains at Rs. 35 billion. This excludes the capitalization of interest and forex loss and any payout on account of spectrum. With this, I come to the end of my opening remarks. Wish you all a very Happy Diwali and a Prosperous New year and I hand over the call back to Inba.

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

Sachin Salgaonkar: Thank you for the opportunity. I have three questions. First question is on seasonality. In this quarter, even if we strip aside data, the voice revenues seasonality was stronger than previous quarters. So just wanted to understand the drivers behind this and whether the trend is sustainable? Second question is on RPM. Now as you know most of the participants in industry were talking in last 12 months about directionally revenue per minute moving up for the industry, but this does not appear to be the case that way. Just wanted to know your thoughts and how should we look at directionally the movement of RPM? And third question is on data. Obviously last few quarters, your data growth has been very strong. So do you see the risk of capex guidance upgrades simply because the way of the data boom is happening? Thank you.

Himanshu Kapania: Thank you so much, Sachin. Let me address your questions. Number one on seasonality, you are absolutely right. The voice minute de-growth on a sequential quarter basis has been lower than it was in the previous two years. As far as Idea is concerned, I would not be able to speak on behalf of industry, we have a portfolio of circles where we have leadership as well as circles that we have launched later on, including the 7 new circles we separately report. What we have seen and we have separately reported also is that we have had a reasonably good growth both in subscriber additions as well as minutes from the newer circles. We believe, while the minutes losses in our leadership circle is of a similar order as in the past, it is the newer and midsize circles which have helped contain the losses in this quarter.

I move to your second part which is RPM. In the industry, we have used the term ARPM, which is average revenue per minute, which has a combination of voice rates and value-added services rate. The first and foremost, I would like to place on record that Idea has improved its ARPM both on a year-on-year basis as well as on quarter-on-quarter basis, 1.2 paisa on year-on-year basis and 0.8 paisa on a quarter-on-quarter basis. Now specifically for the first time, we have reported separately voice RPM and ARPM. I want to caution everybody that the methodology followed by us for reporting voice RPM may not be similar to other companies, so to make a direct comparison may not always be right. Having said that, I must admit that the voice RPM this quarter has been a challenge and the reason for challenge is very straight forward. 1) We had higher minutes growth from low market share circles, 2) the low priced and discount players even in our leadership markets managed to get a larger outgoing ratio and our outgoing ratio did fall down on an overall basis. These two have pulled the voice rate down. Now you are asking me what is the long-term trend on the same. Long-term trend is Idea is committed to overall improvement of realized rates, but our commitment is larger to revenue growth. We have consistently maintained that. Last year, we delivered 18% revenue growth and we are happy that this quarter we are on a trend having delivered 19.8% revenue growth on a standalone basis.

Now coming to the third part is growth in data business. You have to study the data business into minute details before we have a discussion on capex. If you notice the growth in data business is happening almost equally between 2G and 3G. I am not sure that this has been registered very well with the analysts. Now on the 2G front, you are aware that the utilization of our sites is far lower than the leaders in the marketplace. We have far more number of sites and our minutes of usage or data usage per site is on the lower side and there is still a room for growth on the 2G side. On the 3G side, we are expanding our coverage. If you notice, we have added more than 7,000 sites on the 3G front and we will steadily be investing. If you notice, while we have been steady in our overall investment of Rs. 3,500 crores over the last 2-3 years, but the allocations have steadily changed. We have added, in the last one year, over 10,000 kms of fiber. We are increasing our allocation to data based capex investment including extending coverage to 3G. Even if there is going to be a capex expenditure increase, leaving aside spectrum payments, it could be minor. It is not going to be of an order that investors have to really worry about. I hope this answers all the three questions.

Sachin Salgaonkar: Yes sir. Sir just one follow-up question. I would have thought your newer circles are more on the lines of rural circles which might show a little bit of more pronounced seasonality in a seasonally slower quarter, but the sense which we are getting now is these are more like urban/semi-urban areas where the seasonality effect could not be strong even going forward. Is that a right assessment?

Himanshu Kapania: Just to remind you, the largest in the 7 circles is Tamil Nadu and second largest is Kolkata. You can yourself estimate.

Sachin Salgaonkar: Okay got it. Thank you and wish you and all the members very Happy Diwali.

Moderator: Thank you. Next question is from Shobhit Khare of Motilal Oswal Securities. Please go ahead.

Shobhit Khare: Congratulations on a good set of numbers. First question is on the spectrum auction. Do you think there is sufficient time to sort out various issues with defense and other authorities and get required spectrum for an auction by February 2015 or should we expect a delay in the auctions if more spectrum is to be put up for this auction along with renewals. Second is, if I look at the 2G site additions, seems to have declined significantly year-over-year. So would be helpful if you could give some color on what is driving this and what are the plans for rest of the year?

Himanshu Kapania: Thank you Shobhit. First and foremost, as I mentioned in my opening remarks, we fully support TRAI's recommendation to Department of Telecommunication that there is constraint of supply on spectrum and they have given recommendations to increase the overall supply. Currently, the auction as it was designed and as studied by TRAI had primarily spectrum from expiring licenses of 2015 and 2016. The decision has to be taken by Department of Telecommunications as well as political leaderships, but it is my personal opinion and not on behalf of Idea Cellular, that they are very sensible set of recommendations and number of these recommendations are possible to implement in a short period of time. But it is now going to be a political will and the push of the department to be able to decide how much of the prescription which TRAI has recommended, does DoT actually bite.

Shobhit Khare: Sure. Sir on this given that now there is some time that the new government is in place, what have been indications from the government in terms of all the issues which have been there. Do you expect better framework of policy resolution in terms of various issues which are there from the new government.

Himanshu Kapania: At the end of 100 days, there has been a series of announcements which the Department of Telecommunication made. Besides the spectrum auction, there has been early announcement of spectrum trading policy, early announcement of spectrum sharing policy and expediting the process of swap between 1900 and 2100 which is currently available between in the wrong hands so that the commercial use spectrum can be increased. There have been all these announcements. Now there is a push which the TRAI has given. We wait now to see for actual actions. Up till now, all are discussions have been very positive.

On the 2G sites, we had mentioned if I recall in the last call that we are coming to an end of a 2G coverage expansion in our established leadership circles not in the new circles. In our established leadership circles our 2G expansion will be primarily capacity led expansion and we are pursuing almost similar approach at this point of time, but that does not mean that 2G expansion will come to a halt. It may not follow the kind of higher number that we have seen in the last 2 years. Our focus on our overall capex is to be able to grow capacity for data, for which we obviously will need to expand 2G capacities as well, besides expanding 3G and related equipments for data capacity.

Moderator: Thank you. Our next question is from Sunil Tirumalai of Credit Suisse. Please go ahead.

Sunil Tirumalai: Sir I had a few questions. So firstly going back to the seasonality discussion, it is true that the minutes decline was not much, but if we actually look at the revenue decline on a quarter-to-quarter basis, I am just restricting to voice business over here, similar if not slightly more than what we saw in the previous year. Is it possible that some minutes drop could have been avoided by taking price cuts? I just wanted to understand if all of the RPM decline explained by the factors you mentioned or were there any like-for-like price declines as well within each circle.

Himanshu Kapania: There is nothing incremental we have to add. You are comparing two unlike opportunities, previous years our focus was on 15 established circles. This year, the growth has come from newer circles or mid-size circles of business. Beyond that, there is nothing incremental that we have to add.

Sunil Tirumalai: And just following on that. Assuming that much of the decline in RPM and stemming the drop in the minutes and volume so as was driven by mix of circles, I just wanted to understand what the market reaction could be because circles which are less than 6%-7% of your overall portfolio leading to a 2.5% decline in voice RPM could mean that the discount level over there could be fairly large compared to the market. So I just wanted to understand how the incumbents would be reacting to that?

Himanshu Kapania: I understand directionally what your worries are, is there a battle in the market place? I can say with certainty that in the 7 new circles Idea has an overall revenue market share of 4.5%. We do not move the needle in these 7 circles. Our ranking in these markets are between 6-7 standing and we are far behind not only the incumbent, even below the mid-size operators in the circles. There is no way we impact leaders' business in these low market share circles. Currently, I think you are reading too much into quarter-on-quarter basis. You have to focus on overall basis. The positive for the industry is the subscriber growth is back. If you were to recall what I had mentioned in the opening remarks, the industry which was earlier degrowing in subscribers in the last one year has had almost doubled its subscriber growth from 33 million to 71 million subscribers and Idea is managed basis add incremental 20 million subscribers annually. Number two, last year on the full year we have grown by 10.5% minutes. This quarter, we have grown by 17% minutes on YoY basis and number three, overall ARPM which is while I have been mentioning that it is the first time we have given a breakup of voice and total ARPM, but overall ARPM continues to improve and over the last one year, Idea ARPM improvement is 2.7% and even quarter-on-quarter it has improved by 1.8%.

Sunil Tirumalai: Okay sir, that was helpful. Last question is on network operating cost. So even if I add back the 250 million write-back that you had mentioned about, the standalone network opex has largely stayed flat which is surprising given the amount of capex activity that has picked up the number of sites that you rolled out. So just wanted to understand how to look at that cost going forward.

Himanshu Kapania: While Akshaya is going to mention specifically on network operating cost, I would urge you to look at last 3 years average network costs per year and once you do that rather than this tendency of looking on a quarter-on-quarter basis and you realize that the network operating cost per site has gone up, but Akshaya is going to respond in a little more detail.

Akshaya Moondra: Sunil, you cannot always see that quarter-on-quarter. You are just looking at the sites growth and comparing this with the increase in network expenses. There are other factors also and cell site running expenses are not the only element of network cost. There are connectivity expenses, there are AMCs and there are repairs and maintenance. There are multiple items there. These one-offs were more than usual, so we mentioned it. But otherwise I think the average of two quarters is fairly representative of the costs excluding this 250 million which is bit of an extra.

Moderator: Thank you. Our next question is from Vinay Jaisingh of Morgan Stanley. Please go ahead.

Vinay Jaisingh: I have no questions on the results. I just wanted to have a question on the spectrum and comments you had given in the spectrum recommendation, what do you think is the minimum spectrum one would need to run 3G services in 900 and what do you think is the minimum spectrum needed to run 2G services in 900 which you would want to get? Thank you.

Himanshu Kapania: 3G answer is very straight forward, we need a contiguous block of 5 MHz. As far as 2G is concerned, answer dependent on belief that going forward what is the capacity requirement. So the way to answer that question is, it is possible to be able to run on a 4-4.4 MHz a 2G 900 MHz network if we have an incremental at least 1-2 MHz available on 1800MHz.

Vinay Jaisingh: So you can mix and match 1800 and 900 to run a 2G network?

Himanshu Kapania: Which we do today. That is across all our circles. We have a combination of 900 and 1800 (in our 900 MHz circles) spectrum usage for 2G technology.

Moderator: Thank you. Our next question is from Rajiv Sharma of HSBC. Please go ahead.

Rajiv Sharma: I have three questions. First of all on this TRAI recommendation, Himanshu this 3.6 MHz which has been mentioned as the minimum bid in circles where the spectrum is 10 or more. Do you think this could lead to little bit of aggression because particularly in circles where it is 12.4 as a spectrum, to getting 3.6 means there cannot be two guys with 5 and one guy with 3.6. So it means that you will have to at least get 5. Do you think 2.4 would have been a better recommendation in that case? Second is we are seeing fabulous data growth both on the 3G and 2G side. I take your point on the 2G side that there is lot of scope left in terms of capex, so capex would not go up, but when do you see new pure 3G sites coming in because one of the premise you have been highlighting on the EBITDA side for data growth is that as of now, it is all about loading. When do you see new Rs. 60,000 full opex coming in for 3G and third is your 3G BTS which have gone up, is it purely because you have added Punjab or 50% of that is Punjab and 50% is in other markets. Thank you, that is all from my side.

Himanshu Kapania: Let me answer the simpler questions first. I will do it in the reverse order. We have added more than 7,000 sites and Punjab is small percentage of it, should not more than 15%-20% for Punjab. There has been expansion of 3G services across 11 circles based on individual market demands; demand for coverage and growth for capacity.

As regards, when do we see 3G independent sites, it is our assessment that in India the 2G sites itself are at a very short distances because India is amongst the highest usage of voice minutes and India has in the past been a very spectrum crunched environment. That is why, if you were to compare anywhere between us vis-à-vis Europe or in United States, India has always had far more number of sites. It is our belief that there will be some 3G sites added, but it will be a very small percentage. It is not going to move needle of our overall financials. There would be a point of time when the capacity crunch does come up where there is no capacity available on 2G, then there is no 2G capacity sites available for standalone 3G to be launched, which we expect at least 2-3 years down the line. Please note that is the time when the LTE launches will start happening more than a big growth (of sites) on the 3G front. That is the reason company like ours have bought LTE spectrum which would be used when the capacity crunch comes in. But I think it is premature to have this discussion at this point of time. There is sufficient capacity available at this point of time and if you notice our 3G site count is standing between 35%-40% of our 2G sites (in our own 3G circles). We have so much more distance to cover and it is premature to have this discussion on pure 3G standalone sites.

Rajiv Sharma: Himanshu, my premise was that I understand that in metros, but my only question was about other circles which are not really metros because 900 operators have been very successful because of the lower network investment versus 1800 operators, so obviously the coverage is in your 3G markets will be based on your 900 frequency and 3G being on 2100, there will be gaps in between which may not have been covered. So it is basically not on those markets where you are leveraging your 900 frequency for 2G coverage.

Himanshu Kapania: Rajiv, we would urge you that this is a long discussion and the conference call may not be right place to have a discussion, but I can tell you with a great deal of certainty that given the fact that the 900 MHz operators are leaders in most of the cities and I am talking from metro down towards top 500 cities. Typically the number of sites that a 900 operator has in these top cities will be equal or more than that the 1800 operator. Why would that be because leading 900Mhz operator carries far more capacity than 1800 operator given that he is carrying lot more minutes, but this is a discussion that will require lot more time and can be explained in person.

Let me move to the third part of your question. Is 2.4 better than 3.6 and maybe 1 MHz, end of the day this discussion is not about arithmetic and how a statistician would get it right to be able to accommodate an extra one operator or two operators. It is about our ability to be able to run networks and there is a minimum quantum that is required to run network. There is no doubt that minimum 5 MHz is required to run a 3G network, but can a 2G network be run in 1 MHz or 2 MHz? I do not think that is possible to have a network with 1 MHz and 2 MHz or 2.4 MHz with a profile of 900 and run a 2G network. This is very theoretical exercise irrespective whatever the minimum block, there is a minimum quantity operators will require to be able to run and that is why you have to read the TRAI recommendation not selectively, but on an overall basis. The overall recommendation clearly says caution, prudence and first resolve the spectrum supply constraint. TRAI is not giving any other set of recommendations. While there are points on pricing, on quantum, but that is not the crux of the recommendation. The crux of the recommendation is to address the supply issue, that we have to resolve the spectrum constraint. We will do it today or tomorrow, at some stage the country has to resolve if we have to grow overall volume of data.

Rajiv Sharma: I got you. This is very helpful and wishing you and your team a very Happy Diwali.

Moderator: Thank you. Our next question is from Aditya Soman of Goldman Sachs. Please go ahead.

Aditya Soman: Couple of questions from my end. Firstly on the 5 MHz spectrum that you have acquired in Delhi, when do you plan to launch? You said that you will be launching 3G, sometime in 2015, have you firmed up the dates for that and is the handsets required for launching 3G on 900, very different from what you have at present?

Himanshu Kapania: As of now, the Department of Telecommunication has not allocated the spectrum to us. We have received the LOI and spectrum is scheduled to be allocated at the end of November or early December and as we had mentioned in our previous call, we have started our planning process and we would be launching the 3G services on 900 MHz in the year 2015. It is premature to give you specific dates by when, may be in the next call in the month of January we will be more certain on likely 3G Delhi launch date.

As regard to second part of the question, are there 900 MHz 3G handsets available in Delhi? Initially the handsets that were being distributed in Delhi were only supporting 2100MHz, but since 2011 most of the handsets that have been manufactured in the world for 3G, even for countries where 2100MHz band is allocated for 3G services, handsets are reaching market with 900MHz band 3G services usage capabilities built into it. As per our study, 95% of the 3G handsets that we have with the consumers in Delhi can access both 2100 and 900 MHz spectrum.

Aditya Soman: Fair enough, thanks a lot. And just one more question. I think you had launched Idea TV app. Can you throw some more light on how many sort of downloads for the app you have seen or what is your long-term plan with that launch or do you have enough bandwidth to launch, something like that if it was taken up in significant numbers.

Himanshu Kapania: Idea TV applications has been on for the last 2-3 years and we have been selling Idea TV. The reason you may have noticed the Idea TV app is now we are bundling it along with our new handset sale. It is a popular service. We charge a feature fee of Rs. 150 to Rs. 200 and along with that, the customer has to make payments of data usage. While it is popular, but it is not mass market service and meant only for when the customer is on the go and is away from his place of work or home. It is far more expensive to be able to use TV services on a mobile, then you will use it from your home or office environment.

Aditya Soman: That's helpful. Thanks.

Moderator: Thank you. Our next question is from Piyush Choudhary of CIMB. Please go ahead.

Piyush Choudhary: Congrats for the great set of result Himanshu. Just one question on the new circles portfolio. I was looking at your EBITDA losses on yearly basis have expanded on the back of higher opex is 32% increase year-on-year. Any kind of strategic shift in your thinking about the new circles because you are throwing lot of your cash profits over there to kind of build the business in these new circles. Any kind of long-term strategic shift in your thought process over there?

Himanshu Kapania: We had mentioned in our previous analyst calls that the 2G investment that the company is doing, a large portion of the 2G investments are being made in the new circles. That is the reason why these losses in these circles are on the increase. We have also mentioned earlier in the past that unless the company is able to move its revenue market share at a level of 8%-9%, these circles will not become profitable. Out of the 7 circles, there is West Bengal which have moved to 6.5% RMS and we are hopeful that one by one we will be able to move all these 7 circles out of loss making category in the long run to profit levels as the RMS improves. We have to go through this pain as we are expanding our services in the seven circles.

Piyush Choudhary: Sure sir. Good luck and wish you all a very Happy Diwali.

Moderator: Thank you. Our next question is from Rama Maruvada of Daiwa Capital. Please go ahead.

Rama Maruvada: Two questions for me please. The first one again a follow-up on the EBITDA performance for the new circles added here, your 8%-9% revenue market share breakeven is probably what you would be looking for over the long term. Just wondering if you could put a timeframe as to when do you expect this to play out, is it the short term or do you expect to get to 8%-9% revenue market share over the next 5 years or so, any timeframe would be appreciated. The second one is a question on your balance sheet. As you see, there is a buildup of current investments on your balance sheet. Just wondering it rose from 0.3 to around 45 billion over the past 2 quarters, if you could explain what this pertains to, that will be great. Thank you.

Himanshu Kapania: I will take the EBITDA question and I request Akshaya to respond on the balance sheet question. If you were to study our last 2-year trends on the new circles along with our absolute revenue market share and incremental revenue market share, on incremental revenue market share, we have been delivering anywhere between 10%-13% incremental revenue market share from these circles. Based on this trend line, if we sustain this kind of performance going forward, it is easy to calculate when the company is going to be able to reach 8%-9% RMS. Obviously the company does desire to do it as early as possible, but we do not want to disturb the overall apple cart. We want to do it in a robust manner building quality customers, building a good quality network, and generally operating in the range of the market operating price points. I will hand it over to Akshaya to respond on the balance sheet item.

Akshaya Moondra: The current investments are basically investments in mutual funds and these can be liquidated at any time. What happens is that if you make a fixed deposit in a bank that goes into cash and bank balance. If you make an investment in debt instruments of mutual funds, it will appear as current investments. Normally we tend to look at cash at bank and current investments as a common item which is we referred to as cash and cash equivalents. This has basically arisen out of the capital injection that we have done and the free cash flow that we are generating.

Rama Maruvada: Thank you very much.

Moderator: Thank you. Our next question is from Pranav Choudhary of Edelweiss. Please go ahead.

Pranav Choudhary: Congratulations on a good set of number and thanks for taking my question. Sir I have one simple question. I think this has been partly answered by you also earlier, but the way we are seeing that data growth is coming up and there is obviously at some point of time we will probably have a scarcity of the capacity to address that. Where do you see the inflection point to come and in your view, how will we manage this scarcity if it comes in next couple of years because of significant growth in data as we also are not there in the 4G space to that extent.

Himanshu Kapania: We have been sharing with the media and with the investor community that Idea has purchased 157.7 MHz of spectrum during the last three auctions. Currently, we cover 12 circles for 3G services which cover nearly 80% of our revenue base. We have also purchased in the last February 2014 auction 60.2 MHz in 1800Mhz spectrum band and most of this spectrum is going to be used for launching 4G services in 8 of our 22 circles, and Most of LTE spectrum is in Ideas' leadership circles and giving us possibility to roll out LTE service for 57% of our revenue base. We have already made the move on purchasing the spectrum, but we hold opinion at this point of time that launch of 4G is premature. The overall equipment prices have to fall. The overall affordability of devices from a customer perspective have to reach levels where we can see large number of customers move on to 4G devices. Company has already taken the necessary investment decision on the same and we are well geared to be able to handle demand on data on 2G,3G and 4G as and when it arises.

Pranav Choudhary: Thanks. That's all from my side.

Moderator: Thank you. Our next question is from Vivekanand Subbaraman of PhillipCapital. Please go ahead.

Vivekanand Subbaraman: Thank you very much for taking my call. I just wanted to build on what an earlier participant had asked on the 3.6 MHz minimum block size. Now when we look at the upcoming 900 MHz auctions, I guess there are two ways of looking at bidding. One is if an operator wants to acquire the spectrum for 3G and alternatively if an operator wants to use that spectrum for GSM services, the operator could content with a lower quantum than 5 MHz of spectrum. In that context, I wanted to understand if there is a combination of let us say 2G and 3G spectrum or rather 900 and 1800

MHz spectrum, that we will deploy. Is it possible for us to acquire 2.4-3.6 MHz in 900 band and combine it with 1800 and also protect our coverage in that area?

Akshaya Moondra: I think Himanshu had explained this early. Let me try and explain it once again. We said earlier that we are very clear on 3G and that so our view that 5 MHz is minimum required, anything less than that is out of question. Now if you look at GSM, what Himanshu had mentioned earlier also was that a minimum of 4 MHz or 4.4 MHz is required for using 900 and giving the characteristics to the network of 900 MHz spectrum. Currently when we use 900 and 1800 in combination and generally the 900 MHz spectrum is 6.2 and on top of that, we may have about 1.8 MHz of 1800, where 1800 only serves the purpose of capacity. If we bring the 900MHz down to let us say 4-4.4, we will need to supplement at the 1800 to fulfill the capacity requirement, but if you start going below 4 for 900 MHz, then actually the network not have the characteristics of 900 MHz, then it can at best serve the purpose of capacity spectrum as 1800 MHz is serving now and that means that your entire network which is currently rolled out on 900 MHz is not really the best thing to use for that. As we said whatever be the block size that may be fixed as a minimum block size for auction, people who actually bid in the auction that they are wanting it for 3G, they would want a minimum of 5 MHz. If they are wanting it for GSM, ideally everybody would want to retain 6.2 MHz which they currently hold, to have the same capacity available, but if that could be supplemented by something else, at least anybody who is wanting to continue GSM would want 4MHz or 4.4 MHz of spectrum.

Vivekanand Subbaraman: Thanks that's very clear. Wish you and your team Happy Diwali and Prosperous New Year.

Moderator: Thank you very much. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Kapania for closing comments.

Himanshu Kapania: Thank you, Inba and thank you all our friends and colleagues for patiently listening to our comments and as always being very incisive in your questioning. Let me wish once again on behalf of Idea Cellular Happy Diwali and a Prosperous New Year to each one of you on the call. Thank you so much and have a great year ahead.

Moderator: Thank you. On behalf of Idea Cellular that concludes this conference. Thank you for joining us and you may now disconnect your lines.