“Idea Cellular Limited Q2FY16 Earnings Conference Call”

October 23, 2015

Moderator: Good afternoon, ladies, and gentlemen. This is Malika, 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 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 discussions on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this, I hand the conference call over to Mr. Himanshu Kapania. Thank you and over to you, sir.

Himanshu Kapania: Thank you Malika. 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 2015-16. 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.

With increasing proportion of rural subscribers, the seasonal slowdown in the second quarter is more pronounced this financial year resulting in sharp contraction on sequential quarterly basis in the 'Voice Minutes of Use' by 3.2% to 189.5 billion compared to 195.8 billion minutes in Q1 FY'16.

Additionally, due to reduction in mobile incoming IUC charges settlement rate from 20p to 14p/minute effective March 01, 2015, cap on national roaming call charges effective from May 01, 2015 and intense pressure on Mobile Data realized rate as a result of increasing competition in Mobile Broadband Market, the industry's revenue growth rate is slower and trending towards a low 6 to 6.5% in the first six months of the Financial Year 2015-16 v/s. H1FY'15 against 10.3% growth rate in H1FY'15 v/s. H1FY14.

In comparison, Idea's long term business trends remain robust and the company is on course of its mission of consistent, competitive, responsible and profitable growth. This quarter Idea standalone revenue growth is 14.7% on YoY basis. When normalized for IUC settlement drop and roaming impact, the revenue growth would have been 19.4%. The primary drivers for revenue growth were volume led including –

a. 26.3 million Active Subscriber addition between October 2014 to September 2015.
b. Expansion of Voice Minutes on YoY basis @ 16.6%
c. Annual 82.6% Mobile Data (2G + 3G) Volume growth to 72 billion Megabytes.

but the overall pace of revenue growth is slower than volume expansion due to rate pressures.

1. Voice Realised Rate declined by 9.8% including IUC settlement drop impact in the last one year.
2. 11.8% drop in Mobile Data realized Rate between Q2FY15 and Q2FY16.

The Headwinds on the regulatory front continues. On 16th October, 2015, TRAI released the 9th Amendment to the 'Telecom Consumer Protection Regulation, 2015' wherein for every 'Call Drop' an outgoing customer account to be credited by one rupee, limited to three dropped calls in a day. The industry believes the regulation is harsh on the Telecom Operators as the intervention –

A. Rewrites the relationship between the Consumer & Operator of telecom services. The fundamental tenet of relationship built over past two decades in intense competition environment allows customers freedom of choice to join and exit from any Telecom Service Provider. MNP and various other regulatory provisions provide sufficient consumer protection.
B. New Call Drop regulation tilt the favour and control in the hands of the Consumer. From a buyer and seller equal relationship built on Trust and Consumer Centricity, our contract has danger of adversarial nature as customers have been incentivized to drop a call. It empowers

an enterprising customer on an expense of 1 paisa earn 100 times to Rs.1 by simply walking into call drop zone like lift, deep interior, no tower zone, etc. The unprofitable customer would be pitched against the Operators forcing at some stage telecom service providers demanding right to be selective in customer retention or stop services in pockets where call drop issue is not resolvable.

C. The fundamental premise on which the regulation has been issued assumes operators can deploy ‘Call Drop Free’ technology. Globally, mobile radio networks are invariably designed for a grade of service. The physics of radio waves and their propagation characteristics limits the efficiency of communication system to less than 100%, even if infinite resources are assigned. Consequently, 2% call drop have been accepted as a global norm. Acceptance of 2% call drop grade of service is not an outcome of lack of resources or efforts but of the physics of radio wave propagation. Other factors like woefully short and interference prone spectrum, the conditions surrounding site and ROW permission, EMF phobias only amplify constraints like multiple walls, basements, forests or water bodies. The regulation on compensation assumes utopian network conditions, whereas ground realities in India are nightmarish.

The industry fears, the Call Drop regulation will impact and worsen the operator engagement with the consumers at their contact centres, service centres, retailers, media and social media sites leading to more disputes and cases in various forums. It is for this reason, the Industry Association is entering into a fresh dialogue with the TRAI Telecom the expert body to withdraw and /or modify the Call Drop Regulation. In its present form, the regulation is financially onerous on the industry which it can ill afford at this juncture. The Telecom Operators are putting their best foot forward to improve Mobile Services by increasing spectrum portfolio, participate in Digital India vision and improve overall quality of voice services. We look forward to support from all like-minded analysts, media personnel and investors in the interest of long term development of Indian Mobile Telecom infrastructure thereby support India. The long term interests of the consumers will be best served by a healthy and growing Telecom Sector.

In comparison to above, the positive development on the Regulatory front is the announcement of Policy for Spectrum Trading and Sharing. The policy opens an alternative avenue for cash strapped low Market share Telecom operators another opportunity to exit or reduce their footprint in the Indian Telecom Market. We welcome the development and are hopeful the policy would lead to consolidation in the crowded Indian Mobile Market.

While challenges are galore in the Mobile Voice business, Idea is at a path defining juncture in the company's Mobile Broadband history, as we prepare ourselves for the launch of 4G Services. Our Prime Minister, once again, during his historic visit to the USA & Silicon Valley has correctly identified 'Digital India' as a key force not only to double country's GDP but also be the bridge for unifying and empowering India's masses especially living in Bharat. India on the power of Mobile Broadband Internet Infrastructure and all pervasive digital technologies is ready to leap frog from current analog life style and transform itself into an empowered society.

As we are all aware, the current India Internet penetration is at nascent stage with only 20% of Indian population accessing internet for digital services. Also Indian consumers' internet usage remains amongst the lowest average usage per month within South East Asia. As per latest available TRAI report of 30th June 2015, out of the 980 million reported Mobile Indian subscribers, only 93 million Indians use Wireless Broadband services on 3G platform; an abysmally low Broadband penetration of 9.5%. With the ecosystem for wireless broadband fast evolving in terms of falling Network Capital costs for both 3G & 4G platforms, affordable devices, plethora of choices on applications, services & localized content, Indian Wireless broadband is slated to change at a pace much faster than most of us can envisage today. The top 4 Telecom Operators are working at breakneck speed to replicate the mobile voice adoption success of last decade and redefine next decade for India as a Mobile Broadband era transforming the society and its interplay.

Present Mobile Data Revenue contribution in FY15 was only Rs.250 billion out of total Wireless Revenue of Rs.1,830 billion at levels of only 13.7%. This clearly is at tip of an iceberg level, waiting for revenue mix to change in favour of Non-Voice as Broadband Network Coverage and capacities expand to impact lives of a billion Indians.

Idea Cellular with a planned capex spend of Rs. 60 – 65 billion in FY'16, significantly higher than past few years annual Capex spends of Rs. 35 – 40 billion is excited about our planned Mobile Broadband infrastructure spread. As we shared in the recent special conference call with the Investors on 29th September 2015, Idea intends to aggressively expand its mobile broadband coverage on 3G in 13 Service Areas including slated launch of 3G Service in Kolkata Metro by Q3FY16 and roll-out of Idea's own 4G Services in 10 Circles on 1,800 MHz Spectrum band from first half of Calendar Year 2016.

Since, the launch of Idea's Mobile Broadband 3G Services, in the span of last 4 years, the company has deployed 30,000+ sites. With a planned addition of 30,000 – 35,000 sites on 3G or 4G platform in the current fiscal year, Idea is all geared to more than double its existing mobile broadband network infrastructure coverage and capacity, in effect replicating the roll-out done over last four years just in one year alone.

This vast network rollout will enable the company to increase its mobile broadband population coverage by over 200 million across its 17 Circles, over and above the existing broadband coverage of around 305 million Indian population. In addition to coverage expansion, the customer experience and quality of telecom services will improve as Idea deploys more fill-in sites in all existing mobile broadband large and small towns.

The fundamental principles driving our Mobile Broadband investments include –

1. Use of Single Radio Access Network – RAN technology is capable of supporting multiple technologies in a given frequency band on the same hardware radio equipment. RAN implementation permits us to simultaneously run two technologies 2G & 3G on 900 MHz band and 2G & 4G on 1,800 MHz band. It also safeguards our capex investment from future changes in technology and allows for seamless refarming of spectrum from one technology to other, if a demand for say 2G were to fall. Introduction of RAN allows Idea to swap older single technology 2G sites in main cities with modern multi technology high capacity

equipment and transfer older 2G equipment to rural and uncovered new Circles. Providing opportunity for brand Idea to expand Indian population reach much beyond 965 million population spread as of today.

2. Continue to follow just in time deployment for Optical Fibre network. The company now has over 100,000 km of OFC spread over all 22 Circles.
3. Consumer for Broadband is Technology agnostic - as the subscriber use variety of internet applications with data throughput requirement ranging from light browsing applications like social messaging apps and mails easily accessible on 2G Edge network and high bandwidth consuming applications like photos, videos and movies, etc., better fulfilled by 3G & 4G technology platforms. Idea will continue to focus on expanding Mobile Broadband Network Coverage on 3G as mainstream in present uncovered small towns and rural markets and as fallback option in high bandwidth demanding Urban Markets while deploying 4G Network to Supplement Mobile Data Capacity in main markets both in 6 Leadership Circles where Idea own both 3G & 4G Spectrum and 4 Emerging Circles where Idea owns 2G and 4G spectrum and 3G is on ICR arrangement.
4. Idea's own Digital Services – The massive buildup of Mobile Data Capacities will need to be augmented by providing more internet avenues in form of Digital Services that will enable faster utilization of the Data Capacities. The Company plans to introduce from next financial year, Idea branded Digital Services application like Idea Music, Idea Games, Idea Movies, Idea API and Idea Digital Wallets, etc., with special focus on regional and vernacular content through planned investments in platforms and partnership in application and content with specialist in the area. Also, recently, Idea joint venture with Aditya Birla Nuvo received an 'in principle' approval of our application for Payments Bank. Idea Cellular has 49% investment in the JV. The JV company is working towards end of Calendar Year 2016 launch, while it waits for firm guidelines for the formation of the Payment Bank.

   In the meantime, the company is presently expanding its reach of Idea Money – its Digital Wallet on the strength of company's PPI RBI license. As of 30th September 2015, the company has 150,000 + Active PPI users and it intends to physically and digitally offer the Digital Wallet Services on PPI license to millions of Idea subscribers and later offer the same customer our Payments Bank Services Products and Services.

Idea's past success has been attributed to a transformed mindset with the courage and conviction to act like a leader. In the company's growth journey the leadership has made every effort to sustain and sprint capability building across technology, products and services. Speed is our currency as Idea remains customer centric, employee oriented and agile with an entrepreneurial mindset.

Moving on to Business Performance Update

Based on latest TRAI Q1FY16 gross revenue release for the period 'April to June 2015', Idea has improved its 'Revenue Market Share' (RMS) to 18.7%, an improvement of 160 basis points over the same Q1 quarter last year. Between Q1FY15 and Q1FY16, the Mobile Industry growth rate fell due to reduction in IUC settlement rates and dropped to single digit growth rate of 6.4%. In comparison, Idea has maintained its status of fastest growing Telecom Operator with YoY growth rate between Q1FY15 v/s. Q1FY16 at 16.6%, 2.6 times the industry. 44.3% of the incremental revenue of the Mobile industry at Rs.28.7 billion was contributed by Idea, indicating the brand competitive standing will continue to strengthen.

The performance of Idea on five standard parameters for the period July to September 2015 is as follows:

1. **Gross Revenue:** There is a 1.3% sequential quarterly revenue decline in the seasonally weak Q2FY16, but on YoY basis, Idea standalone revenue has grown by 14.7% inspite of Regulatory impact of lower IUC Settlement charges, cap in peak roaming rates and inability of industry to pass on full Service Tax increase. This quarter revenue is Rs.86,799 million against Rs.75,673 million in Q2FY15.

As existing 3G ICR partners start their own 3G Network roll-out, from July 2015, one of the 3G ICR partner moved out of 3G intra circle roaming arrangement with us in 4 Telecom Service Areas. Post normalization of IUC settlement charge at old levels, earlier roaming rates and 3G ICR loss, the company's theoretical growth rate would have been at 20%.

During the quarter, the company carried 189.5 billion minutes on its network, a 3.2% contraction in Voice Minutes from 195.8 billion minutes in Q1FY16. Similarly, the company carried 72 billion megabytes of Mobile Internet Data on its 2G & 3G Data platform, QoQ growth of 9.3 billion Megabytes @ 14.9%, reaffirming volume led mobile data demand continues.

Idea was able to contain, on sequential quarterly basis, voice rate decline to only 0.2 paisa /minute @ 32.4 paisa /minute for Q2FY16 but intensity of competition in Voice Market increased as top 3 operators battled for incremental subscriber addition from the market. The Mobile Data Market is witnessing even harder competition as 3G Network Supply outstrips Demand until the deluge of new first time mobile data users join the internet bandwagon. During this quarter, the Mobile Data Average realization per Mb fell by 1.2 paisa per Megabyte to 23.4 p/Mb against 24.6 paisa per Mb in Q1FY16. We believe, weak rate signal for short term will be positive for massification of Mobile Broadband services across 1 billion Indians.

On account of higher 'Non Voice Revenue" contribution at 27.9% this quarter against 26.1% in Q1FY16, the overall ARPM has improved by 1.8% on sequential quarterly basis to 45.3 paisa per minute.

2. **Cash Profit & EBITDA:** The standalone EBITDA at Rs. 27,773 million grew by 24.0% on YoY basis helping margin to improve in one year by 2.4% to 32.0%. But due to seasonally weak revenues, higher subscriber addition cost and accelerated Network expansion, the sequential quarterly EBITDA margin declined by 1.7%.

48.3% of the incremental annual gross revenue of Rs.11.1 billion between Q2FY15 and 16 has translated into EBITDA incremental growth of Rs.5.4 billion, indicating the profitability growth journey will continue.

In Idea's 15 Established Service Areas, RMS improvement momentum continues now at 21.8%, Idea standalone EBITDA margin for the quarter has risen to 36.5%, an improvement of 2.6% over the same quarter last year. However, the losses in the 7 New Circles, where the company is in expansionary mode is higher at Rs.1,775 million, thereby overall margin is down to 32.0% levels.

At consolidated level, including 16% contribution from Indus, Idea EBITDA has grown to Rs.30,570 million at margin of 35.2% with YoY growth @ 22.7% and margin improvement by 2.3%.

The Q2 FY16 standalone Cash Profit is Rs. 25.32 billion and in the first half of Financial Year 2015-16, Idea has generated Rs. 50.85 billion Cash Profit, a growth of 32.5% over H1FY15, providing company sufficient headroom to meet the Service Debt obligation and meet enhanced Capex aspirations.

3. **Active Subscribers :** Idea clocked 26.3 million Net VLR annual addition between October 2014 to September 2015, against 20.8 million additions in the same period previous year. The company is now servicing 170.8 million quality customers and confirming Idea's subscriber growth story is intact.

As per last TRAI subscriber VLR Market Share report of August 2015, the company further strengthened its 'Subscriber Market Share' to 19.1% an improvement of 1.3% in last one year.

As the battle on the street for the new subscribers intensify, the industry Net Consumer addition has accelerated to 78.6 million VLR Subscribers between the period September 2014 to August 2015 against 71.4 million addition in the same period last year. Nearly 'one out of every three' Indians buying new mobile sim connection during the last one year joined Idea on its Network as Idea clocked highest incremental VLR share over last one year @ 32.8%.

Despite the large subscriber addition, the quality of Idea overall consumer base has been steady with blended subscriber ARPU including Voice and Non Voice revenues is at Rs.175 in Q2 FY16 v/s. Rs.176 in Q2FY15. But, due to market place intense battle, the blended subscriber churn has again risen by 0.4% to 5.1% levels on a sequential quarterly basis.

4. **Minutes of Use** : Rural Voice Telephony offers excellent Voice growth opportunity as based on TRAI Industry Urban & Rural Subscriber Split and eliminating multi sim ownership, between 400 to 500 million Rural population still do not own a Mobile connection. As competition recedes in Rural Voice and Idea expands its Rural Network spread, the company remains optimistic to maintain current subscriber acquisition trend and Voice Minutes double

digit growth. Voice Minutes of Use grew on YoY basis by 16.6% from 162.4 billion to 189.5 billion, strong growth of 27.1 billion minutes between Q2FY15 to Q2FY16.

Similarly, inspite of 23 million reported subscriber addition to Idea Customer EOP base at 166.6 million @ 16%, the Minutes of Usage per reported subscriber in Q2FY16 grew by 2 minutes from 384 minutes in Q2FY15 to 386 minutes in Q2FY16. As regards, GSM Network investment, Idea integrated 3,701 2G sites during the quarter expanding the company GSM service footprint to 119,276 sites covering 7,527 census towns and 370,320 deep rural villages and hinterland geographies across India. Idea with its consistent GSM investment now cover nearly 80% of India with brand choice available to over 965 million Indian population. The company remains committed to service over one billion Indian population by the end of this Financial Year.

Similarly, the Optical Fibre backbone spread is fast being densified and by end September 2015, the company fibre has spread to 100,400 km and 5,750 OFC PoPs. Over 12,800 Km of optical Fibre has been added to our high Capacity Backbone Network during last one year.

5. **Mobile Number Portability** : The overall trends from MNP and 'National MNP' clearly distinguishes the consumer preference for Idea brand and its quality of services. As of 30th September 2015, Idea lead over nearest Telecom operator has extended to 5.3 Million customers. In the last quarter, the pace of MNP Gross and Net Subscriber port in further accelerated, as consumers reposed even greater faith in brand Idea. One out of every four existing mobile customers who decides to port out in India from their existing Mobile Operator prefers to join Idea superior telecom services.

Moving on to Wireless Data Business: The Mobile Data contribution to overall Service Revenue has steadily risen to 19.6% in this quarter, an increase of 1.9% QoQ and 5.6% YoY. The overall VAS contribution at 27.9% is fast reaching South East Asian countries level, Q-o-Q increase by 1.8% and sharp improvement of 6.8% from 21.1% at end of Q2 FY15.

In line with the emerging Digital Services global connectivity trends, Idea's Mobile Internet Data Volume grew to 72 billion Megabytes, a sequential quarterly growth of 14.9% of 9.3

billion Megabytes and YoY Mobile Data traffic growth @ 82.6%. But due to increasing competition intensity in 3G space and faster Mobile Data Capacity supply buildup than demand, the Mobile Data realized rate is under stress.

The blended Data 'Average Realisation per Mb' (ARMb) has fallen sharply YoY by 11.8% from 26.5 paisa in Q2FY15 to 23.4 paisa per Megabyte in Q2FY16 i.e. 3.1 paisa/ Mb. Therefore, the Mobile Data Revenue for this quarter is only Rs.16.9 billion comparatively slower quarterly revenue growth rate at @ 9.5% and annual growth rate at 61%.

The Net Mobile Data blended Consumer base (2G + 3G) has risen by 4.2 million this quarter to 41.3 million with penetration at 24.8% levels of the overall Idea subscribers EOP base of 166.6 million using either 2G Edge or 3G HSPA platform to access mobile internet. While in last one year 23 million net new consumers have been acquired by the company, only 10.4 million net existing Idea subscribers upgraded to use Idea Mobile Data Services. The company is quite hopeful with the expansion of Idea's own 3G coverage in 12 Circles across new towns and villages and slated 3G launch in Kolkata Metro shortly, New Data Subscriber addition will accelerate at similar pace to fresh consumer acquisition absolute levels.

In the falling rate environment, the consumers' propensity for internet displayed reasonable elasticity of demand, as blended Mobile Data ARPU improved to Rs.144 per Data User in Q2FY16 against Rs.119 in Q2FY15, primarily volume driven with Mobile Data Usage per data customer rising to 615 Megabyte against 447 Megabyte in Q2FY15.

Moving on to 3G business: Idea's 3G Mobile Broadband subscriber base has grown by 1.86 times over last one year, with an addition of 9.1 million new 3G Broadband customers. The 3G Data User EOP has risen now to 19.6 million. The pace of existing Idea customers upgrading their existing devices to new 3G or 4G smartphone has positively surprised us. With 4G phones introduction and steep fall in overall smartphone prices, during the last one year 24.3 million existing Idea Subscribers upgraded their feature Phones to new 3G or 4G smartphones. Infact, 6.4 million Idea subscribers upgraded their phones to smartphones with 4G and /or 3G chip against only 4.2 million blended total data user addition in this quarter.

As on 30th September, 2015, 48.7 million Idea subscribers own a 3G or 4G smartphone device at 29.2% penetration level. Out of the total 48.7 million smartphone 3G & 4G Users, Idea current 4G phone user in company overall subscriber EOP is 1.9 million. Against 48.7 million high end device owners only 24.5 million Idea customers used the company HSPA platform to access its 3G services either for Voice or Mobile Broadband data. Given only 50.3% of the Idea Smartphone 3G & 4G owners use company 3G platform services, the company has embarked on a drive to increase its 3G coverage, introduce vernacular content, relevant and persuasive digital services, offer exciting trial packs for non-users and increased spends on promotion to help consumers join the Digital era. Our Brand communication will continue to remain focused on category build with innovative style to demonstrate the power of Internet Services and its relevance to the Non Data users across various demographics and psychographic segments.

The advantage a Voice User adapting to 3G Mobile Broadband is his revenue contribution is much higher and impact is ARPU Value accretive. The 3G Data Volume mix to overall Data traffic has risen sharply from Q2FY15 levels at 50% to this quarter mix change reaching 60% of overall volume. The 3G Data Volume has accelerated faster at 2.2 times from 19.8 billion megabytes in Q2FY15 to 43 billion megabytes in Q2FY16. Similarly, per 3G Data Subscriber, 3G Data Usage has improved from earlier levels of 693 Megabytes in Q2FY15 to 802 Megabytes per 3G User in Q2FY16. The Data ARPU of a 3G Customer is at a good level of Rs.202 in addition to this customer spends on Voice & Non Data VAS. The current 3G customer is highly profitable customer.

During Q2FY16, the company has integrated 6,246 additional 3G sites. In the last one year Idea has added 14,703 3G sites expanding brand Idea own network presence by 58% just in one year. Idea now covers over 305 million Indian population from 39,867 3G sites in 12 Service Areas on our own Spectrum band. Additionally, the company has firm 20 years 3G ICR contract across remaining India, excluding Orissa, where Idea does not own 2,100 MHz 3G spectrum and even in these circles expansion of 3G Services by ICR partners has accelerated.

To conclude, as the Mobility Services expand, Indian telecom business offers exciting growth opportunity in Mobile broadband and rural voice telephony. Brand Idea with increasing consumer affinity, strong cash flows, pan India GSM presence and expanding 3G Network footprint reaffirms Idea's ability to deliver consistent and profitable growth. The company is gearing itself to capture Mobile Broadband Data opportunity. In its initial phase Idea intends to roll-out its 4G services in all its 10 Telecom Service Areas across 750+ cities including Metro towns, large and small towns by the first half of calendar year 2016, including 4G services in Idea's 6 leadership markets of Maharashtra & Goa, Andhra Pradesh, Madhya Pradesh & Chhattisgarh, Kerala, Punjab & Haryana where Idea currently provides 2G & 3G Services and 4 emerging markets of Karnataka, Orissa, Tamil Nadu & North East.

Secondly, provide consumers more avenues to use Internet by introducing Idea's own Digital Services across entertainment, information, communication, micro payments, etc., our vision is to remain focused on company journey to improve its competitive standing both in Mobile Voice & Mobile Broadband and emerge stronger.

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 the overseas participants. The revenue for this seasonally weak quarter was down 1.3% compared to last quarter, mainly due to decline in voice minutes by 3.2% and pressure on data prices. The standalone EBITDA of Rs.27.77 billion represents a margin of 32% which has declined by 1.7% compared to last quarter EBITDA margin of 33.7%. However, on a year-on-year basis the revenue registered a growth of 18.9% post normalization for change in IUC rates. The year-on-year EBITDA growth remains strong at 24% and the EBITDA margin has also improved by 2.4% year-on-year.

The quarter-on-quarter increase in depreciation charge on account of regular capex is largely offset by the reduction on account of assets which are being fully depreciated. Accordingly, the net increase in depreciation and amortization charge for the quarter was Rs.199 million. The net interest and finance charge for the quarter reduced marginally on quarter-on-quarter basis to Rs.2.52 billion in comparison to Rs.2.56 billion in Q1 FY16. In this quarter the net interest and finance charge accrual has been Rs.8.86 billion, out of this Rs.2.52 billion is charged to Profit and Loss account and Rs.2.25 billion has been capitalized to fixed assets including capital work in progress. Balance Rs.4.09 billion representing the accrued interest on deferred payment liability with respect to spectrum which is yet to be allotted is included in loans and advances and will be capitalized as and when the spectrum is allotted.

The standalone net profit for the quarter is Rs.7.1 billion compared to PAT of Rs.8.4 billion in Q1 FY16. The cash profit for the quarter is Rs.25.32 billion.

Let me now explain the accounting treatment for the spectrum won in March 2015 auction for the sake of clarity. Since the results declaration for Q1FY16 we have received the spectrum allotment letters for the service areas or Andhra Pradesh, Kerala and Haryana. The spectrum value for these circles of Rs.65.27 billion and accrued interest of Rs.2.40 billion from 9th April 2015 till 30th September 2015 is now reflected in the capital work in progress. The deferred payment of Rs.48.96 billion for the above three circles is reflecting as debt on September 30 2015. As a result, the long-term loans and advances were reduced by Rs.17.46 billion which comprised of the upfront payment of Rs.16.32 billion and interest accrued till 30th June 2015 of Rs.1.14 billion for these three circles.

The net debt during the quarter has increased by Rs.44.94 billion, due to the recognition of the deferred payment liability for the three circles as explained above. The net debt to annualised EBITDA for the quarter stands at 1.99. The deferred payment liability relating to the spectrum which is yet to be allotted is Rs.160.12 billion which will be recognized as and when spectrum is allotted.

Capex for the quarter stands at Rs.17.3 billion. The total interest capitalized in this financial year is Rs.4.36 billion. Out of this Rs.2.4 billion is for three circles as explained above and balance Rs.1.96 billion is for spectrum for which allotment letter was received until last results declaration. Our capex guidance for FY16 stands at Rs.65 billion.

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

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: I have three questions. First is, just a follow-up on Mr. Himanshu's comments on data ARPM, it has shown a decline of 5% quarter-on-quarter despite some postpaid tariff hikes in select circles. So, any color on the reason for the decline and how we should look at it going forward? Second, the churn rate has increased to 5.1% in the quarter as compared to the last quarter and I read in one of the media comments Himanshu mentioning that there is a battle in market place for acquisition of new customers. So just wanted to understand are you seeing any increase in competition? And lastly, I guess you moved all your prepaid customers on a per-second billing, so how should we look at the implications on this? And a related question is, could we also see a bit more investments in towers and improvement in capacity, just generally to improve the coverage? Thank you.

Himanshu Kapania: Thank you Sachin, I will follow the order of your questions. Number one, as for data ARPM, you are absolutely right, in the month of June and July we attempted to increase our per GB rate both in prepaid as well as in postpaid, however the response from the consumers in July and August was very lukewarm. We were trying to increase the price from a level where the customer could buy bundle of 1 GB from Rs.250 to Rs.300, however, there was a lot of consumer resistance which forced us to revert back to a level of Rs.250. This is one big change that has taken place from the earlier discussion way back in June and July when we were attempting to raise data rates. The consumer is very sensitive to increase in data rates we have learned but we have to live with the situation. Given the fact that India is now moving from a current level of 3G absolute user base of less than 100 million with a desire to be able to grow the overall mobile broadband users on 3G and 4G to a level of 300 million to 500 million we would expect the tariffs to be towards more massification rather than current levels where consumers are resisting the price increase. If this is fine I can move to the second part?

Sachin Salgaokar: Sir this is clear, but just a general follow-up in this direction, we continue to see an increase in data usage per customer, meaning it did move from 599 MB to 615 MB so clearly the consumer is consuming data, so where ae you seeing that resistance? I mean two quarters back the price point was around 30 paisa, it has gone down to around 23 paisa. So I am not clear where the resistance is coming actually.

Himanshu Kapania: There are two ways to look at it. From the point of view you are looking at, an existing mobile data user who is increasing the consumption, you are absolutely right that there has been an increase of consumption from ~450 MB- to ~615MB over the last one year on a blended basis and similarly we are seeing usage increased from consumers in the 3G space. But we are not limiting ourselves to consumers who are the current users of mobile internet. The big future consumption is going to take place from a current large non-user category. India has a penetration under 10% for 3G and penetration under 25% on an overall mobile base. A lot of casual mobile data users enter the category and find it very expensive and leave the category. The churn rate as we witnessed on a month-on-month basis on mobile data is very high and it is only at a particular price point we find the consumers become more long-term user of internet services. So in the journey to a billion mobile data users this is the short term cost that we have to pay for. It will be volume lead journey, rather than a balanced growth at this point of time.

Sachin Salgaonkar: Okay sir, this is clear.

Himanshu Kapania: Moving on to the second part, churn rate has increased to 5.1%. You are absolutely right, not only in the press note but even in my opening remarks I have talked about that there continues to be a battle for subscriber growth and that is reflected in overall industry subscriber growth.

In FY12 industry subscriber additions had gone down to 40 million and now it has risen to 80 million. All of us believe that there are still anywhere between 300 million to 500 million more incremental subscribers that will enter the category of mobile services and most of these consumers are in the rural area. The battle is between the top three operators who have deep rural coverage. We are seeing all the three operators are now focused on a subscriber growth.

We believe India is leading the growth of subscribers globally. In our assessment, based on GSMA report, almost 25% of world's subscriber growth is coming from India because telecom business in India is growing through volume led growth. Subscriber growth is important part in this growth journey and some of it is reflected in churn which I think will stabilize. It is a matter of aberration for a quarter or two. We are very confident it will stabilize and the subscriber led growth will lead to growth in revenues & profit.

Sachin Salgaonkar: Okay sir, even this is clear.

Himanshu Kapania: The third part is prepaid per second billing. I am not sure what is the question on this?

Sachin Salgaonkar: Sir the question was, quarter back as per TRAI around 60% of the total pre-paid consumers were on a per second billing, I guess now you guys or the top three operators have moved almost 100% of their prepaid customers on a per second billing. The question here was, are there any implications of this on the general financials in terms of how we could see the MoU usage or the general ARPU uptick?

Himanshu Kapania: We have ensured that when the consumer moved from per minute billing to per second billing, his realized rate remains ballpark at the same levels and we have not witnessed any change in the usage pattern because of this. Given the size of the total volume of the consumers that we have, we have not seen any big change. I can also correct the figures, even when TRAI reported 60% of the total pre-paid customers on per second billing we had over 95% of consumers on per second billing at that point of time

Sachin Salgaonkar: And my last question is, could we see a bit more investments in tower and capacity to improve the coverage just to understand the TRAI regulation?

Himanshu Kapania: This is already happening. You have seen that Idea cellular has added incremental 11,500 sites on GSM during the last one year. Secondly, we have shared with you our single RAN principle which means that every site that we are upgrading from current 1800 MHz site from a 2G usage to 2G plus 4G usage, the old technology 2G sites are becoming available to us. Similarly, every site that we are upgrading on 900MHz with second carrier of

900 3G is being introduced, the old 900MHz site is now available to us. We will have sufficient and more GSM sites available for us to be able to expand and our intention is to reach a level of population coverage a little excess over a billion and second intention is to continue to improve our quality of services, a lot of effort has already gone in this direction. That is also reflected in subscriber growth and MNP growth for us.

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

Aditya Soman: Just a couple of questions from my side. Firstly on your interest cost, I noticed that your interest cost is down quarter-on-quarter, what is the reason for that? You have mentioned about the capitalized interest, what is the full extent of the spectrum interest that you expect to see in FY16 numbers? And my second question is on the subscriber acquisition cost which have gone up sequentially this quarter when typically in 2Q subscriber acquisition cost tend to go down quarter-on-quarter. Now is this is a function of the higher competition that you mentioned earlier and could we sort of see this trend go up if the competition stays high?

Akshaya Moondra: If you are looking at the gross interest cost that has gone down whereas net interest cost has remained more or less flat. The gross interest cost has come down as at the beginning of 1st of April we had a significant amount of debt and we had repaid about Rs. 7,600 crores of debt in the middle of May. Last quarter our gross debt and investments were higher and reflecting in both the income and the expense. In this quarter both the income and the expense levels have gone down, but the net finance cost has remained more or less flat.

In terms of the capitalized interest, as I had explained in my opening remarks, our total interest accrual in this quarter is Rs. 8.86 billion, out of this Rs. 2.52 billion has been charged to Profit and Loss account. The balance Rs. 6.34 billion is actually capitalized interest. Out of that currently only Rs.2.25 billion is going to capital work in progress and the balance Rs. 4.09 billion is appearing in loans and advances since it pertains to spectrum which is not yet allotted. So the total extent of capitalized interest in this quarter is of the order of Rs. 6.34

billion if we ignore the segregation between what is in CWIP and what is in loans and advances.

Aditya Soman: The only follow-up I had to that was, once you start using the spectrum will you expense it through the P&L or will it not reflect in the P&L?

Akshaya Moondra: No, it is like this. The nine circles where renewal was due, for seven in December and two in April of next year and circles where our LTE spectrum is there the interest is being capitalized. As and when the old licenses will be expiring, from that date onwards interest will be charged to P&L account and in case of LTE spectrum, whenever we launch the commercial services interest will be charged to P&L account. That is how it will happen gradually. Let's put it this way that by Q1 of next financial year there will be no capitalization and almost everything will be charged to profit and loss account.

And your last question was relating to subscriber acquisition cost. What you see is that the extent of gross additions has increased, so on per gross add basis there is no significant change in the cost between the last quarter and this quarter. The higher cost is on account of increase in the overall number of gross addition.

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

GV Giri: My question is, number one, you had slightly weak non-voice, non-data revenue this quarter, does it have anything to do with the exit from your 3G ICR arrangements in four circles that you had mentioned earlier? Secondly, you have added around 6,200 3G base stations and 3,700 2G base stations, I was a little curious to know how many of these are in single RAN or are these all distinct because geographically they have been distant because I just presume that if you are in the same box then there will be a bit of opex saving. The third question is that, as per my calculation while the blended data yield has declined closed to 5%, with 2G even that has fallen by almost 9%, so with the 2G rates having fallen will it not become harder to achieve your current 3G rates when these customers upgrade later to 3G?

Himanshu Kapania: Let me answer the first question on non-data VAS revenue. As we mentioned there is some impact of the people rolling out their own networks on 3G and the ICR revenue thereby getting impacted. However that impact is gradual and it will keep on gradually falling as the new spectrum acquired has associated network rollout.

Second question that you had, I am just clarifying before I respond. You said there are x number of 2G and 3G sites and you wanted to know how many of them are single RAN, is that right?

GV Giri: That is correct.

Himanshu Kapania: In the total quantum of sites there are two type of equipment, some equipment has been freshly ordered and some equipment has been reused. All freshly ordered equipment from the quarter three of last year have been from single RAN, whether it is on 900MHz or 1800 MHz or 2100 MHz. I do not have a specific breakup but we can do that outside this conference call.

On the data rates you said, you were trying to calculate separate rate for 2G and separate rate for 3G. I think we are also for our own MIS purpose struggling to get individual rates of 2G and 3G because the customer at a point of time when he buys a 3G connection or a 3G recharge can be using some of the recharge on 3G platform and some of them on the 2G platform. It is very difficult to get individual platform based rate. That is why it is best to focus on blended Mobile Data Rate.

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

Vinay Jaising: I have three questions. Firstly on the single RAN, you did mention a lot of the incremental BTS are coming on single RAN. The question is if I were to use single RAN as I understand it, it is for only single spectrum, you said it could be multi-technology which is 2G and 4G or 2G and 3G but then you have limited spectrum in a single band, right, I mean you have access to less than 10 MHz odd in 1800 in a circle or 900 as well So is it not limiting what you can do in single RAN unless you plan to divide the spectrum in the two bands given the first technology to have 5 MHz and Second technology to have lesser than 2 and 3 MHz a, because then in the future your capex may really increase in terms of BTS. That is my first question.

Second, if you see this quarter you had a wonderful growth in MB of over 10 billion MB, but you minute fall has been 6 billion to 7 billion, despite that your EBITDA has come down. Now in a world where data is cannibalizing voice if this were to go ahead in the future what do we expect the EBITDA margins? I am trying to gauge is it better to gain data revenues or is it better to lose voice minutes?

My third and last question, we heard about spectrum trading and spectrum sharing, a lot of this we hear is only from the 800 and the 1800 MHz users, operators not from the 900 MHz users. Any thoughts on there from your team? Thank you.

Himanshu Kapania: I will start with your single RAN question. The response is very straight forward. You are absolutely right that currently single RAN is available on the same band that means in the same band we can use multiple technologies. Your question is, is it really possible with the quantum of spectrum that we have? The answer is yes and a definite Yes. Now where all it is possible? First on the 1800 MHz we have in multiple locations more than 7 to 8 MHz of spectrum, we are going to use 5 MHz to launch our 4G and remaining 2 or 3 MHz for GSM to supplement 900MHz GSM coverage & capacity.

Now moving on to 900 MHz, there are circles where we have acquired more than 7 MHz of spectrum. It is possible now to launch 3G at a level of 3.8MHz quantum giving us the ability to get 3.7 MHz or more quantum allocation towards GSM. When we combine 3.7 MHz on 900 plus 2 to 3 MHz on 1800 MHz, we can run our GSM services. We can have a second carrier on 3G assuming there is already a carrier on 2100MHz. While it may be difficult to explain on the call, in person we can explain to you number of circles where we are already in the process of executing this plan and this re-engineering work is in progress. Lastly I would like to remind you that the 2100 MHz is single RAN which we are procuring from 2013 onwards, all of 2100 MHz equipment which is currently being used for 3G, if tomorrow we procure an additional carrier of 2100 MHz we can use 3G or 4G if we want to use 2100 MHz for 4G or we can use two carriers of 3G. The equipment already exists, we only have to deploy an additional spectrum, so our capital investment, rather than the way analysts have projected that we will need more capital investment, the way we are seeing it there will be lot of reduction in the capital investment in all scenarios. The overall cost per BTS is drastically coming down, there is a major fall. That's why look at the volume that we are talking about in quantities. We used to do 10,000 to 15,000 BTS in 2G plus 3G and we are now giving a guidance of 30,000 to 35,000 site on 3G plus 4G and the volume of capex spend is not increasing in the same proportion.

Now the second question concludes that the increase of data and reduction in minutes are all cannibalizing. I can hereby confirm with great degree of authority that none of that is happening as of today, at the pace your question assumes. We are not seeing any large cannibalization of voice, users using data mostly use Voice Over IP for international calling. Current penetration of calls on WhatsApp and similar apps is at a low level and we don't have to worry. We are obviously carefully observing this but at this point in time it is not having a major impact on our voice revenue in local calling, I will obviously not say this for ILD calling as well as for roamers.

Vinay Jaising: Sir my humble question out here is, as we get just incremental billion MB and incremental billion minutes, when I look at those two wherever they come from there is an EBITDA drop in margins specially or in absolute EBITDA as well. So that is why I am trying to gauge, is it better gaining data? I understand it is better getting both data and voice, but if we gain data and lose voice is it that we are going to use EBITDA margins or absolute EBITDA, that is the real question.

Akshaya Moondra: Vinay I think you are looking at this quarter's EBITDA decline as representative of what is happening to the industry or market in general. I think in this quarter (Q2) we have seen EBITDA margin decline earlier years also. I do not think we can read into this quarter's EBITDA margin decline as a phenomenon. We will have to see what happens going forward. We are not sensing this tradeoff between one factor versus the other impacting a decline in the EBITDA margins. Let's discuss this when we are at the end of next quarter.

Himanshu Kapania: Just to incrementally add there, if I were to take last four years history of Q2 drop vs Q1 and if we were to study over the years Q2 vs Q1 and multiply drop in minutes with whatever scenario either there may have been rate increase or a rate drop, the absolute revenue change which has happened on voice has remained more or less similar in the last two years between Q2 vs Q1. And in the past actually the Q2 vs Q1 voice revenue decline was much higher but in the last two year with larger subscriber addition in fact the decline of voice revenue in Q2 vs Q1 has become lesser. That is why we have not shown any worries as far as voice is concerned other than sharing with you the decline in voice minutes. The worry remains on mobile data where last year we have had both the price increase and data volume growth because the competition was less and this year the demand is taking time to pick up. We are hopeful in the long run data demand will pick up but at this point of time with mobile data capacity increasing there is a battle of rates that has resulted in overall sequential quarter revenue decline.

Vinay Jaising: Sir I absolutely understand that and I guess I will wait for a quarter. My concern was exactly what you mentioned last, if data ARMB falls further what happens, but let's wait for a quarter, let me take this question offline. Just my last question on spectrum sharing and trading.

Himanshu Kapania: As of now you are right. We were also saying that the spectrum sharing is possible on 800 and 1800 MHz spectrum. As far as trading opportunity you have missed out trading opportunity in 2300 MHz and 2100MHz from any operator who is not fully utilizing the spectrum but we do not see 900 MHz to be either a trading commodity or a sharing commodity.

Moderator: Thank you. Our next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.

Karthik Chellapa: Sir my question is on the competitive intensity in voice, you had highlighted in your opening remarks that as you go more rural the main competition is from the two other operators who also have a strong footprint. So if you would give us some color on the competitive intensity in voice both on the rural side as well as on the urban side especially from small challengers, has that intensity increased this quarter or over this period compared to say previous periods or has it remained as it is? That is my first question.

My second question is on data price increase and the subsequent rollback, was the rollback because the customer acquisition was slower and newer customers were not so receptive or did you face resistance from some of your existing customers in a few circles as well which caused the decision to rollback the data prices? Thank you.

Himanshu Kapania: Let me respond to the second question. I think the answer for that is customer acquisition was slower on the data front given the fact that in the last one year we have acquired incremental 23 million subscribers, the data subscriber growth has been 10.6 million only and we want to make sure that we are able to get between 20 million to 25 million incremental data subscribers on year-on-year basis. That is where the resistance is, it is not existing customers who are very much prepared to pay the price for utilizing the digital services, it is the new customers and that is where all the future growth is expected from the non-users.

On the competition intensity, the way I will respond is as follows. If you were to look at both in terms of subscriber growth over a period last one year, as per TRAI report as well as revenue growth over the last one year and specially the incremental revenue growth the battle by the top three operators is putting a lot more pressure on low market share operators. The low market share operators have not been able to make major dents in urban markets during the last one year. They were making some grounds in the previous years but the growth has been stunted quite a bit. In urban markets they have been quite contained is our understanding and this is based on information available from TRAI.

You look at this year Q1 revenue report versus Q1 of last year, between the top three operators we have got incremental revenue of 105%, in the past year we were doing about

75% to 80% incremental revenue so it is showing it pressure from top 3 operators is squeezing all other operators on the ground. The intensity is increasing for subscriber acquisition and getting incremental revenue but it is also helping in the consolidation process. While we live the short-term pain on our financials but it also helps in the long-term structural change in the market.

Karthik Chellapa: Sir just another question on the call drop issue, earlier you had mentioned that this is open to abuse and you need to re-engage with the TRAI on the subject for better long-term relationship between the operator and the customer. Going by what media reports and what people have been saying, the TRAI seems to be pretty firm that this is a measure in the long-term customer interest etc, so from our own point of view what are the options available to us in the near term because this regulation effectively comes into effect from 1st of January, so from a billing system point of view we also need to be prepared. Can you just take us through the options that are available to us and the timeframe over which these options can be explored?

Himanshu Kapania: We have not applied our mind on options because this is a very recent regulation, it is quite divergent to the previous regulations that have come out from expert body like TRAI and that is why all of us felt it is best first to engage in dialog with them and see if you can influence their mind and show to them that it is neither in the interest of the country nor in the interest of the consumer and definitely not in the interest of long-term health of the telecom sector. Given the fact that all of us have to do so much both in terms of spectrum portfolio expansion, in building Digital India as well as improving the quality of services, we need the investable surplus. And if all our efforts were to go to manage this regulation both as you were mentioning changing our IT systems and network billing systems as well as to manage the wrath of the customer because of disputes that may arise then our long-term plan of building this sector and infrastructure will take a backseat.

We are hopeful that we will be to influence the regulator and some middle path would be found. If that does not happen we will then apply our mind at that stage.

Moderator: Thank you. Our next question is from the line of Rohit Chordia from Kotak. Please go ahead.

Rohit Chordia: Quick two questions. First one on the voice RPM trajectory. While you have explained the competitive context the intensity here has gone up, my question really goes back to the time when we were having this consultation on large spectrum auctions, sort of reserve prices that were being discussed and in a lot of responses from the industry and individual operators we saw numbers like this will need or will result in increase in voice tariffs by 10 paisa, 15 paisa, 20 paisa. Do our industry have a short memory or now the cost is on the balance sheet hence forgotten? Everything is back. I mean as analysts and shareholders what call can one take on sustained rationality in the industry? That is first question really.

Himanshu Kapania: I can see the stress, pain very well put. Let me just dispassionately look at voice RPM, out of the 9.8% voice RPM decline that has taken place over the last one year the larger impact on this was IUC settlement rate, impacting around 5% of reduction. The second point is most of the voice RPM fall has been in the previous quarters and if you look at specifically on a sequential quarter basis there has been a voice rate decline by 0.2 paisa.

But that is not your question, the question was when we see an increase in voice rates? This the question that you were specifically asking. What I can tell you is presently the battle for subscribers has not led to battle for voice rate. At this point of time most of the subscriber battle is on acquisition of customers and its impact is on churn, its impact is on trade margins which are on the higher side and a little bit of promotions for the new customers. However, the reason why the voice rates are not being raised, was given at the time when Vinay has been alluding to that the differential of the rate between voice and data. If we raise voice rates very high, we have seen it in various parts of Southeast Asia including Indonesia and Malaysia, then when the differential becomes very large then what Vinay was talking about that consumers tend to move their calling from a GSM network to a data network or on to VoIP. We do not want to fall in this trap. You will always have to see the movement in voice and data as moving in the similar direction. You cannot have a voice rate which will go up and the data rate which will fall, that to us will accelerate the pace of voice revenue decline which we are not at all at this point of time interested to do.

Rohit Chordia: Sir in that light where the general expectation with the entry of another large player coming to the data market, is that we will see sharp decline in data rates, should one expect a similar level of voice rates next year?

Himanshu Kapania: We will wait to see what happens, but we can say that all of us are building large capacities and the growth in telecom business will be volume lead, we will see what will be the impact on rates.

Rohit Chordia: Second question, again coming back to that call drop issue and while you explained it very well how it just does not fit into the wireless network construct from a physics standpoint, your physics standpoint is sort of also counter intuitive and inconsistent with TRAI's own regulations on QoS as well as rollout obligations where are not mandating 100% rollout obligation but do not want a coverage hole which will lead to a call drop. The point here is, the industry's efforts again in the past two years on the regulatory front, I mean I am just using the two years as a timeframe, maybe even more, in trying to get the regulator to see logic on various things, we (Industry) have fallen short. Again from a sustainable standpoint where does this lead to? I mean tomorrow will there be a ceiling on tariff? I mean any pro-consumer move can come through from the regulator. Where does this stop in some sense, what does the industry need to do better to get the regulator see logic? Of course you can fight your legal battles, go to TDSAT, go to High Court, but at some point the industry needs to find a better way, I do not know what it is. So any comments on that.

Himanshu Kapania: There is always this battle between what is perceived as consumer interest in the short-run versus what needs to be done by industry in terms of investment. Now specifically as far as this regulation is concerned, there has been in the last 1.5 to 2 years, and this is not a phenomena on a pan-India basis, it is a phenomena in four or five metros especially Delhi & Bombay because both of these cities are politically sensitive. There have been very large number of tower removals for multiple reasons including the phobia among societies around EMF. The municipal corporations on their overdrive to collect money in form of additional fee from telecom operators has also resulted in all architectures been thrown out of gear. Because of these reasons there is a need to be able to re-optimize the network and a lot of effort is being done on this. We are also very hopeful that effort of the telecom minister for us to get alternate sites so that we don't need to rely so much on residential buildings and we move to government buildings and newer land continually should help us on this. We have been trying to show our point of view but also have to agree that Regulator and Minister have their pressures and we are to balance both of these.

As an industry we are making our efforts to balance this, there were a lot of positives which the industry has done. It has participated aggressively on spectrum auctions and the spectrum revenue contribution have been very positive for the country. It has made sure that most of the regulation of TRAI is very well implemented whether it is in the form of MNP and other regulation that it has come up. But this is one regulation which we are finding difficult to execute that's why we need to re-engage. We are very confident that there is always a short-term extreme position taken by regulator, ministry or operator, but finally a middle path is found and we are confident that the middle path will be found even in this case.

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

Sanjay Chawla: I have three questions. One is, this figure of interest capitalization that has been given in the quarterly report, Rs. 340 crores roughly, this is different from the figures that were mentioned on the call with regard to what has been going to CWIP and what has been going to the loans and advances? That is question one. Secondly, you mentioned 3G ICR revenue stream is winding down and that will continue happening. So by when should we expect that this 3G ICR revenue stream would substantially disappear for you? Third is, this ARMB versus voice RPM, the data voice arbitrage, so based on your experience and what you have seen elsewhere at what level of data tariff discount vis-à-vis voice this kind of cannibalization risk becomes real, is it like 1/2 the rate, I mean I am converting both ARMB into per minute and obviously voice and per minute as well. So is it 1/2, 1/3 at what level this becomes meaningful risk?

Akshaya Moondra: On the question of interest capitalization, I think your question is that what I mentioned in my opening remark does not tie up with the figures given in the quarterly report and I will try to explain how to tie these up. I said in my opening remarks the total interest capitalized in this year is Rs. 4.36 billion, we had given a figure of Rs. 3.39 billion as interest capitalized in this quarter's quarterly report and a figure of Rs. 0.96 billion for interest capitalized in the last quarter and that is how it adds up to Rs. 4.36 billion. Out of this Rs. 2.40 billion is pertaining to the three circles where the allotment of spectrum has happened now and Rs. 1.96 billion is pertaining to spectrum allotments which have happened in the past. So you have to look at Rs. 4.36 billion as the figure which I mentioned in my opening remarks as a combination of Rs. 0.96 billion in the last quarter and Rs. 3.39 billion given in this quarter and that is how it will tie up with the quarterly report figures.

Sanjay Chawla: And for this quarter also you mentioned that Rs. 6.34 billion has been capitalized, is this for this quarter or for the first half?

Akshaya Moondra: I had explained that but let me just explain once again. Right now what is happening is that the interest which is to be capitalized is divided into two parts, for the spectrum which has already been allotted to us that is being capitalized and that is appearing as capital work in progress. But for the spectrum where the allotment has not yet happened to us but the interest has started accruing from 9th April 2015 that interest is currently appearing in loan and advances.

I had mentioned that if you look at the figure of Rs. 6.34 billion which we are talking about Rs. 2.25 billion in this quarter has actually gone to CWIP but the balance Rs. 4.09 billion is appearing in loans and advances and this would actually go to capitalization in CWIP when the spectrum allotment actually happens. If you need more clarity, you can take it offline.

Himanshu Kapania: Let's move to the third part of your question before I come to the second, what is the right balance between Data ARMB and voice RPM. One is the mathematical calculation which we do and by which it will lead us to 1/2, or 1/3, or 1/4 differential between the voice call on data network and voice call on circuit switch network. The second is perception of consumers. In our belief consumers currently believe the voice tariffs are very attractive because in Rs. 125 a month, the customer can comfortably handle his requirement of 350 to 400 minutes of calling for the month a typical prepaid customer need. When it comes to mobile data, again he has a limit on his overall telecom spend, if customer wants to use 1 GB and currently we are selling that at Rs. 250 with blended 3G usage at about 800 MB, Data is much more expensive. So today calling from data is believed to be more expensive because data is perceived to be more expensive than voice in the market place.

One is theoretical calculation and another is real consumer perception. One study shows that if you ask customer what is more expensive to call whether to call from mobile service or whether to call from a data service, if he needs to buy a recharge, he clearly says voice calling from GSM services are cheaper than calling from data network. It's not the math which works here, it is how the customer perceives the rate because finally it is an absolute money that he is spending and with mobile data he trends to use more on multiple avenues available on the internet.

Sanjay Chawla: Himanshu even from a perception viewpoint if this data on a per GB basis once get to below Rs. 150 - 130 kind of level then this will become comparable to Rs. 130 that the customer is spending on voice, but obviously at Rs. 130 of 1GB data pack he can make voice calls as well as use some data as well. So would that perception change?

Himanshu Kapania: We will cross the bridge when we come to that. I was commenting on the current levels.

Sanjay Chawla: And on the 3G ICR?

Himanshu Kapania: On the 3G ICR, we have two nature of contracts. One nature of contract with the operator where both of us when we rollout our own services we can exit on a partial basis and we can fully exit whenever our full network is ready. With other operator arrangement is on a fixed rate contract basis. So given the nature of contract, we believe that 3G expansion is going to take place & it will take at least two to three years for operator to be able to build their own 3G network. The process of winding down has started and there could be cross moments as well. In a period of three years we expect there would be no large enough ICR revenue and neither will there be high 3G ICR cost for anybody.

Sanjay Chawla: Just a quick follow-up, you have mentioned on the optical fiber side you have deployed 100,000 kms of fiber on the ground now, approximately what percentage would be intra-city for you?

Himanshu Kapania: I won't have that data offhand. However, what I can recollect is that we were running between 20% to 25% intra-city and remaining inter-city but we can confirm that separately offline.

Moderator: Thank you. Our next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Sir I have a couple of questions. First, on your new circles which continue to be loss making, what is the level of revenues we believe that could make them at least neutral at EBITDA. The reason I ask is, Systema which is a smaller company from a revenue base has kind of reached a path of EBITDA positive or EBITDA profitability. So why the revenues which are a large base for Idea have not become profitable? That is my first question.

My second question is on towers, based on the KPIs which you report, over the last six quarters we noticed that your renting of towers from others has steadily increased compared to what you are renting from Indus, any particular reason for that? Does the others include Infratel or it does not include Infratel?

And third, on the porting of subs as you said you would remain the operator of choice for the majority of the subscribers porting into Idea, are the subscribers from your incumbent peers or they are from the operators with lower market share? Those were the three questions. Thank you.

Himanshu Kapania: Let me take the first question on the new circles and their losses. All these new circles are seeker 3G ICR circles except one and to some extent their cost structure is different because instead of having capital cost which are below EBITDA all these circles 3G costs are above EBITDA, but that is a structural difference. You were commenting on some other operators with lesser size and reaching EBITDA breakeven. That has something to do with whether you are in a growth phase or you have stopped investing. I think for any circle if we decide to stop investing today probably we will also reach EBITDA breakeven in a year's time. The question is that if you continue to be an operator who wants to progress and establish a better market position in the circle then these losses will continue for a longer time. We believe that we are in the growth phase in these circles, that is going to continue at least for the next 1 or 1.5 years as our rollout on the GSM basic coverage will take some time and till that time EBITDA breakeven has been postponed. Thereafter as the coverage is complete and market share gets to a respectable figure of 10% or more, that is generally the level one can expect to be EBITDA breakeven. As you would study in these circles, our IRMS level is quite attractive and so our market share gains have actually been better than what we have seen in the past.

As regards the tower rental, Indus remains our first preference, our tower supplier of choice. Only in a situation that Indus is not able to supply the tower we would go to any alternate supplier. We have to remember in the last two years especially we have been rolling out in the seven circles where Indus currently does not have their presence and this is where we will have to go to whoever is available in these markets. There we do not have any preference, it is depending on availability of towers and tower vendors' assurance for quality of service to us.

Srinivas Rao: So sir that others include Infratel also, would that be the fair assumption?

Himanshu Kapania: It will include all the other tower vendors. As regards to porting in, yes porting in is happening from all telecom operators including number one and number two telecom operator, but just to confirm, the larger porting also happens from low market share operators.

Srinivas Rao: So one final question on data growth, over the last couple of quarters the year-over-year growth has been trending down, of course as the base increases that would happen. But normally with improved & increasing 3G penetration and 3G usage we would have expected the data growth to kind of remain, and I am talking about usage at this stage to remain at the high say 90% so to compared to how it has now fallen over the last couple of quarters. What do you think will be the trajectory of data usage growth over the next say one year?

Himanshu Kapania: This is exactly the question that I was trying to explain to Sachin, and that is the point we are making that we attempted in the month of June, July and August to raise mobile data tariffs which halted the growth of subscriber addition. If we are not going to get fast enough subscriber addition who are currently voice users and who have to start entering into the category of mobile data the triple digit data growth will not take place. Once we reverted back to the old prices we are observing a lot of addition both in terms of subscribers as well as improvement of usage from existing customers.

As the coverage expands and better quality smart handset become lot more pervasive we are hopeful that we will go back from the current levels of over 80% Year on Year volume growth to a triple-digit levels. As a company, we are making serious attempts to do that and this is not limited to coverage expansion or tariff interventions but also maximum portion of our investments in brand is being allocated to expand non-data user into data user category. We have ramped up consumer promotions that we are currently offering to non-data users, we have built up new IT systems so that we can identify non data user or casual data user and help them to upgrade their overall usage. A massive effort by the company is on to get almost 500 million Indians who can participate in this digital journey that all of us have started.

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

Piyush Chaudhary: One question only from me, 3G data subs as a proportion of 3G device owners have constantly kind of remained at 40% for the last three quarters despite of rapid increase in our population coverage. So just wanted to check on the consumer behavior, is there anything else apart from the price differential which is keeping them away from moving to 3G or what steps company has been taking to kind of migrate from 2G data to 3G, just some insights over there will be helpful. Thank you.

Himanshu Kapania: I just want to remind you that 3G data user currently gives an ARPU of Rs.202. You are absolutely right that we have nearly 50 million customers with 3G handset and only 20 million customers are currently using 3G platform of Idea, the remaining 30 million are not using. All these consumers are not wanting to increase their telecom spend and we are making every attempt including, falling ARMB, so that these customers start using 3G platforms. As I explained just to Srinivas that it is not limited to coverage, coverage is I think fundamental for these customers to come but it is not limited to coverage expansion, we are doing trial packs, consumer & trade promotions, expanding our communication and also hand holding these customers for new digital services that they can use. But now finally consumer has to increase his overall spend and allocate higher proportion of his wallet for telecom services and it is taking a longer time than we had anticipated.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint that was the last question. I would now like to hand the floor to Mr. Kapania for his closing comments.

Himanshu Kapania: Thank you so much Malika. Let me wish all our listeners, especially our analysts and investors Happy Dusshera. We have had a difficult quarter2 but given the very large investments in building capacities both for voice and data is under way, Idea cellular remains optimistic our growth journey will continue not only in revenues but also in EBITDA and PAT. Thank you for all the support given to Idea and look forward to hearing from you in the next quarter.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Idea Cellular that concludes this conference call. Thank you for joining us and you may now disconnect your lines.