30 September 2024

National Stock Exchange of India Limited
“Exchange Plaza”,
Bandra - Kurla Complex,
Bandra (E),
Mumbai – 400 051

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Phiroze Jeejeebhoy Towers,
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Mumbai – 400 001

Sub: Transcript of Analyst / Investor Update Call

Ref: “Vodafone Idea Limited” (IDEA / 532822)

Dear Sir/Madam,

Further to our intimation dated September 20, 2024 please find enclosed transcript of the Analyst / Investor Update Call held on September 23, 2024.

The same is uploaded on Company’s Website: www.myvi.in

The above is for your information and dissemination to the members.

Thanking you,

Yours truly,
For **Vodafone Idea Limited**

PANKAJ KAPDEO
Digitally signed by PANKAJ KAPDEO
Date: 2024.09.30 16:53:24 +05'30'

Pankaj Kapdeo
Company Secretary

Encl: as above

“Vodafone Idea Limited

Conference Call”

September 23, 2024

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

Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. We have with us today Mr. Ravinder Takkar, Non-Executive Chairman of Vodafone Idea Limited, Mr. Akshaya Moondra, CEO of Vodafone Idea Limited, and Mr. Murthy GVAS, CFO of Vodafone Idea Limited, 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 questions related to the recent developments only 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 risks that the company faces.

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

Akshaya Moondra: Thank you, Ryan. A very warm welcome to all participants to this conference call. Thank you for joining us today. We have organized this update call to apprise you of our mega network equipment order and some key developments.

As you would recall during the previous earnings call, I had alluded to our ongoing discussions with our vendors for supply of network equipment. Most of you would have seen our media release over the weekend or today. I am pleased to share that we have concluded deals worth about INR300 billion or INR30,000 crores with the three global players, namely Nokia, Ericsson, and Samsung, for supply of network equipment over a period of three years. We have continued with our existing long-term partners, Nokia and Ericsson, with whom we have a relationship since inception. We have also onboarded Samsung as our new partner. This is one of the key steps towards the rollout of the company's transformative three-year capex plan of INR500 to INR550 billion. The overall capex program is directed towards expanding the 4G population coverage from INR1.03 billion to INR1.2 billion, launch of 5G services, and capacity expansion in line with the data traffic growth.

I am happy to share that the company has activated its growth cycle. With the kick-starting of the planned capex, we will be able to expand our 4G coverage and launch 5G, as a result of which our cash from operations will improve. A large part of that cash generation will go towards payment of government obligations. As you know, our bank debt is now at a very low level of around INR48 billion as of the end of last quarter. Even post the new debt fundraising, the cash requirement to service such debt will not be very large.

Further, as mentioned during the last earnings call, we have almost completed our quick-win capex. This capex, along with spectrum acquired in June 2024 spectrum auction, enabled us to increase our data capacity by about 15% and also expand the 4G population coverage by about 16 million compared to March 2024. As a result, we are witnessing a meaningful improvement in data speeds and improvement in customer experience in the geographies where these rollouts have been completed.

On the bank facility, we are in an advanced stage of discussions with existing as well as new lenders to tie up INR250 billion of funded and INR100 billion of non-fund-based facilities. One of the major steps in this debt fundraising process was the completion of techno-economic evaluation by an independent third party engaged by SBI, our lead banker. This evaluation has been recently completed and the report has been submitted to all the banks and financial institutions which will allow them to now progress with their internal evaluation and approval processes. We expect the bank funding to conclude in next 7-8 weeks. We had a closing cash balance of about INR180 billion as of June 30, 2024 and we are sufficiently funded to execute the capex plans in the interim.

On the AGR matter, the Honorable Supreme Court has dismissed the curative petition filed by telecom companies. The curative petition was raised on very limited aspects of the AGR issue, that is, to correct the errors in demands and waiver of penalty and interest thereon. In the Honorable Court's opinion, the petition did not meet the criteria laid down for admitting the curative petition. Based on this, they did not accept the petition and therefore there was no discussion on the merits of the case.

While a positive outcome would have no doubt eased the overall liability and enabled faster deleveraging, we would like to reassure you that our long-term business plan and revival strategy remains unaffected. In fact, our long-term business plan, which has been shared with the banks and on the basis of which the techno-economic evaluation has been done, has been constructed without considering any potential benefit in the AGR matter. Hence, while the outcome of the curative petition is disappointing, it does not have any impact on the long-term business plan of the company and its existing liabilities. Also, I would like to clarify that the curative petition outcome does not create any impact or modification on cash flows as already considered in our business plan.

Most significantly, the government's commitment to support the three-private player market remains unwavering. With 23% shareholding and receivables of over INR2,000 billion from the company, Government is the single largest stakeholder in the company. In light of the curative petition dismissal, we have initiated a fresh dialogue with the government on likely remedies.

To conclude, it has been a very eventful few months for us here at Vodafone Idea.

- Between March to July, the company has raised INR240 billion of equity, including preferential equity raise of INR24.6 billion from Nokia and Ericsson.
- In June 2024 spectrum auction, we acquired 50 megahertz of spectrum across low-band and mid-band spectrum in 11 circles. The additional 900 MHz spectrum acquired in 7 circles allowed us to dedicate adequate 900 MHz band spectrum for 4G, thereby enhancing the experience of our 4G customers in these markets.
- In July, the new tariff plans became effective across the industry, which marks a vital step towards improving the returns in the industry. Further, considering the large investment requirements, industry will need further price increases.
- Finally, with the recent closure of our equipment agreements, we are firmly on a journey of Vi 2.0, and from here on we firmly believe that we will stage a smart turnaround to effectively participate in the industry growth opportunities.

I would like to inform you that on this call we will only address questions relevant to these recent developments.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: The first one is on the AGR Supreme Court ruling. Is there any further possibility for us to pursue this, or this ends any effort on the relief side for the AGR liabilities?

Ravinder Takkar: Hi, Sanjesh. This is Ravinder Takkar. Let me take that questionFrom the court perspective, we believe that this is the final outcome from the court in regards to the curative petition because we believe that was the final request that we could make. What is possible which I think is quite important, is to pursue further remedies and possibilities with the government. I can tell you that we have been engaging with various senior government officials. Actually, we were engaged with them prior to the court ruling and certainly we have even after the court ruling. All the engagements have been with a very clear view from every side that the merits of our case on the AGR in regards to the calculation errors and mistakes, and then, of course, interest and penalties on those mistakes, are quite strong and correct. And while there was a hope that the courts will obviously consider the petition, the fact that the court has not done so means that the now action and responsibility in some ways falls squarely along with the government.

We have been since that time putting together a comprehensive view of what we believe would be the right mechanism and requests that we can make for addressing this challenge. I think there is a very clear understanding in the government that it should not be fair to ask us to pay for something which is a calculation error. We are in the process of putting together those requests. We will be engaging again with the government in the coming days on those requests. We expect a very strong engagement with the government as it has been with the industry for the last four years. Since the reform package in 2001.

As mentioned by Akshaya, they are very committed and continue to be very, very committed to three strong private players. Not only was the reform package done but then there was a government equity conversion in 2023. Since then the engagement has been very strong and as I said earlier that even on this AGR topic, there are very few discussions about the merit of our case. The understanding of that merit is quite strong and correct.

We expect to engage further with the government and look forward to working with them in finding a solution for this challenge and hopefully we can together work with them to find a mechanism for relief on this matter. And we strongly feel that that is very possible. Given the engagement from the government, given their point of view on what is the right thing here, we expect to still continue to pursue that. Obviously, not in the courts, but now directly with the government.

Sanjesh Jain: Got it. That's clear. But will this require any change in the regulation to be completed or this is possible in the course of the event like relief package, what we have seen earlier?

Ravinder Takkar: It's a bit too early today to talk about the mechanisms. We believe that the government of India has many levers and mechanisms by which they can address the situation. I won't like to speculate on what can be used and what are the possibilities, but we know that there are several options and several possibilities. Of course, the intent is to find a way which works the best for everybody in the industry as well as a solution that is fair for all the participants in the industry as well as for the government. So I won't speculate on the mechanism, but certainly I think we know that there are several mechanisms by which this can be addressed.

Sanjesh Jain: Fair enough. That's pretty much clear. Akshaya you said that the cash flow which business will generate will largely go into paying the liabilities to the government. What about the current liabilities which is outstanding for that? How are we planning that payout?

Akshaya Moondra: The liabilities which we have today, one is the bank loans which I said is about 48 billion and then there are over dues to the vendors; large part of which is cleared and they are getting cleared regularly. I didn't mention that separately because that is part of business as usual.

We have mentioned earlier that our capex guidance for the next three years is about INR50,000 crores to INR55,000 crores. That will be funded out of equity of INR20,000 crores which has been raised and the bank funding of INR25,000 crores plus the non-funded facility which will enable us to get the vendor credit of about INR10,000 crores. So that takes care of the capex which means the cash generation from the business will only go towards paying the other liabilities. The largest one is the government dues. There's a small part of the bank debt outstanding which I mentioned. And there are some remaining vendor over dues which are being cleared as we speak.

Sanjesh Jain: Two follow-up small questions. One when do we expect this capex to kick in now that we have agreed on the vendor equipment and everything? When should we see supplies coming in actual rollout starting and accelerating that's number one?

Akshaya Moondra: We should start seeing the deliveries in the second half of the next quarter. And the deployment will continue in full flow. It's just that there is some lead time for the vendors to take the orders and start supplying. Earlier we had a very tight situation over the last two years where the global demand was pretty high but that situation has eased off. Our understanding is that once the initial lead time of the first supplies is taken care of, then supplies will come on a very regular basis and we'll be able to deploy very fast.

Sanjesh Jain: Got it. And why we are looking for INR10,000 crores of non-funded funding from the government side? The guarantees are yet to be continued?

Akshaya Moondra: No. I said that the INR10,000 crores will be largely LC facility, not the bank guarantee facility which will enable us to get the vendor credit.

Sanjesh Jain: So you said non-funded, so I was just trying to get. Now it's clear. It's a LC, not guarantees.

Akshaya Moondra: Yes.

Sanjesh Jain: But that will be for a very limited period. Once the equipment's are imported and the payment is done that LC will vacate, right?

Akshaya Moondra: No. This remains a revolving kind of facility. You open an LC and you get some deliveries. We are talking about a three-year capex guidance. One year credit will mean that it will rotate. This is a facility which continues, as there will be a capex beyond three years also. So, this is fundamentally a revolving LC facility.

Sanjay Jain: Got it. One last question. So now, standing in March '26, the cash outflow liability, how much do we see? Assuming that there is a conversion of equity from the government side for the moratorium which has already been announced, what should be the potential annual payout starting FY27 for the government use?

Akshaya Moondra: So, let's say starting from FY27, the total payout to the government is INR43,000 crores annually, or INR430 billion. Out of that, about INR170 billion is the deferred series of installments which are covered by the reforms package and which can be converted. And there is INR260 billion of installments which would be the regular installments which were due without the moratorium.

Sanjay Jain: Okay. So the INR170 billion can still be converted into equity, right? That 260 is what actually goes off.

Akshaya Moondra: That's right.

Sanjay Jain: Got it.

Ravinder Takkar: This is, of course, not including any potential relief that we would see on AGR which could come after discussions with the government.

Sanjay Jain: That's clear. Absolutely. Thanks for all the answers and very, very helpful. And best of luck for the coming quarters.

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

Vivek Anand: Thank you for the opportunity. So the capex that you announced recently covers 300 of the INR550 billion that you want to action. May I know what part of the three goals that you had set for your INR550 billion capex gets covered in the current contract? That's question one. I'll ask the second question after you answer this one. Thank you.

Akshaya Moondra: What we have announced right now is the radio equipment agreement, which is the largest chunk of any telecom capex. Now, this actually will contribute to all the objectives, whether it is 4G, 5G, incremental capacity, everything is covered here. Largely, the items outside of the radio are core and fiber. Core is more generic and fiber is more related to what you do. If it is a certain amount of 4G, then certain fibre and . if you do 5G, then the requirement of fiber is more. Accordingly, the balance amount of INR250 billion would cover the other elements. But at some level, they go hand-in-hand. And as we enhance our radio coverage and radio capacity, we will also be enhancing our core and the fiber coverage and capacity.

I mean, core is basically capacity, but in case of fiber, both the coverage and capacity as a part of the remaining capex. Does that answer your question, if I understood your question correctly?

Vivek Anand: Yes, yes, I understood. And thank you so much for clarifying. So you're saying that all of your aspirations, whether it's 4G coverage expansion to 1.2 billion, near doubling of capacity over the next two years and 5G rollout, the radio capex for all of it is covered in this announcement. And separately, you will be deploying fiber capex and core capex on a need basis. Correct?

Akshaya Moondra: Yes. And some of these do not require ordering. Some of these are spent and some of the other RFPs have already been concluded. So actually, what we have concluded is more than the INR300 billion, which we have announced, if you look at it in overall terms. But what we have announced by way of the press release is largely the radio part of the ordering, which is the largest and most critical part of any telecom equipment supply.

Vivek Anand: Okay, great. The follow up I have to this order is, now that you have vendors willing to work with you, previously, they had, you elected to issue shares to vendors in lieu of some of your outstanding payments. Do you still retain some of these provisions in the current contract? And secondly, what form of or how much of a vendor credit are you getting in these new orders? Thanks.

Akshaya Moondra: Let me just be very clear that conversion of the dues to equity was a one-time exercise. This is not part of any ongoing contract. Basically, whatever will be the new supplies will be covered by the new contract, which does not have anything to do with equity. These have to be paid for. That is to answer your first question. On Second, the way we have to look at the LC or the vendor credit is that we generally have a one year credit against LC from our large vendors. And this works on a revolving basis. Basically INR10,000 crores of LC facility would enable us to cover or get vendor credit to that extent on a continuous basis. Our capex would, of course, be higher than the INR10,000 crores of figure that I'm mentioning. But everything is not supplies. There are lots of other things also. So generally, a INR10,000-crores facility would cover what needs to be secured by an LC out of the total annual spend. And that's where we have pegged the figure.

Vivek Anand: Okay, thank you. My last question is on the thought process with respect to churn. Because the only difference that I see between you and your peers in a meaningful way as far as subscriber acquisition is concerned is churn. Because your share of gross ads is higher than your current customer market share.

So, when you envisaged or chalked out this capex plan, and now you're making progress in deploying the network, by when can we expect enough deployment to happen such that you are able to stem churn? And related question is, if there is anything that you would like to call out in terms of your diagnosis for the elevated churn, that will be great.

Akshaya Moondra: We have always said that once we make the investment, we will be able to arrest our churn and instead of losing subscribers, we should start participating in the growth of the industry. Once our supplies start coming end of next quarter, then some amount of rollout is happening, and it gains momentum in Q4 of the financial year, we should start seeing the subscriber metrics improving from that time.

When does it turn to positive? It's a difficult thing to say, but I would expect that towards the end of the financial year, we should be where our rollout will be significant, and we should see significant change in the customer experience.

Vivek Anand: Fair enough. And last question, because it is related to the series of questions that I've been asked. At what pace do you think it is logistically possible to roll out? Because we have seen your competitors roll out very aggressively, maybe 40,000-50,000 sites also on an annual basis. Is that something that is achievable once you start receiving the equipment by mid of the coming quarter, or are we thinking about this very ambitiously?

Akshaya Moondra: We have mentioned in the past that our goal for deployment, the highest priority is 4G coverage, because we believe that is the most important factor which is resulting in the churn. Having said that we will be getting from 1.03 to 1.2 billion over the next 12 to 15 months. I don't think there will be any limitations in terms of ability to roll out, because ability to roll out is dependent on, let's say, three major factors. One is the internal planning – which is absolutely ready. Second is the ability of the vendors to supply the equipment which is also there, and third the availability of the domestic local vendors who provide the installation services, or the organization of the same vendors who provide these services.

I believe over the last two years, as far as the Indian market is concerned, we have seen peak deployment. The deployment which we are looking at is going to be much lesser than that. It is also lesser than the size of execution which we did at the time of our own integration project.

So whichever way you look at it, the rollout of population coverage for 4G will go at full pace, and there are no deployment limitations here. As far as the 5G and the traffic, the capacity growth, whether on 4G or 5G is concerned, again, these are not impacted by ability to deploy, but this is something which will go as the market evolves. So, while 4G population coverage will progress with full speed, the capacity deployment, of course, depends on how the traffic is going and what is the capacity required and where it is required.

So, in summary to the response to your question is that capacity or the ability to deploy is not a limiting factor in whatever we are planning.

Vivek Anand: Great. Thank you, Akshaya, for the detailed answers. All the very best.

Moderator: Thank you. The next question is from the line of Aditya Suresh with Macquarie. Please go ahead.

Aditya Suresh: Thank you. Good afternoon. Most of my questions have been already asked. Maybe if I can add one more. Akshaya, you mentioned about the business plan which has been submitted to your partners. Is there any contours which you can share in terms of the underlying assumptions on the cash flow generation or tariff? Anything at all which you can share on these plans so that we can get a bit more comfort around how you think the business shapes up in the next few years?

Akshaya Moondra: I will not be able to discuss too much here, but let me mention a couple of points which I believe are probably more important for anybody to kind of model out some kind of a cash flow projection. One is that we had a price increase in July. We have factored in the next tariff increase of a similar size to happen somewhere after a 15-month timeframe from the last price increase.

In terms of our cash flows, what we have assumed is that in the second half of FY26 post the moratorium and in FY27, which is also the first full year after the moratorium, about INR290 billion of the deferred series of installments which will fall due post the moratorium, they will be converted to equity. I believe these are the two most relevant assumptions which I can share with you.

And then of course there is a lot of operational modeling which happens, which everybody can do. But these are two inherent assumptions which will probably help you to model anything that you are planning to do.

Aditya Suresh: Thank you so much.

Moderator: Thank you. The next question is from the line of Varatharajan Sivasankaran with Antique Limited. Please go ahead.

Varatharajan S.: Thanks for the opportunity. I was wondering if you can provide some details on the 5G road as well. Because of 4G you mentioned the kind of coverage you are envisaging. Do you have any kind of a target you can work with for 5G as well?

Akshaya Moondra: So, on 5G, we have a significant part of the INR550 billion of capex guidance. In fact, I can tell you that 5G in terms of absolute amount is more than 4G. That also happens somewhat because 5G requires more of fiber rollout. So, if you include everything, 5G is the larger amount of the capex as per the plan. The only thing which I have been adding on all my earlier commentaries is that 5G if we look at in the Indian environment and some of these things are true of the global markets also, is that firstly monetization of 5G is still not happening.

In fact, because of the unmetered 5G usage that is happening today, it has in some ways become a means of discounting. We do believe that that will get addressed over a period of time, but that is market evolution. Secondly is the case of use cases. On the consumer side, we have seen very few use cases.

I have been talking to many investors and I meet them on different conferences and different interactions. And most investors also they tend to, as users say that most of the time they don't know even if they are using 5G whether they are on 5G or 4G. So, that is happening because there is not much of a use case.

And third factor is of course the evolution of 5G in terms of penetration of devices, which I believe is happening at a fairly rapid pace. So, we will keep on looking at all these market factors as the market is evolving and either accelerate or maybe slow down if necessary the plan that we have for 5G deployment. So that is how I would describe the 5G deployment, but we are going to cover our key markets, key geography.

Wherever we believe that there is a large penetration of 5G devices where the traffic is high, where in any case if the traffic is high, 5G rollout does make a lot of sense. Because per unit of capacity 5G is the most optimum capex to enter.

Varatharajan S.: Just to stretch that point, if you are looking at a flexibility in terms of implementation. So, should I assume that this 3 year kind of a contract could actually get stretched to 4 or 5 years with vendors?

Akshaya Moondra: The way this works is that there is an agreed commercial which are valid for 3 years. That doesn't mean that the capex stops after 3 years. What happens at the end of 3 years is to be discussed with the vendors at that point of time.

Generally, the way this has worked in this industry is that whenever these long-term agreements are done, they are done for a given period of time, which is normally 3 years. And after 3 years you get together again and evaluate the situation and then whatever new ordering has to be done or new discussions have to be done, they are done at that time. So that is more business as usual.

Yes, the timing of deployment could be slightly shorter than 3 years, could be slightly longer than 3 years on the 5G. But I don't think it will be materially different. All that I want to register is that 5G is a space which is evolving and we have to keep in mind the evolution of the market and not just say that this is my plan and I will just invest in 5G. That's the limited point I am making.

Moderator: Thank you. The next question is from the line of Aditya Bansal from Kotak. Please go ahead.

Aditya Bansal: Thanks for taking my question. So two questions. First one, can you please provide some update on the bank guarantee discussions we are having with the government? And is that a part of discussions with the banks? Would that be a bottleneck? Any comment on that?

Ravinder Takkar: On the engagement with the government on the bank guarantees, as we said, we have several topics that we engage with them. Bank guarantees is one of them. It's a very clear understanding with them that, given our current negotiations with the bank, we are not in a position to provide those bank guarantees.

The government itself has actually said that the industry has matured. And as a result, maybe bank guarantees should not be required. And of course, as you know, they have waived off this bank guarantee requirement for auctions that have been taking place for the last couple of years.

We expect that given that position of the government, that they will come up with a solution in which the bank guarantees will not be required. Again, we have very positive feedback from the government, that this is not something that adds value to anybody. It is a legacy from the past that should be taken care of.

However, those are independent of some of the other discussions that I had mentioned earlier, because this is much more short term. And we expect a resolution of that actually to come quite quickly. So please keep an eye on that in the coming days and weeks.

Akshaya Moondra: And Ravinder, if I may add, this is also a part of the COAI representation to the government.

Ravinder Takkar: That's correct. Yes.

Aditya Bansal: And the second one is on the quantum of the new 4G and 5G sites. Like for FPO, we had put out a certain number of sites. This contract covers like what quantum of the new 4G and 5G sites. Any comment on that would be helpful?

Akshaya Moondra: I can give you guidance on a number of sites. We currently have about 170,000 4G sites. The total physical sites that we have are about 183,000. For the target of 1.2 billion of population coverage, we believe we will need to grow our sites to somewhere between 215,000 to 220,000, which is a part of our plan.

As far as 5G is concerned, I will not be able to give you any guidance as far as number of sites is concerned. But if you're looking at the FPO document, it was part of the overall capex plan that we have both for 4G and 5G over the period of 3 years.

Aditya Bansal: Sure. And fair to assume that 5G firstly will be the leadership circles and metros and not the Pan India launch?

Akshaya Moondra: We have got 5G spectrum in 17 circles. We will be launching 5G in all the circles. What is important to see is that in a given circle, what are the places you need to launch 5G. We are not looking at selective circles. All our 17 priority circles, we will roll out 5G.

Aditya Bansal: Sure. Thank you. All the best.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, we would have to conclude this conference. Thank you for joining us. You may now disconnect your lines.