21 November 2024

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

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

<u>Sub: Transcript of Analyst / Investors Call (Regulation 30)</u>

Ref: "Vodafone Idea Limited" (IDEA / 532822)

Dear Sir/Madam,

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Analyst / Investors Call held on 14 November, 2024 relating to the Company's performance for the second quarter and half year ended 30 September 2024.

The same is also 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: 2024.11.21 19:24:23 +05'30'

Pankaj Kapdeo
Company Secretary

Encl: as above

“Vodafone Idea Limited Q2 FY25 Earnings Conference Call”

November 14, 2024

Moderator: Good afternoon, ladies and gentlemen. This is Dorwin, the moderator for your Conference Call. Welcome to the Vodafone Idea Limited Earnings Conference Call for the Q2FY25. 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, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

We have with us today, 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 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 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: A very warm welcome to all participants to this Earnings Call. Yesterday, our Board of Directors adopted the Unaudited Results for the Quarter ending September 30, 2024. All the results-related documents are available on the website, and I hope you had a chance to go through the same. Let me provide key highlights for the quarter and insights on our strategic initiatives. Post this, I will hand over to Murthy to share details on the company's financial performance.

Before I move on to company specific performance, let me share some thoughts on Indian telecom market and growth opportunities. In India, the need for connectivity is constantly increasing across sections of society whether we look at these sections in different Income brackets or Age brackets. The government's 'Digital India' program aimed at transforming India into a digitally empowered society, has been a significant catalyst for telecom growth. The availability of low-cost smartphones has also significantly boosted telecom sector growth. The wireless broadband subscriber base has increased by 66 million between August 2023 and August 2024 – growth of around 8%. However, the overall broadband tele-density still remains below 65% and offers large opportunities.

Indian wireless sector is at a crucial juncture. While on one side large investments are required to support the emergence of new technologies and explosive data growth, on the other side affordability of tariffs should be maintained to ensure connectivity to all sections of the society. This is possible when customers who are using more will pay more to enable the industry to generate reasonable ROCE on the large investments it has made. Hence, further tariff rationalization is needed for the industry to recover its cost of capital.

Let me now talk about our strategic initiatives.

Our first strategic initiative is our focused investment approach

Our capex investments are gaining momentum post fund raise and in Q2FY25 we invested Rs. 13.6 billion. We expect capex spends of Rs. 80billion in H2FY25. We have completed our quick win capex which aimed at capitalizing low hanging fruits while we were working towards closing our long term contracts during the quarter. Resultantly, our 4G data capacity has increased by approximately 14% and 4G population coverage increased by approximately 22 million from 1.03 billion to 1.05 billion over last 6 months. During the quarter, we added almost 42,000 4G sites which is the largest ever addition of 4G sites in the Company in a quarter. We did significant network enhancement by deploying 4G on sub GHz 900 band across approximately 20,500 sites, including site expansion on recently acquired 900 MHz spectrum in some circles, thereby offering superior indoor network experience as also increased coverage. We also added approximately 21,200 sites in the 1800 MHz and 2100 MHz bands mainly to increase the network capacity enabling customers to experience faster data speeds on Vi GIGAnet network. As a result, we have witnessed improvement in 4G data speeds by as much as 18% and consequent improvement in customer experience in the geographies where these rollouts have been completed.

We are working on launching our 5G services, and we are committed to providing the best experience to our customers on whichever location and technology we are operating in. This commitment to customer experience is clearly reflected in the latest report from Opensignal on 4G network experience, where Vi has emerged as the Best 4G network amongst 4G users, outrightly winning across all six experience categories in 4G nationally: Best Download Speeds, Best Upload Speeds, Best Video Experience, Best Live Video Experience, Best Games Experience, and Best Voice App Experience. This means Vi 4G users don't just enjoy the fastest 4G speeds but also experience an overall superior quality of experience for everything they do online, whether it's watching videos, live streaming, playing online games orvoice app calling.

On the back of the extensive network expansion and upgrade, we rolled out one of India's most hyperlocal campaigns to make consumers aware about the marked improvement that they'll experience with our network.

At the cost of repetition, I am pleased to share that in September, we concluded deals worth about Rs. 300 billion or USD3.6 billion with the three global partners, namely Nokia, Ericsson, and Samsung, for supply of network equipment over a period of three years. This is one of the key steps towards the rollout of the company's transformative three-year capex plan of Rs. 500 to 550 billion.

Post the conclusion of this mega deal, deployment has started in October 2024 and the Company has kick started its capex cycle. The 4G expansion is in progress and our target is to achieve 4G population coverage of 1.1 billion by March 2025 and 1.2 billion by September 2025. The rollout of 5G in key geographies will start in Q4FY25.

Moving on to market initiatives

Our recent tariff increase has aided our increase in ARPU as well as revenue growth. It will take a couple of quarters to witness the full impact of the tariff increase on ARPU and revenue. I would like to highlight that, in addition to blended ARPU, in view of the growing volume of M2M sims, we have disclosed our customer ARPU ex-M2M separately for this quarter. The difference between the two ARPUs is on account of M2M subscribers and revenues. Our customer ARPU ex M2M has increased by 7.8% QoQ. There is no tariff increase in the Enterprise post paid segment as well as M2M tariffs during the quarter. For postpaid, part of the price increase takes time to reflect in ARPU as price increase can be done only after 6 months for new postpaid customers and for existing post paid customers the impact of price increase is after 1 month notice.

We registered a loss of 5.1 million subscribers with increased port outs to one operator which has not participated in the tariff hike. We have also seen a slight dip in our 4G/5G subscribers.

However, basis the latest MNP data available till October, port-outs to this operator are declining post August.

I am pleased to report that in the postpaid segment, we have been able to increase our customer base on QoQ as well as YoY basis. While a larger part of this increase is from M2M segment, we have seen consistent increase in retail postpaid customers over last one year, as we are providing optimum range of feature rich offerings to meet the diverse needs of postpaid customers.

We offer a range of unmatched benefits to pre-paid as well as postpaid customers like offering 'Night Free Data' and 'Weekend Data Roll Over' with our 'Hero Unlimited' plans for prepaid customers and a unique 'Choose Your Benefit' option under 'Vi Max' plans for our post-paid customers. We have received good response for Vi Guarantee program in the prepaid segment, a unique offer that provides 130GB of additional data to all 5G and new 4G handset customers. We also refreshed the offerings for our RED X Plan in postpaid which at a monthly rental of Rs. 1,201 offers unlimited data for non-stop surfing, streaming, and connectivity in addition to complimentary offers like subscription to Netflix, Amazon Prime, Disney+Hostar, Sony Liv Premium, Sun NXT, EaseMyTrip benefits, airport lounge access, 7-day International Roaming pack, 3-month membership of SwiggyOne along with Priority customer service across all Vi touchpoints. Also, we offer the most comprehensive international roaming proposition to our consumers recognizing that different consumers have different needs. Vi is the only operator in the country to offer unlimited packs across a vast expanse of 29 countries that contributes to 70% of the international roaming traffic.

Our brand "Vi", continues to garner good reception, building brand affinity across all customer segments in the country. Our brand continued to get more recognition and accolades. Vi won at the prestigious London International awards, the Asia Pacific, and the SAMMIE awards for the Human Network testing Network campaign with the Dabbawalas along with winning at Cannes Lion awards, Spikes Asia, D&AD awards. Vi won the Best Social media brand – Telecom and for the Be someone's we Campaign at SAMMIE awards 2024. Our Dabbawala's campaign, Be Someone's We Campaign and Postpaid Choose your benefits have won multiple awards at the ET Brand Equity Shark awards, DG+ awards, e4m India Marketing awards and AFAQS BrandStoryz awards.

Moving on to Business services

Our core strength also includes business services and enterprise sector, reinforced by our robust relationships with enterprise clients and diverse global expertise of the Vodafone Group. We are transforming our offerings from a Telco into a Techco, significantly expanding our enterprise solutions beyond our core connectivity offerings. This transformation includes advanced offerings such as hybrid SD-WAN, SIP, IoT, IIoT and cloud services. We continue to build the momentum by not only broadening our service portfolio but also actively collaborating with strategic partners to enhance the relevance and impact of our solutions for enterprise clients.

We joined hands with digital payments giant PayU India to offer customized digital payment solutions to MSMEs. Under this partnership, digital solutions, including payment solutions, customized offers engine, buy-now-pay-later options and seamless WhatsApp integration are offered.

We also entered into a partnership with US-based Genesys to transform contact centre operations and strengthen customer engagement and services. This collaboration marks Vi Business's entry into the Contact Centre as a Service i.e. CCaaS sector.

We have built a strategic partnership with Infinity Labs Ltd to introduce a Make-in-India SD-WAN solution as part of Hybrid SD-WAN portfolio. The collaboration enhances the existing SD WAN portfolio by integrating advanced AI-based security features, offering Indian enterprises a robust defence against the growing threat of cyber-attacks and demonstrating our commitment to offer indigenous technology & nurture.

On the IoT front, all our Enterprise IoT customers have been migrated to IoT Smart Central, a comprehensive Connectivity Management Platform that manages SIM lifecycles, diagnostics, and billing needs—all from a single interface, addressing the evolving demands of the IoT market. Additionally, our IoT lab which serves as an ecosystem orchestrator aimed at creating an interoperable and standard IoT environment in the country, saw a lot of traction in the market with around 20 certificates issued to various IOT partners.

Vi Business is also at the forefront of building cybersecurity, empowering organizations to thrive with confidence. This service gives access to:

- Robust Threat Detection measures like Proactive monitoring and rapid response capabilities to identify and mitigate risks before they escalate.

- End-to-End Protection through a holistic approach that secures infrastructure, applications, and user data across all platforms.

- Expert Guidance by Our team of cybersecurity specialists who tailor solutions that meet unique needs, ensuring compliance and resilience.

The next strategic initiative is driving partnerships and digital revenue streams

Vi aims to be a truly integrated digital services provider with a very clear objective of driving higher digital engagement with our consumers and driving monetization through specific streams or by participating in select digital categories. Our stated strategy around this has been to build this through strategic partnerships and bring out most of these offerings on the Vi App.

Vi App is a multi-utility app that offers not just end to end telco account management, but also allows consumers to play over 100 Games, participate in eSports tournaments, pay utility bills, shop across categories like entertainment, food, shopping and travel, or buy almost any OTT subscription, watch over 350 TV channels, and more.

As discussed in the previous Earnings Call, we have launched Vi Movies & TV in an all new avatar with all new apps for mobile on both, Android & IOS as well as for TV across almost all major operating systems. It is an offering, mainly for Connected TV wherein our subscriber can buy a subscription plan to get access to host of their favourite OTTs like Disney+ Hotstar, SonyLiv, Zee5, SunNxt, just like the way we have been buying DTH plans for TV channels. All Vi Movies & TV plans are also bundled with loads of data for allowing our consumers to watch freely without worrying about their data getting over. We have a very strong roadmap to build Vi Movies & TV as a destination of choice for our consumers when it comes to their TV entertainment.

In addition to mobility & content, to complete the 'converged' offering, we have 'Vi One' - a converged proposition offering broadband + mobility + OTT under one plan in 3 circles - Mumbai, Gujarat and Maharashtra. In July, we signed a strategic partnership with Asianet, a leading broadband player in Kerala, and launched Vi One additionally across entire Kerala – one of Vi's leadership markets. We would be expanding this to other important markets as well going forward. This all-in-one bundle is designed to offer consumers exceptional value, convenience, and a seamless experience, addressing the growing demand for high-speed internet, reliable mobile connectivity, and OTT entertainment.

I would like to reiterate that we will continue to have a disproportionate focus to build a digital ecosystem with our partners, enabling a differentiated experience for Vi users, which will help us drive customer stickiness as well as provide incremental monetization opportunities.

Moving on to other important topic of debt raise

We remain actively engaged with our lenders for tying up debt funding towards the execution of our long term network expansion. I am personally involved in these discussions alongwith the promoters. Post equity funding via FPO and Preferential issuance to one promoter group, we have cash and bank balance of Rs. 136.2 billion which is more than sufficient to execute our balance capex plans for H2FY25 of Rs. 80 billion.

On the AGR matter, the Honorable Supreme Court has dismissed the curative petition filed by telecom companies. We addressed this topic in detail in the investor call held on September 23. The Government remains unequivocally supportive of 3 private player market and we are engaged with them in finding a solution

Let me now talk about recently concluded India Mobile Congress. This year's IMC theme 'The Future is Now' resonates deeply with our emphasis to deliver immediate, technology-driven solutions that are solving today's challenges and designed to make an immediate impact. Our show themed 'Future is Live' highlighted how we are transforming the way businesses and people live, work, and connect with advanced technologies.

We showcased Industry 4.0 solutions by integrating 5G, IoT, AI, and ML to connect human and non-human assets, digitise processes, and enable real-time monitoring. This was demonstrated through a fabricated Smart Mine with multiple use cases depicting real-time monitoring of worksites, rapid response during emergencies, smart wearables and safety management. We also exhibited 'Ready for Next' initiative for MSMEs, along with AI powered hybrid SD-WAN, CPaaS and CCaaS solutions. We showcased our comprehensive mobile gaming platform – Vi Games through first ever grassroots eSports tournament 'Vi Game to Fame'. We had also set up a state-of-the-art 360-degree immersive dome that transports the audiences into a different world, bringing to life the power of technology that can make people experience places or events. Further, we had music bands performing LIVE at the IMC where some of the band members were at the Vi IMC booth and others were remotely connected over Vi's low latency, high speed network, and creating music in complete sync, showing how connectivity can enable the creators and the artists virtual ecosystem.

Our solutions showcased at the IMC were designed to make a real-world impact and reflect our commitment to bring the future to life right now by creating a more connected, efficient world for all.

With that, I handover to Murthy who will share the financial highlights for the quarter.

Murthy GVAS: Thank you, Akshaya. A warm welcome to each of you.

The revenues for the quarter stood at Rs. 109.3 billion, a growth of 4% versus last quarter. More importantly, the customer revenues for the quarter grew by 5.6% versus last quarter, driven by price increases effective from July 4th this year.

The EBITDA excluding Ind AS 116 for a quarter was at Rs. 23.2 billion, improving by 10.5% on a quarter-on-quarter basis. This is the highest quarterly EBITDA since merger and the margin has improved to 21.3%. The reported EBITDA including Ind AS 116 stood at Rs. 45.5 billion as compared to Rs. 42 billion in Q1FY25, a quarter-on-quarter growth of 8.2%. The reported EBITDA margin improved to 41.6%.

Further, depreciation and amortization expenses and net finance costs for the quarter were Rs. 54 billion and Rs. 63.1 billion respectively. Excluding the impact of Ind AS 116, the depreciation and amortization expenses and net finance costs for the quarter were Rs. 39.4 billion and Rs. 51.1 billion respectively.

The finance costs for the previous quarter were lower due to the reversal effects arising out of the subsequent revenue share license fee, a judgment of the Supreme Court and the reversal of interest provision basis of settlement with some vendors. Due to the above and due to the Forex mark-to-market accrual impacts, the reported finance cost in this quarter is higher when compared to the previous quarter. The PAT loss this quarter hence stands at Rs. 71.8 billion.

The debt from banks stood at Rs. 32.7 billion versus 78.3 billion at Q2FY24, a reduction of Rs. 45.8 billion during the last one year. The cash and bank balances stood at Rs. 136.2 billion as of September 38, 2024. The deferred spectrum obligations stood at Rs. 1,419.4 billion and the AGR liability at Rs. 703.2 billion totaling to Rs. 22.6 billion as of September 38, 2024.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: This quarter, we had this tariff increase. I agree that there was a decent ARPU growth of 7.6% quarter-on-quarter on the customer basis. But the subscriber continues to decline. When do you think that we will stop the customer losses and by when do you think with this 80 billion of capex plan, we should be trending into a positive territory?

Akshaya Moondra: Thanks, Sanjesh, for your question. I had mentioned a little bit in my opening remarks that we had first incurred the quick win capex, which has given us a result of a 14% increase in capacity and 22 million in coverage. Of course, that was just the start of quick-win, which could be deployed quickly. And as you have yourself mentioned in the guidance we gave that we are looking at putting in a capex of about 80 billion in the second half of the year.

Now, it is difficult to predict a timeline as to when this will start turning around in terms of loss of subscribers. But definitely we can see that with the investments that we have made, some of the improvements are obvious, although at this point of time, they do not convert to increase in revenues or reducing the loss of subscribers.

As we make these investments, which will be based on new supplies ,the impact of which will be more pronounced with us coming out of some of the subscriber losses in the quarter which is the impact of the tariff increase, my gut feel would be that by the end of this financial year, we should have turned around the trajectory.

But this is just an expectation. I don't think it is possible to give you an exact timeline on when this could turn around. But our effort is now to start leveraging the benefit of the investments which have been there on the ground for some time, and also the larger investment which is now going to come in the second half of the year.

Sanjesh Jain: A related question there is that we did the largest 4G expansion of 42,000 towers, and a decent amount of them came in a better coverage spectrum which is 900. And yet we have lost 4G customers in this quarter. Now, how does this carry? Is it more of a SIM consolidation or do you think there was an initial move towards BSNL which has stopped? How do you see this one?

Akshaya Moondra: So, actually two things. One is as happens following any price increase, the overall number of subscribers do contract, which has also happened this time. However, this time we have had an additional factor that a significant number of customers have gone to BSNL and they have been a beneficiary this time, which has not happened in the past. And that has also been compounded by the seasonality factor because this quarter is seasonally a weak quarter.

Now if we look at all those things, I would say that the impact of SIM consolidation, I have always maintained that with every price increase, the SIM consolidation, what is left to be consolidated is less and less. That impact, although it is there, but it is not as pronounced as it has been in the past.

However, the impact of BSNL has been there in this quarter. We have seen that impact reversing quite quickly from August to September, from September to October and from October to November. And in some ways we are inching towards the position which was there before the tariff increase. But yes, some loss which has happened during this period will still take some time to unwind, and we believe it will happen based on customer experience because there is definitely a differential in experience for a customer who is a high user of either data or voice.

So, I would say that the quarter gone by represents a quarter which is a normal impact post the tariff increase and as you would have seen, if you just look at the delta of what the subscriber trend was Q4 to Q1, everybody has seen a much more pronounced decline on those past trends in Q2.

So, this is across the board, and we do expect that some of these trends would start turning around with the seasonality coming back with some people who adjust their consumption or usage to the increased price points or basis the increased price temporarily before they come back to their original usage pattern and of course the impact of BSNL reducing as we go ahead. And we should see a reversal of this trend, but it will take some time.

Sanjesh Jain: On a follow-up here, Akshaya, that we have not seen material difference in the usage pattern for the peers which is the data group particularly while for us the data growth and the data usage per subscriber has also fallen, I thought we have expanded the network that should have benefited us, right? What explains this difference?

Akshaya Moondra: One of the things is that, there is reduction in this quarter for everyone. To your saying that ours is more pronounced, one of the major reasons is that the consumption of data on 5G network increased as the number of people who are using 5G data on competitors' network is increasing, and there is a lot of free data available on 5Gas that data is not subject to any limitation You can use as much as you want. So, the consumption will be higher compared to normal usage.

Secondly, as we know that for streaming, for the same kind of usage pattern, subscribers will see a higher level of consumption on 5G. So, I would think that is the main reason for that difference. Otherwise, I cannot see any other reason why despite the decline being there for everyone or I mean, at least there is some impact on everyone, it is more pronounced for us.

Sanjesh Jain: And on the matters of waiver on BG and AGR resolution, the amounts which are coming for repayment in CY '25, where are we in discussion with the government on each of these three matters?

Akshaya Moondra: As far as the amounts which are coming up for payment, there is no specific engagement in the sense that the reforms package already provides for some conversion to the extent there is a shortfall in our ability to pay. So, there is no specific discussion because that is already provided for in the reforms package.

As far as the support of the government on the AGR matter is concerned, we had mentioned on the earlier call also that once the curative petition has been dismissed, we have engaged with the government to support. Because as I had mentioned in the past, the curative petition was never taken up for merit. It was just rejected based on a technicality that it did not qualify for the criteria specified for curative petition. So, now we are engaged with the government. We have had multiple meetings and we are quite hopeful that the government remains committed to having three competitive private players. And I believe they recognize that while the court has not provided any relief, the merits on which the curative petition was filed is good. And we are engaged with the government to provide us support because the court has decided not to admit the curative petition.

Moderator: Thank you. We have the next question from the line of Vivekanand Subbaraman from Ambit Private Limited. Please go ahead.

Vivekanand Subbaraman: Extending Sanjesh's question on the BG waiver discussions, how important is it for you to secure a BG waiver or get legislative relief on the AGR amounts to raise debt funding? And from your vantage point, currently how long do you think it will take for you to tap into debt funding and any more color you can provide on the debt fundraising? That will be great. So, that's question one.

Secondly, last time you had mentioned a certain impact in terms of the percentage of tariff hike, I mean, the tariff hike percolating into a certain percentage ARPU increase. I believe it was 11% to 14%. Do you stand by that or is there any deviation after seeing the consumer behavior downgrades to or rather port outs to BSNL and any timelines there in terms of recognizing the full benefits of the prior tariff hike or July tariff hike, and also thoughts on how we should think about subsequent tariff hikes plus correcting the tariff structure to get high data consumers to pay more money than the light data users?

Akshaya Moondra: Let me address your second question first. On the question of tarrif hikes, I remember that we have indicated a certain range that price increase was about, let's say, 16% on a blended basis between prepaid and postpaid. And what we have seen as an ARPU increase is 7.8% quarter-on-quarter.

I may also indicate that this is an average growth of ARPU quarter-on-quarter. Our exit ARPU increase over the June quarter is north of 10%. So, really speaking, that is the extent to which price increase is realized. From that level to the fact that the revenue has grown less, that is a function of subscriber loss. That is one part.

Another part also to understand is that if we tried to see that the weighted average of the prepaid and postpaid price increase was, let's say, about 16%. And against that, we have seen an ARPU increase of 7.8%. This has delta of around, let's say 8%. And the major components of that delta is that in some components of the overall revenue, there is no price increase. Some of the components which constitute the ARPU that we are reporting, which is the enterprise segment, the M2M segment, where there is and also in some of the government segment, there is no price increase. So, that is one part which is not contributing to the revenue or ARPU growth.

Secondly, as happens with such price increases is that some of the customers are sticking to the old price points, and they have not upgraded their consumption by paying a higher amount. This thing happens more initially, and some of the customers return back to their level.

And third is that some customers, they are still not come to a point of renewal for the customers who are on longer validity. Some of the customers had bought long validity packs just after the price increase announcement and before it becoming effective. And as you know, in postpaid base, price hike happens over a slightly prolonged period of time.

These are broadly the reconciliations between the 16% theoretical price increase and actual 8% ARPU increase, which we have seen. Does that answer your second question? Then I will go to the first one.

Vivekanand Subbaraman: Sure. There are two follow-ups here. One, you said 16% blended price increase. So, does it mean that by the end of fiscal '25, you will be 16% higher on ARPU versus the June '24 ARPU levels?

Akshaya Moondra: So, let's say about 3%- 3.5%, is the segment where there is no price increase and that will get discounted from the 16% that we are talking about. That is the balance target if everything was perfect. We are leaving aside the subscriber loss because that doesn't impact the ARPU. So, the downgrades of consumption, that we will have to see how much of it comes back.

Of course, the balance impact, which has not yet happened, that will happen. So, the balance impact, which is not yet reflected, that will be a positive reversal from people who have downgraded their consumption. That will be a little positive. And there will be a further trickle of the churn because of the tariff increase when some of these subscribers come up for renewal. That would be a negative. But in about 16%, out of that about 3-3.5% where tariff increases don't happen at all, that will not be realized.

Vivekanand Subbaraman: And just brief comments on how you look at the environment right now and when we can expect another tariff hike. And of course, the issue that you mentioned in the beginning of the call, the industry tariff structure being distorted and those users who heavily consume data aren't paying their fair share. How to think about these two things?

Akshaya Moondra: I do not have a direct answer to this. the way I described it is that one point of time you could be a subscriber and keep on receiving incoming calls and all at a zero price and now that minimum participation price has gone to a level of, let's say, Rs. 190, Rs. 200 for the industry. There are some discounted pricing plans, but they are for a very few numbers of subscribers. As opposed to that the higher ARPU customers who were, let's say, north of 2,000, 3,000, their needs can be filled with 500.

Going forward, while tariff increases are required and they will happen, I don't think there is too much of room to increase the tariff at the entry level. That then by implication means that the tariffs have to increase more at the higher consumption levels. One of the ways this will manifest itself is that probably you will see and which was also bit at this time that at the entry level the tariff increase was about 10% whereas at the higher levels or higher price levels, it was more pronounced or, let's say, in some cases as much as 20%. This differential was reflected in the last price increase., This differential will go up and, in some way, take that principle which I was talking about.

Secondly, I would say that once 5G consumption is increasing and 5G consumption starts getting metered and charged, that itself will provide some opportunities that higher consumption you can charge higher. So, this is a structural correction, cannot be done in a short period of time, will require the industry to think alike.

I believe this is the need of time because it is quite clear that at the entry level, the room for price increase at this point of time is not very much but definitely, the affordability and the ability to pay at higher levels of consumption exists. It is basically for the industry to rationalize that charging mechanism to bring it in line with what is true for any industry that you have a telescopic pricing, but as you use more and more, you are actually paying the differential is significant and it is not step-by-step pricing as we have today.

So, shall I move on to your first question?

Vivekanand Subbaraman: My questions on the ARPU are addressed. Thank you so much. If you can address my queries on debt fundraising, the linkage to BG waivers and legislative action on rationalizing the AGR amounts.

Akshaya Moondra: There are two things. As far as the BG waiver is concerned, let's say, that the government has already done away with the requirements of guarantees for the future auctions. Also the guarantees were returned for the earlier auctions and they are kind of the as per the regulation as it stands now, there is a reinstatement.

One of our representations to the government is that if it has been done away for future auctions, then why do we really need to keep it for past auctions? It should be done away as rational for doing away with the bank guarantees should be the same.

In reality, the way it impacts us is that we are seeking a certain facility from the banks, and if we are going to seek the bank guarantee facility, it will reduce our ability to get debt funding. So, it is very clear that bank guarantee is something which the banks themselves will not be very willing to offer. We are trying to get debt funding, which will go towards making investments, which will help in improving our performance and then improving our cash generation. Bank guarantees will not have that result. So, in the first place, the bank guarantees that are being talked about, that is, not possible to get.

Also it is not as if against that spectrum nothing has been paid as large amounts have been paid against the earlier auctions and there is a payment schedule. So, everything taken into account together, bank guarantee is something where we have requested the government, and we believe the rationale is understood and it is an industry request also. It's not only VIL request. The entire industry has requested that the bank guarantees should be done away with. So, that is where we are on the question of bank guarantees.

As far as the debt funding is concerned, as I said, we have been engaged with the banks. Our promoters are also, I mean, I along with my promoters are engaged with the banks. Those discussions are on. Probably post the curative petition, everybody is in a bit of a wait and watch situation to see that how things are evolving, and so these things will move together, the engagement with the government on AGR and the banking discussions.

Although I must clarify, which I had done in my earlier call also, that any reduction in the AGR liability was not a part of our business plan submitted to the banks on the basis of which a TEV report was done by an external agency and submitted to the banks. So, it is not a part of this, but as any interested party, the lenders are also looking at what is happening on the AGR matter although it was not a part of our business plan.

So, we are engaged, and I think we should be able to close once some clarity emerges as to what is happening on the AGR side.

Vivekanand Subbaraman: Is there any plan B that you have in case the government isn't able to relent on the AGR front for whatever reason?

Akshaya Moondra: The point is that we are engaged with the government. I would not want to comment much on that. As I said, a conversion is already provided for in the reforms package, but our belief is that there was significant merit in what we had asked in the curative petition, and until now since the curative petition was in the courts, those merits we had not taken to the government because the expectation was that it would get addressed through the judicial rule. Since that has not happened, we are engaging with the government, and rather than talking about plan B, our position is that this needs to be addressed just on a basis of fairness and what is right for the industry.

Moderator: Thank you. The next question is from the line of Saurabh Handa from Citigroup. Please go ahead.

Saurabh Handa: It's kind of just a follow up on the previous question. So, just on the bank funding, if the banks are actually seeking some sort of clarity on the AGR matter, then is it fair to assume that this process can take a while? Because the way I look at it, there is no real urgency at this point because your AGR dues start becoming payable only after whatever, 10-11 months, in fact even beyond that, the moratorium isn't placed till September.

Akshaya Moondra: March 26.

Saurabh Handa: Yes, March 26 is AGR, your spectrum payments start coming in before that. So, this thing can be a bit of a protracted issue. Is that a possibility? And the second thing is, I mean, if the TEV had already sort of given a clean chit even without a favorable resolution to the AGR matter, then why are things getting further delayed? And there have also been some public statements made by some financial institutions saying that we will not provide lending. So, I mean, how does one view some of those? Is it that these banks are basically looking for something from the government? I mean, just some for the color would just help, and any sort of possible timelines? I know it's a hard one, but still.

Akshaya Moondra: No, I can't give you a timeline. I can only say that till the time this curative petition was dismissed, things were progressing as we had expected. there is a general sense or belief that if curative petition has been dismissed, is the government supportive or not? People try to put the two together, which is not the fact. But that is what the normal perception builds up. it's not related as to what the government does on AGR, but everybody is seeing that since the engagement is on, what is happening in that direction.

It is not linked that what happens there and then basis that the bank funding will happen and we are in discussion with the banks, but probably it will take a while to get some clarity on because post the curative dismissal, we have engaged with the government. We are also waiting for some response and clarity on the subject.

And it's a question of getting clarity and then how should the business be viewed? Is there some relief, which is going to be there, or no relief going to be there? Just some that clarity will be helpful to take anything forward. So, it is more about clarity rather than what happens with this.

Saurabh Handa: So, for now, I mean, given that you are well funded for at least your next year, year-and-a-half of capex, so it's sort of just business as usual and these discussions with banks will be and the government will be sort of simultaneous.

Akshaya Moondra: Yes, these are simultaneous, and not that if we have funding available, we are not progressing fast on these. It is important that we close these matters as quickly as possible. And that is where, as I said, I am myself engaged and the promoters are also engaged. And we should find a quick closure to this, not that if we don't need immediate funding because we have equity funding available for capex, that's not the basis of any actions that we need to take is all that I would say. It is being handled on top priority. And we should see progress coming in that direction also, but it's difficult to give a timeline given the nature of these discussions.

Saurabh Handa: And just my second question was on the conversion of dues to equity. Now, I mean, I noticed that you have added this to your notes to accounts as well that this is permitted under the telecom relief package. Was this a requirement from the auditors or why has this actually come into the notes to accounts or is it just...?

Akshaya Moondra: It's in the interest of disclosures given the fact that where our cash generation is today and post the moratorium, which is expiring in the next 12 months , you make this assessment. So, it is an important thing and given that the moratorium expires in the next 12 months, it was considered prudent to make this disclosure.

So, that disclosure has been made in notes to financial statements, but we have alluded on that point even on some of our earlier earnings calls in addressing those questions. So, in terms of our communication, we have communicated that in the past also but given that the moratorium expires in the next 12 months, we have also thought it prudent that it should be disclosed in the financial statements also.

Saurabh Handa: So, once the moratorium ends, is it fair to assume that, I mean, a default situation would be that the government converts dues to equity because it's something which has already been approved by the Cabinet in the past. So, it won't really have to go through further rounds of government approvals, et cetera?

Akshaya Moondra: Yes, anything, any request, it will go through the process or approval based on the guidelines provided, but it was approved by the Cabinet in the past and has been publicly disclosed. It doesn't need a Cabinet approval is my understanding, but whatever internal departmental approvals are required for any request which comes from anyone within the framework, those approvals will be required.

But on the whole, as emphasized in the past, this was expected that this will be required. And that is the reason when the reforms package was announced in 2021, they have provided it upfront that post the moratorium which expires after four years, conversion will happen if there is a need. Otherwise, there was no need to put this in the reforms package for what would happen four years in advance. So, definitely that is the intent of the reforms package. And conversion will happen to the extent of shortfall of payment between whatever we can pay and what is the requirement of payment.

Moderator: Thank you. We have the next question from the line of Gaurav Malhotra from Axis Capital. Please go ahead.

Gaurav Malhotra: I just had some follow-up questions on the bank guarantee. So, one is that, you know, what I heard is that the debt raise is somehow sort of connected to the bank guarantee issue to be resolved. That's one.

And secondly, in terms of these bank guarantees obviously also have a cost associated. Is that cost meaningful from your perspective? And how much is the quantum of bank guarantees that you are talking about?

Akshaya Moondra: The quantum of bank guarantees is disclosed in our financials i.e. about 24,000 crores over a period of one year. So, that is the first figure to be given. In our plan of things, we have not considered provision of bank guarantee as a part of a plan because from a bank's point of view, whether it is a bank guarantee or a debt funding, the facility has to come from the banks.

If it is a bank guarantee, the bank guarantee commission is a nominal cost, but the main thing is it is exposure for the banks. And if banks were to provide that facility, which will then not really benefit anything in terms of improvement in operations or cash generation, I don't think banks will be willing to provide the bank guarantee. They are happy to provide the debt funding because that is what will help in turning around the business. So, in our plan of things, bank guarantee provision is not factored in at all. We have just considered debt funding.

Gaurav Malhotra: And where are we in the process? Obviously, we read what the minister has also mentioned, but where are we in terms of trying to resolve this bank guarantee issue?

Akshaya Moondra: It is with the government. They have to decide. We have made whatever presentations we have to make. So, whatever we had to do has been done. We are awaiting a final decision from the government.

Moderator: Thank you. We have the next question from the line of Vivekanand Subbaraman from Ambit Private Limited. Please go ahead.

Vivekanand Subbaraman: I had a question on the proposal that the COAI and the industry participants had shared with the government on the big tech companies, especially those which account for disproportionate share of the network traffic to also be roped in to partially fund the capex that telcos are incurring to upgrade networks.

My question is how is the government thinking about this matter? And if you could give us some insights into the polarity of traffic that is currently there by, let's say, the top two and three digital gateways or ecosystems and why you believe that this issue can perhaps lead to some alleviation of stress for the telecom industry?

Akshaya Moondra: There have been engagements with the government, but what is the government's view on it is best for them to respond. I will not be able to give you any response there. You are asking about the traffic quantum but I will not be able to give you any data.

Vivekanand Subbaraman: Just rough numbers in terms of proportion or?

Akshaya Moondra: I cannot give you any numbers, but YouTube is the largest consumer of data is my understanding and then other OTT players would be large. I will not be able to give you any numbers there because that is somewhat confidential information. But it's not a question of that. Large networks have been built and it is not that the system is not capable of handling the traffic. So, that is not a concern. The concern is that large investments are being made and the industry as such is subject to multiple things. And there is also a limit to which you can raise tariffs for priority services. You cannot have a differential tariff today for some services and for priority services. You can charge extra for services which take up a lot of your network and the investments have to be large for that. There is a multiple layer of engagement. This is not in India alone. This is global. I would say that it is not something for which any result can be expected soon. But yes, we are engaging with the government and it is happening in many other countries. This is an evolving space and we will have to see what is the best way to solve for the situation. But business is going on as usual. It is just a question of getting the right balance between how each one benefits from the investments that they are making.

The concern that telecom operators have is that they are the ones who are making large investments in running that traffic without a commensurate return. And if that return has to come by raising the tariffs, then it also raises the tariff for essential services, which is something one would not want to do. And that is why the question is, how can these large traffic generators also participate in contributing to the investment, which is being made without increasing the tariff for essential services very much.

Vivekanand Subbaraman: This is helpful. Just one follow up. Are all industry participants aligned with you in this thinking or is there any difference of opinion among the industry participants?

Akshaya Moondra: No, you started by saying that this was a representation from COAI. So, it is an industry issue. The larger the traffic, the larger the impact is. There is total alignment.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Akshaya Moondra for closing comments. Over to you, sir.

Akshaya Moondra: Thank you, Dorwin. During 2024, the company has raised Rs. 240 billion of equity. In June spectrum auction, we acquired 50 MHz of spectrum across low band and mid-band spectrum in 11 circles. The tariff hike happened after a gap of more than two years, and we have seen its benefits and will continue to see the benefits in the coming quarters. However, as I mentioned earlier, considering the large investment requirements, industry will need further tariff rationalization to happen.

The AGR curative petition dismissal was unexpected, but we continue to be engaged with the government to find a solution which can work for all stakeholders. This year is an important one for VIL as the company is taking critical steps in its transformation journey. We have kick-started the investment cycle and are deploying the funds from the fundraise towards 4G coverage capacity and for 5G rollout. These along with the mega deal with equipment suppliers are all key steps that will make VIL more competitive and ensure that the industry remains dynamic and competitive. With the continued support of the government, I am confident that VIL will stage a smart turnaround to effectively participate industry growth opportunities.

So, as I said, this is going to be a very important year for us. Many things have happened. We are on the right track with investments being made, rollout happening, the benefit of tariff increase coming our way. And with the continuing investment that we do, we will continue to see consistent improvement in performance. I would say, we are on the right track. Thank you all for joining this call and have a good day.

Moderator: Thank you. On behalf of Vodafone Idea Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.