

STAYING FOCUSED DELIVERING PERFORMANCE



ANNUAL REPORT
2013 - 2014

IDEA CELLULAR LIMITED



Mr. Aditya Birla
We live by his values.
Integrity, Commitment, Passion, Seamlessness and Speed.

The Chairman's Letter to Shareholders



Dear Shareholder,

The Global Scenario

Worldwide 2014 portends to be much more encouraging than 2013, with the forces driving the global economic recovery firmly entrenched. The IMF projects that global economic growth will rise from 3% in 2013 to 3.6% in 2014, and to 3.9% in 2015. This is largely due to a turn for the better in the developed economies - estimated to grow 2.25% in 2014, a full percentage point more than in 2013. US GDP growth for 2014 is projected at 2.8%, and in the Euro area at 1.2%, while China's economy is expected to grow at 7.5%. GDP growth in the emerging markets and developing economies is slated to increase from 4.7% in 2013 to 4.9% in 2014, as these regions step up exports to the developed markets. Continued fiscal easing, loose monetary policy in developed economies and stable commodity prices should boost the global recovery. The nervousness in the financial markets, particularly related to stability of the southern European economies, has abated considerably. Furthermore, we must be prepared for unforeseen geopolitical developments which may have disruptive ripple effects on the global economy.

Your Company, capitalizing on the policy momentum and continuing strong tailwinds of consumer demand, maintained its status as 'India's fastest growing large mobile operator'. It delivered another year of robust performance across all business segments. Competitively, your Company improved its mobile sector 'Revenue Market Share' (RMS) during April-December 2013 to 16.1%, one of the highest Y-o-Y improvement of 1.3% in RMS.

The Indian Economy – moving on to a stable footing

The outlook for the Indian economy has turned distinctly positive. The increasing traction of the global economic revival and plans to restore vim to India's economy through a slew of timely measures by the new Government by addressing fiscal imbalances and fast-forwarding investment activity should play out positively in the coming year. The RBI's deft moves to stabilize the Rupee, enabled it to recover from a low of around ₹ 68/\$ to under ₹ 60/\$. The current account deficit for the year has been contained at around 2.5% of GDP. Some progress has been achieved on clearing the backlog of large projects whose approvals had been held up. GDP growth is predicted at around 5.5% in 2014-15.

However industrial production needs to accelerate with the IIP declining 0.1% year-on-year in the first 11 months of 2013-14, vis-a-vis 0.9% growth in the same period last year. Inflation also remains a concern, with the wholesale and consumer price indices in March 2014 up 5.7% and 8.3% respectively year-on-year. Continuing inflationary pressures have been a constraint in reducing interest rates. In the medium term, the economy stands to benefit, if the Goods and Services Tax is rolled out. Further initiatives and reforms in areas such as land acquisition, allocation of natural resources, and taxation would help greatly to boost investor confidence and accelerate investment activity. Overall, the stage seems set for India to shift to a higher growth trajectory.

These developments on the global and the domestic front have a telling effect on your Company's growth and end-results.

Telecom Sector

With hyper-competition easing and the Indian wireless sector overcoming its uncertain phase last year, the telecom industry was far more resilient. It moved firmly

towards a rational market structure leading to improved price realization.

Implementing the Government's vision articulated in the new National Telecom Policy (NTP 2012), the mobile sector transitioned from the restrictive administered spectrum allocation regime of 2002-08 to spectrum sale only through open market auction mechanism. Though the spectrum reserve prices were kept artificially high, far beyond global benchmarks, the recent free market auction has provided the much needed capacity relief to the operators. The industry successfully bid for 434.7 MHz of 1800 band, 46.0 MHz of 900 band and 30.0 MHz of 800 band of spectrum during the auction held in November 2012, March 2013 and February 2014.

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During the Financial Year 2013-14, your Company posted a strong annual revenue growth of 18.1%, clocking gross revenue of ₹ 265,189 million. The EBITDA grew exponentially by 38.8% to ₹ 83,337 million, with a 4.7% steep EBITDA margin improvement to 31.4%.

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To meet the burgeoning voice and data demand, your Company participated in the recent (February 2014) spectrum auction and acquired an additional 65.2 MHz. With this spectrum acquisition, your Company has extended its 3G spectrum footprint to Delhi service area. It now owns 3G spectrum in 12 service areas translating to 80% of its current revenue. Your Company also acquired spectrum capability to provide High Speed 4G LTE mobile broadband services in 8 service areas - 58% of your company's current revenue.

The high EBITDA growth translated into an unprecedented 94.7% annual growth of PAT at ₹ 19,678 million. Cash Profits also increased by 41.3% to ₹ 70,369 million. Your company achieved its highest ever financial performance driven on three pillars, namely, annual 18 million new customer additions, 7.3% improvement in gross realized rate and 3.3% increase in mobile data contribution to service revenue.

Early trends indicate that the mobile broadband era has arrived in India. With over 900 million mobile users in the country and the expected higher consumer internet adoption, India is all set to catapult to among the Top 3 mobile broadband markets in the world. Your company is well positioned to play a key role in the emerging broadband market and is steadily transforming itself to capture higher mobile data share by acquiring additional spectrum, upgrading technology to 3G and 4G as well as building talent capability of its employees and partners as customers adapt to the emerging online lifestyle. In this financial year, your Company more than doubled its annual mobile data traffic (2G & 3G) on its network to 79.4 billion MB and influenced nearly 18.6% of its customer base to access internet from their mobile.

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As of March 2014, your Company has 104,778 2G GSM sites and 21,381 3G High Speed Data sites, with an addition of 18,925 (2G+3G) sites during the year. Idea owns over 82,000 km of Fiber, to support the growing voice and data demand of Idea customers. Your Company now covers over 350,000 towns and villages, nearly doubling its brand presence in the country over the last 3 years. On a standalone basis, the cumulative investment of your Company has now risen to ₹ 567 billion, including ₹ 182 billion primarily for the spectrum acquired in auction.

With the strong financial performance of your Company this year, your Board has recommended an increased dividend of 4%. I am enthused by the confidence and faith reposed by over 250,000 institutional & retail investors. We remain committed to sprint flat out operationally to exceed our shareholder expectations.

Outlook

With the resurgence in the Indian economy, the mobile sector is poised to make a shift to higher growth trajectory, as even now, India is amongst the world's lowest telecom penetrated countries below 65% penetration, while existing customers increase their mobility spends to access internet from their mobile. Your Company, with optimum network investment, increased spectrum portfolio, market place agility, customer centricity, high brand salience, rising free cash flows and a strong balance sheet, is on course towards performance led leadership. As competition intensity declines, overcapacity phase comes to an inevitable end and new investments start yielding returns, your company is optimistic of further consolidating its standing in the Indian wireless market.

To our teams

In the face of continuing external challenges, our teams across geographies have stayed focused and delivered performance. I thank all of our employees for their

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tenacity and commitment to sustain top line and bottom line growth year after year.

The Aditya Birla Group in perspective

Despite the tectonic shifts witnessed globally and in India, at the Group level we have managed to sustain our revenues at USD 40 billion. Much credit must go to the talent resident in our 1,20,000 committed workforce, spanning 36 countries and 42 nationalities.

I would like to reiterate that we place big bets on our people. Let me elaborate on this aspect in some detail.

As a high performance driven, meritocratic Group, we are constantly focusing on building our talent pool to support our business vision. To this end, substantive initiatives taken earlier have since materialized. These include focused endeavours to build a robust talent pipeline, building the employer brand of our Group beyond India, and achieving the distinction of becoming the most aspirational employer for manufacturing professionals also, besides augmenting talent on the technical side. Furthermore to support our long-term strategies, our business structures have been significantly bolstered.

Our reputation as an employer of choice is again something we are incredibly proud of. We are recognized as an employer that offers a World of Opportunities and is concerned about the professional growth of its people. We continue to fast track our talent - from our management cadre comprising of 38,200 colleagues, 13% have been promoted, 20% have changed roles and 12% have moved location during the year.

Gyanodaya, our in-house world-class university, continues to be an important mainstay of our progress. Leveraging resources across geographies and partnering with leading global faculty, institutions and corporates, it ensure that our leadership and talent pool stays contemporary and is always in the learning mode.

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To be a learning and growing organization is an ongoing endeavour.

Ranked No. 1 in the Nielsen Corporate Image Monitor

I am pleased to share with you that for the second year running our Group has been ranked **No. 1 in the Nielsen Corporate Image Monitor 2013-14**. Across the six pillars of corporate performance – products and services, vision and leadership, workplace environment, financial performance, operating style and social responsibility, Aditya Birla Group “emerges as the pace setter, way ahead of 40 corporates. Nielsen’s Corporate Image Monitor measures the reputation of the 40 leading companies in India across sectors and serves as an important indicator of the strength of the corporate brand”, they state. The companies were covered in the survey, using the Economic Times 500 and the Business Today 500 ranking of listed companies.

Nielsen is among the most renowned global market research companies, headquartered in New York and operating in 60 countries.

In sum

With the best of talent in our midst, our strong Balance Sheets, robust cash flows, the eye on the customer and unrelenting focus on delivering shareholder value, we are confident of the future. The year ahead I believe will be the one when we consolidate and reinforce what we have achieved in recent years. And see the fruition of the several projects and initiatives in each of the businesses that are currently underway.

Yours sincerely,



Kumar Mangalam Birla

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Board of Directors



Mrs. Rajashree Birla
Non-Executive Director



Mr. Himanshu Kapania
Managing Director



Mr. Sanjeev Aga
Non-Executive Director



Mr. Kumar Mangalam Birla
Non-Executive Chairman



Mr. Biswajit A. Subramanian
Non-Executive Director



Dr. Rakesh Jain
Non-Executive Director



Dr. Shridhir Sariputta Hansa Wijayasuriya
Non-Executive Director



Mr. Arun Thiagarajan
Independent Director



Mr. Gian Prakash Gupta
Independent Director



Mr. Mohan Gyani
Independent Director



Ms. Tarjani Vakil
Independent Director



Mr. R. C. Bhargava
Independent Director



Mr. P. Murari
Independent Director



Mrs. Madhabi Puri Buch
Independent Director