

Bharti Airtel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call

Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter Ended December 31st, 2018 Earnings Conference Call

Event Date/Time: February 01, 2019 at 1430 hrs.

Bharti Airtel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call**CORPORATE PARTICIPANTS****Gopal Vittal**

Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Nilanjan Roy

Global Chief Financial Officer - Bharti Airtel Limited

Jaideep Paul

Chief Finance Officer - Africa - Bharti Airtel Limited

Raghunath Mandava

Managing Director and Chief Executive Officer - Africa - Bharti Airtel Limited

Badal Bagri

Chief Financial Officer - India & South Asia- Bharti Airtel Limited

Komal Grover

Head - Investor Relations- Bharti Airtel Limited

CORPORATE CALL PARTICIPANTS**Manish Adukia**

Goldman Sachs - Mumbai

Sachin Salgaonkar

Bank of America - Mumbai

Srinivas Rao

Deutsche Bank - Singapore

G.V. Giri

IIFL Capital - Mumbai

Kunal Vora

BNP Paribas - Mumbai

Varun Ahuja

JP Morgan - Hong Kong

Sunil Tirumalai

Crédit Suisse - Mumbai

Rohit Chordia

Kotak Securities - Mumbai

Pranav Kshatriya

Edelweiss - Mumbai

Sanjay Chawla

JM Financial - Mumbai

Ravi Menon

Elara Securities - Mumbai

Rajiv Sharma

SBICAP Securities - Mumbai

PRESENTATION**Kamaldeep - Moderator**

Good afternoon, ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Airtel Limited third quarter ended December 31, 2018 earnings call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement.

Bharti Airtel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call

Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face.

I now hand over the call to our first speaker of the day, Mr. Nilanjan Roy. Thank you, and over to Mr. Roy

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the third quarter ended 31st December 2018, which we announced yesterday.

Present with me on the call today – Gopal, Raghu, Jaideep, Badal and Komal.

Let's start with the top themes in India's telecom industry during the quarter

The industry table continued to decline this quarter as well

Current telecom spend in India at ~ 0.64% of nominal GDP is the lowest in the world and has itself seen lows not tested before

Size of the industry, which at its peak was ~45,000cr/ quarter, is now just under 30,000cr every quarter

Industry structure has also rationalized with 3 mature players now operating in the market. With some semblance of order prevailing in the industry, a structural repair of the industry was long warranted.

We have taken the first steps towards this in the previous quarter. While there are more than a billion SIM cards in the country we believe that there are only about 750 to 800 million unique mobile customers in India and a small proportion of these customers contribute to bulk of the industry revenues – and this is where our focus will be- serving quality customers.

Hence starting last quarter, we launched minimum ARPU plans to ensure that every customer who stays on the network gives us a minimum commitment. While this has led to significant erosion of customer base, the quality of the base that stays have manifested itself in an ARPU increase.

To better represent the shift in the way we serve our customers, we have also made certain reporting changes whereby we modified the customer base definition in order to represent only the subscribers who transact and generate revenues on the network. Consequently, all customers related KPIs have accordingly been changed without any restatements of the prior periods. This is a more stringent definition and better indicates the operating performance of the company and you will see that on this basis, Exit Dec ARPU at 118 is extremely healthy. Do also note that due to this internal reporting metric, our numbers may not be comparable with other sources.

We are seeing some stability in underlying customer revenues this quarter. While reported QoQ mobile revenues have de-grown by 0.6% in the quarter, this is largely because of non-customer revenue streams declining. Underlying customer revenues are seeing early signs of bottoming out.

Equally, I must add that this quarter has not yet seen the full impact of a pan India minimum recharge and we do expect additional impact to flow through over the next quarters.

We continue to believe that in order to allow operators to undertake massive network investments– pricing need to move up in the long run to ensure industry viability

In order to execute brilliantly in the market, we have a simple five pronged strategy, which I want to reiterate

1. Win the 4G Game decisively

This is crucial as India transforms to 4G. We accelerated the 4G additions and led by our network, distribution, right bundles and content; are happy to state that we added 11.3 mln 4G subscribers on our network – which is higher than the run rate of the last few quarters. Our bundle penetration also continues to rise, along with increasing monthly engagement. Given our focus on customers - we identify our customers on a micro basis. Each of these customers is tagged on our data base. We focus on bringing them the best devices, the best content and provide them the best experience on an omni channel basis for them. Our recipe for doing this is through a combination of what we do ourselves and through powerful partnerships.

We also stepped up on our postpaid business where we offered Netflix free for 3 months for all postpaid customers on Rs 499+ plans. We also launched Amazon prime on Rs 399 Infinity plan. With this, Airtel has established itself as a strong player in content space.

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2. Win with Brilliant Network Experience

In line with our philosophy of serving customers who seek quality - we have made disproportionate investments in our networks- we deployed over 23,900 Mobile Broadband Base Stations this quarter. 900MHz spectrum has been refarmed to 4G to provide deeper in-building 4G coverage for better VoLTE and data experience. We have also initiated refarming our 2100 band spectrum to 4G. Capacity at hotspots at thousands of locations are being addressed by deploying combination of massive MIMO and sector splitting. VOLTE continues to do very well – with doubling of VOLTE traffic in a very short period of time. 30% of our smartphone traffic is now on VOLTE with seamless roaming capabilities across circles. This quarter, we also achieved the distinction of being the first operator to showcase peak user throughput of 500Mbps using LAA technology. This would be useful for augmenting 4G capacity at hotspot locations. We continued to densify our fibre and incrementally deployed fibre of more than 10,000 route kms. Our network is being made ready for single and two hops, making all sites ready for 1Gbps backhaul using advanced microwave technologies. With increasing fiber and fiber POPs in place, we have enabled greater robustness and reliability of the network. Through state of the art tools, we are also monitoring application level and device level performance to ensure superior customer experience. The result of all of this is that Airtel continues to be ranked as number one operator for download speeds by third party benchmarking companies and has Pan India average speeds higher by ~40% compared to next best operator (Internal - this is from open signal). The results are also corroborated by TRAI drive test results where Airtel been ranked as #1 in 19 towns (and among top two operators in 29 towns) by TRAI.

3. Build new revenues

In line with our philosophy of being an "Open telco" and working with multiple partners on our platforms to be able to provide widest content choices to our customers, we strengthened our product portfolio this quarter with a multitude of alliances and partnerships. Airtel TV Premium was launched – offering latest movies, original shows and sports to our high ARPU customers. We enhanced our content portfolio with original shows from Zee 5, and NDTV Hop – exclusively available to Airtel. Also, to encourage Airtel users to sample our entertainment services, we have integrated our offerings in the myAirtel app.

4. Win with War on Waste

Cost efficiencies is a company-wide focus. While other cost line items have been largely flat, network costs have increased this quarter as we continue to face headwinds due to accelerated pace of rollouts.

Let me now turn to our Africa operations:

Airtel Africa witnessed steady improvement across top and bottom lines.

On a Constant currency basis:

GR growth: 11.2% YOY
 NR growth: 12.0% YOY
 EBITDA growth: 16.4%YOY
 EBITDA margin: 37.2%
 And; EBIT growth: 19.1%YOY

We are very pleased to state that despite the additional servicing of acquisition interest, Africa is PAT positive for the third consecutive quarter.

We feel that our Africa business is creating a strong foundation for a solid, and sustainable business. Airtel Africa continues to demonstrate superior execution capabilities through:

1. Winning with more customers via distribution excellence
2. Driving data growth – Data usage on the network increased 60.7% YoY and on an average a customer used ~ 1.25GB per month
3. Expansion of Airtel Money – throughput this quarter increased ~29% YOY to \$6.9bln during the quarter
4. Enhancing consumer experience via network modernization and capacity upgrades

Rollout of broadband sites continued this quarter, and we have over 15,700 Mobile Broadband towers with ~30,000 Mobile Broadband base stations

We offered U900 in 10 opcos and LTE in 11, with plans for launching in the balance soon

5. Right cost model

There is a very strong investment rationale in Africa with the twin engines of growth - Data and Mobile Money.

We are happy to announce that Qatar Investment Authority, the sovereign wealth fund of the State of Qatar has agreed to invest USD 200 million in Airtel Africa Limited

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On Regulatory front:

India:

TDSAT has set aside the 62nd Amendment to the Telecom Tariff Order of the TRAI. This is a matter where the existing players had challenged the validity of the 62nd Amendment which required the existing players to report segmented offers and also amendment to the definition of Significant Market Power (SMP) . Matter has been admitted in Supreme Court

The new Tariff framework of DTH shall be effective from February 1st, 2019. The new Tariff Order allows the consumers to select the channels which they want to view and pay their cable or DTH operator only for them. Consumers can either select a-la-carte channels or bouquet from a broadcaster.

Africa:

Central Bank of Nigeria has issued guidelines for license of Payment Service Bank in Nigeria.

Moving on to an update on fund raising and M&A:

Indus-Infratel Merger update: Following the CCI and SEBI approvals- the first motion was moved at NCLT and subsequently shareholder / creditor meetings are shortly being convened

Tata – We have received the NCLT approvals for the transaction and the scheme would be given effect after the approval of the DoT.

As you may know, consequent to a Board Meeting held earlier this month, a Committee of Directors has been formed to comprehensively explore and evaluate various options of fund-raising to strengthen the capital structure and balance sheet of the Company. In the interim, as the Committee evaluates and recommends its decision to the Board, we are unable to answer any questions relating to this.

Moving onto our financials

Consolidated revenues:

Consolidated revenues came in at INR 205.2 bln which is an underlying YoY growth of 1.9%. Revenue compression in mobile and non mobile businesses continues; even as Africa continued to grow strongly. However, the quarter has witnessed a reduction in rate of revenue decline, owing to the high value customer retention initiatives implemented in India. Consolidated EBITDA of Rs 63 Bln during the quarter- a decrease of 15.4% on an underlying basis mainly due to opex headwinds on account of higher network costs as we aggressively roll out networks in India. Africa organic EBITDA (AOP CC) at USD 317 mln is up 16.4%YOY. We remain focused on structural cost containment through our “War on Waste” program and will continue to look for avenues for cost rationalization. Depreciation and amortization expenses were at Rs 54.7 bln, increased due the impact of sustained capex spends aimed at enhancing our 4G capacities. Net finance costs for the quarter were at Rs19.5bn, the decline is largely on account of lower forex fluctuations during the quarter. The company recognized an exceptional gain during the quarter largely on account of deconsolidation impact of Airtel Payments Bank and certain litigation related assessments. PAT, post exceptional items, came in at Rs 862Mn. Capex at Rs 65,679 Mn is in line with our overall capex guidance for the full year.

To enable our spend, strengthening our Balance Sheet and focus on debt reduction remain key priorities. Net debt during the quarter was INR1,064 Bn– decreased due to the Airtel Africa equity issuance. Net Debt to EBITDA is at 4.28x

To sum up, with consolidation in the industry, three large telecom operators have emerged. There is a huge expansion in data and voice usage and the industry is steadily moving towards bundled offerings. Despite strong competition, we continue to hold our market share leadership on back of our network excellence. In Africa, enhancement of consumer experience along with our strength in distribution and Network is leading to profitable growth.

With that, I hand you over to the moderator.

Kamaldeep - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request, if you could limit the number of questions to two to enable more participation. Hence management will take only two questions per participant to ensure maximum participation. Participants who wish to ask questions may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press “*” “1” now. . The first question comes from Mr. Manish Adukia from Goldman Sachs, Mumbai. Mr. Adukia, you may ask your question now.

Bharti Airtel Limited Third Quarter Ended December 31, 2018 Earnings Conference Call**Manish Adukia - Goldman Sachs - Mumbai**

Good after and thank you for taking my questions. My first question, if you can just talk about the impact of the minimum ARPU plans in this quarter. In the past, you have mentioned that this could potentially be revenue accretive. Are you seeing any early signs of that? And also, if you can comment on what kind of impact it would have had on your India-wide EBITDA? And second, tariffs have been flat for a few months now and your revenues seem to have stabilized. Again, I am talking about the India-wireless business. But do you think the revenues could inch-up from here without any tariff hike, if you can comment on that?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Manish, this is Gopal. I think if you look at what has happened this quarter, we lost about 49 million customers, which are marginal customers who were giving us largely incoming only revenue, they were just receiving incoming calls. And like Nilanjan mentioned, the definition of the customer is now revenue earning customer from service revenue rather than incoming revenue in the last 30 days. Now there are 3 factors for the upgradation that we have seen on ARPU in the quarter. The exit ARPU being Rs. 118. One is the minimum ARPU plan that has been a significant contributor. The second is the price increase that we took, early, I think it was in December from Rs.99 to Rs.119 for the first part of unlimited calling with GB of data. And the third driver has been upgrading that we have seen because of the content packaging as a part of #AirtelThanks. These are the 3 drivers of the ARPU increase. Going forward, like I mentioned last quarter itself, we have seen revenue bottomed out. We are now seeing signs of ARPU climbing up with all of these actions. One of the underlying drivers of ARPU will be the upgrade from 2G to 4G, where the moment they get on to a bundle, you will see an ARPU upside. That is broadly how we see it.

Manish Adukia - Goldman Sachs - Mumbai

Right. Just a quick couple of questions there, Gopal. One on the feature phone customers, what is the behavior you are seeing from your customers who are paying, let's say, north of Rs.40, Rs.50? Is Jio Phone winning market share in that segment whenever the customer is coming up for handset renewal, for example? And is there a strategy to counter that? And second, you mentioned about ARPU up trading due to content, etc., so if you can give more color on that, is that restricted to maybe to your postpaid customer or how does that work?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

So let me take the second part first. Our #AirtelThanks proposition is across both prepaid and postpaid. So on the prepaid side, within the app, a whole bunch of exclusive content opens up for you. If you are on a price plan of Rs.199 and above, that content includes the alliance we have with Zee, with some of the HooQ content that we have as well as a bunch of others. Of course, we also have deals with Amazon and Netflix for higher-end plans. So with Amazon, with Rs.399 and above, Amazon is packaged for a year. And Netflix at Rs.499 and above, Netflix is given free for 3 months. On your second question, I would say, yes, there has been some gain that competition has seen because of the subsidy that they're running on the 4G phone. Like we've maintained, we are not interested in subsidizing at the lower end of the market. And we would much rather see the upgrades coming directly from feature phones to smartphones. The large pool of customers who see the smartphone as being aspirational and that is where our focus is.

Manish Adukia - Goldman Sachs - Mumbai

Thank you so much Gopal and all the best.

Kamaldeep - Moderator

Thank you very much Mr. Adukia. The next question comes from for Mr. Sachin Salgaonkar from Bank of America, Mumbai.

Sachin Salgaonkar - Bank of America - Mumbai

Thanks for the opportunity. I have 2 questions. First question is on, the enterprise Capex, it showed a bit of a jump in this quarter. So anything going around? And the related question on this part is, in the Analyst Day, you guys had mentioned that investments have largely peaked and going forward, they should decline. So any change to this, especially in light of your fundraising activity, i.e., in the scenario you raise more funds, could we see Capex not peaking, but continue to remain high? And second question is just a follow-up on this entire reporting changes. Possible to give a breakup of that, of 49 million, how much of that is because of the minimum INR 35 recharge impact? And how much of that is because of the reporting changes? And Nilanjan, you did mention that the non-customer ARPU impact is not yet bottomed out. So when could we see some signs of stabilizing out there?

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Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

So on the enterprise side, which is the MENA cable assets that we acquired, so that is the reason for it. On the investments in the Capex, I think, we will come back to you next quarter with guidance. We do not see the elevated level of Capex that we saw this year going into next year. But we will come back to you with guidance. On the numbers, I would say, most of these 49 million have been really customers who have been incoming customers, for whom we are just getting incoming calls. So I would say almost all of it is on account of the minimum ARPU plan.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Yes. On the non-customer revenues, this was largely some ICR, etc., which declined so it is not material.

Sachin Salgaonkar - Mumbai

Okay. So your net interconnect. You guys are recipients and that amount is coming down, right, directionally?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

That is true, yes.

Sachin Salgaonkar - Mumbai

Okay, got it. Thanks.

Kamaldeep - Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Srinivas Rao from Deutsche Bank, Singapore. Mr. Rao, you may ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

Two questions for me. First on the cost side, your network costs have been trending up for the last 3 quarters, and that was kind of stable for the better part of fiscal 2018. So just any feedback on how that will trend over the next midterm? Is the jump partly because of the change which has happened in terms of the rentals on account of what's happening in Bharti Infratel and Indus? Is that part of the reason? That is my first question. Second, on Africa, we have seen a pretty large increase in EBITDA over almost 2 years, largely driven by network and access charges kind of coming off. So, how much more do you think is feasible in terms of margin improvement in Africa? And if I notice within that, Nigeria already has a reasonably high margin. So where can you make more gains in Africa over the next, say, 2 years? And if at all any numbers you would want to put out in terms of aspirational, the level of EBITDA you are looking at?

Badal Bagri - Chief Financial Officer - India & South Asia- Bharti Airtel Limited

Okay. Srinivas, I will take the cost part, first. We should look at cost on an overall basis. However, specifically on account of network cost, as you see, we continue to invest this quarter also we rolled out 4,000 more additional towers and we have over 10,000 4G BTS' which we have installed, and that will definitely lead to some increase. There has been a marginal impact on account of tenancy losses of all the tower companies purely on account of exits, which have been made by Vodafone in the previous quarter. We continue to work on various war on waste measures, specifically on the network side, they are slightly long term in nature. The results will come up, specifically in terms of energy savings, etc., so we should start seeing some benefits, but that generally takes a larger period of time. So we will continue to invest as far as network is concerned to give our customers a delightful experience. On an overall basis, we are seeing a reduction in cost in almost all other line items whether it is SG&A, in terms of even content is kind of flattened out.

Raghunath Mandava - Managing Director and Chief Executive Officer - Africa - Bharti Airtel Limited

Srinivas, Raghu here. The key thing is, if you have seen the last 2 years' growth, we have done some business restructuring and a lot of revenue growth in few countries. But overall, what we have in Africa is a 14-country portfolio. First, there are still some countries which are both low on EBITDA and also low on market share. So that gives you some opportunity for growing both on revenue and on margins. The second one that gives us opportunity is that as revenue continues to grow in double digits, there will

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be a flow through that will come through. Third is, we have also started getting some good jumps on Airtel Money, and that is a good margin business. And that is if you know if you can crack the right model, it is an unlimited potential. We are absolutely entering the financial services sector, we are trying to provide banking for the unbanked. So I think that is a one big potential area in Africa that is yet to be tapped fully. So I do see that there are opportunities for us to grow.

Srinivas Rao - Deutsche Bank - Singapore

This is helpful. Just one question, the Qatar investment, is it at the same equity value as what the previous round was?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

No. We are not disclosing that Srin.

Srinivas Rao - Deutsche Bank - Singapore

Okay, thanks.

Kamaldeep - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. GV Giri from IIFL Capital, Mumbai. Mr. Giri, you may ask your question now.

G.V. Giri - IIFL Capital - Mumbai

Three questions. One, you mentioned about this feature phone to smartphone conversion being your big target. Do you have any feel of what the sweet spot is for the price at which a feature phone user might convert to smartphone because smartphones are significantly more expensive even at the lower end compared to feature phones? Secondly, your traffic growth is impressive and even after that, only about 1/4 of your subscribers are on 4G, and your per capita 4G customer consumption of GBs is roughly at the same level as that of Jio. So do you see all of your subscriber base, including the rural base, eventually getting converted, let's say, in 2 years or 3 years to 4G, and the usage per user remaining at these kind of levels, in which case you are talking about 4x of the traffic in 2, 3 years' time, are you preparing for that level of traffic handling? And thirdly, in your extraordinary income in your notes, reassessment of levies is written, what does that refer to?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

So on the feature phone to smartphones, I would say that if you look at it on an aggregate level, market is adding about 100 million smartphones every year incrementally, and these 100 million smartphones in the market are adding incrementally into the system are coming largely at price points above INR 6,000. So it is a bit contrary to what you would expect in most consumer categories where the largest volume would be the lowest price segment, and here the lowest price segment is between INR 3,000 and INR 6,000. Interestingly this INR 3,000 and INR 6,000 segment is actually a small segment. The largest segment is between INR 6,000 and INR 10,000. And then above INR 10,000 and INR 20,000 it shrinks, and then above INR 20,000, it is a very tiny segment. What this suggests is that people are looking for good quality devices because INR 6,000 to INR 10,000 you see devices between 4.5-inch and 5-inch screens. They're looking for good cameras. And the reason, I think that is so is that this is such an intrinsic part of their lives where people spend almost 4 hours a day looking at their devices. The desire to upgrade and buy something aspirational, I think, is there. On the traffic growth, yes, we have seen good growth in traffic. I would say that we have several levers here. Number one is that in 10 of our circles, we are refarming the 900 band spectrum from 2G to 4G, which should give us some capacity. We are also refarming the 2100 band, one of the carriers in most of the circles that will give us additional capacity. We have fourth sector and fifth sector that we would deploy on an existing site, using the 2300 and 1800 bands. And then, of course, we will continue to do infill sites wherever there is a requirement. We are also looking at small cells to actually deploy. So there are many levers to, actually, drive the capacity. And lastly, we look at network experience. Now we are beginning to look at it at a very granular level depending on the applications that are being used, rather than speeds and capacity and throughput. Because on a messaging application versus a gaming application, the requirements of speeds, latency and all of that vary a lot. Having said that, I do feel that at some stage, pricing will perhaps move up, it may not happen in a hurry. And therefore, I think, we will be well prepared for any further capacity surge.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

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Yes. On your next question, we continuously look at any historic provisions, etc., we bought and the basis of which we take it. At this time, we have got a onetime benefit on account of that.

G.V. Giri - IIFL Capital - Mumbai

Okay. Just quick follow-up question on the first one, the feature phone to smartphone one. So therefore, Gopal, are you implying that there might not be any particular pressure to artificially think about a smartphone price point of Rs. 3,000 or so? And if you get them in the INR 6,000 mark, that is good enough to have a good space of conversion?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes. There are already devices, Giri, at Rs.3,000 and Rs.4,000. These, collectively, are only 5% to 6% of the entire smartphones that are shipped. So they are still small. If you get a brilliant device at INR 4,000, then yes, it would be, clearly, a brilliant device, coupled with a good brand. That is where you might see a lot more down-trading to those kinds of devices. But at this stage, if you look at devices like Samsung or Xiaomi, most of these devices begin at INR 6,000 and above.

G.V. Giri - IIFL Capital - Mumbai

Great. Thank you Gopal. Very clear.

Kamaldeep - Moderator

Thank you very much, Mr. Giri. The next question comes from Mr. Kunal Vora from BNP Paribas, Mumbai. Mr. Vora, you may ask your question now.

Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity. First one, I believe you increased the validity of Rs.399 pack from 70 days to 84 days. So do you see that impacting ARPU? What kind of customer behavior would you expect for that change? Second is on postpaid revenues. What are trends which you are seeing? Are you still seeing down-trading? And does the ARPU increase, which you are talking about, would these factors offset the ARPU decrease a little bit? That is my first question. If you could answer that, I will go to the next one.

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes. So, Kunal, on the Rs.399 plan, we had an 84-day pack already. That was offered to customers on a segmented basis. We have killed the whole segmented concept there and taken it into the open market. So that is the reason you see that at 84 days. So you do have a 70-day plan that is offering a higher GB. And it is around the same price, but it is at a higher GB. So net-net, we did not see any down-trading when we did that. On postpaid, there has been down-trading for sure, over the last few quarters. Actually, there has been a significant downgrading on postpaid over the last 2 years as people adjust to newer plans that are there in the marketplace. I would say that there still is some small downgrading impact left, but it is not material.

Kunal Vora - BNP Paribas - Mumbai

Sure, okay. So if I look at the third quarter, by December, are you starting to see month-on-month improvement in revenues? Has it really bottomed? If you can share anything on that?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Kunal, yes. Let's wait for quarter 4 to see how that translates.

Kunal Vora - BNP Paribas - Mumbai

Sure. My last question, have you seen any impact in marketplace because of Vodafone-Idea merger during the quarter? Like you were expecting some share gain from them. Are you starting to see something? Or what are your expectations? That is it.

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So I think that they are in the process of a complex integration exercise where you have got to swap out vendors and integrate the organization, on people and networks and so on and so forth. That has its share of challenges, but I think they are doing a solid job on that front. So I would say that, yes, there are opportunities to continue to acquire customers and serve them well. Our focus is really to make sure that we win in 4G, starting with a 1,000 cities and then going beyond into the next 5,000 cities. There, we are seeing some good progress, which is the reason why we have seen a step-up in 4G net adds.

Kunal Vora - BNP Paribas - Mumbai

Okay, great. That is it from my side, thank you.

Kamaldeep - Moderator

Thank you. Mr. Vora. The next question comes from Mr. Varun Ahuja from JP Morgan, Hong Kong. Mr. Ahuja you may ask your question now.

Varun Ahuja - JP Morgan - Hong Kong

Good afternoon gentlemen and thanks so much for taking the time. Most of the questions have been answered. Just a couple of housekeeping. Firstly, on the balance sheet, the trade payables and other payable line items have been sequentially going up. I think by March 2018, it was around Rs.277 billion. Currently, it is about Rs.463 billion. If you can give some color on that particular number rising. Secondly, if I can ask, is there any covenant that is linked to the IG rating, especially in terms of impact on bank loans or refinancing needs that may need to be there, if at all there is any pressure on the ratings? Those would be my couple of questions.

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

Varun, Badal here. Two points to make. First of all, in the month of March, generally license fees is paid in advance. And on a comparative note between March and December, you have one quarter license fee payment, which sits in the month of December, and also versus March, we have added Telenor as an entity into our fold and that has also led to some increases this year.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

On your second question, I think we are very conscious of leverage and continue to look at opportunities of deleveraging, and you saw the whole Africa investment by third-party. Today, we are investment grade rated, and therefore, our covenants are preserved.

Varun Ahuja - JP Morgan - Hong Kong

Alright. Thank you.

Kamaldeep - Moderator

Thank you, Mr. Ahuja. The next question comes from Mr. Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai, you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

Hi, thank you. Just going back to the ARPU and the customer disconnect. My first question is on that. So if I just look at the closing customer base and the exit ARPU that you have given, then the revenues are actually no different from what you reported in December quarter or in the September quarter. So because you gave, early on, 3 drivers for ARPU increase or other revenue increase that you spoke about. It does not seem to show up. I mean, was there anything on the other side which brought it down further? Or because looking at the exit rate, it pretty much seems like it is going to be another flat quarter, if the same things extrapolate.

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

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The way to look at those numbers is the revenue numbers are for the full quarter, and the customer numbers are for December. If we had done that for the month of December, we would have actually given you the December revenues.

Sunil Tirumalai - Crédit Suisse - Mumbai

So okay. So how was INR 118 calculated?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Sunil, 118, was calculated by taking full quarter revenue and exit customer base.

Sunil Tirumalai - Crédit Suisse - Mumbai

Okay, understood. Okay.

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Which is the 284 million.

Sunil Tirumalai - Crédit Suisse - Mumbai

Understood. And the second question is on the other exceptional items, the larger one that you mentioned of Airtel Payments Bank. Just wanted to understand, what is the nature of this transaction? I mean, I do not think any announcement of a sale was made. So what has happened over here?

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

Sunil, Badal here. Sunil, there have been some rights which have got changed in the current quarter. Airtel shareholders' rights which got changed in Airtel Payments Bank Limited basis which Airtel ceased to be a subsidiary and it became an associate, and that led to its deconsolidation. We are still picking up the net loss in our financial statements.

Sunil Tirumalai - Credit Suisse - Mumbai

Right. So I did not understand. So is it now a subsidiary of Bharti Telecom? Or I did not understand. What has happened on that?

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

It is an associate of Bharti Airtel Limited.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

As per Company's Act, since we have lost the right for consolidating. We still have interest of 80% in the company. But since we do not have the right which can automatically allow us to consolidate the results, therefore, we have deconsolidated APBL and it is treated like an associate. But there has been no change in the shareholding, and we continue to own 80%. We will still pick up our share of the losses of the company and not do a line by line consolidation. But just pick up our share of the losses or profits.

Sunil Tirumalai - Crédit Suisse - Mumbai

Okay, understood. Thank you very much.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. The next question comes from Mr. Rohit Chordia from Kotak Securities, Mumbai. Mr. Chordia, you may ask your question now.

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Rohit Chordia - Kotak Securities - Mumbai

Good afternoon everyone. I had one very simple question that flows from what we heard from Mr. Akhil Gupta in the recent Bharti Investor Analyst Meet. He suggested that operators need to hit a Rs.3 lakh tenancy mark fairly soon, given the exclusion and data volumes. So any thoughts? You are in the 175000 right now. You are covering 95% of the population. And then the addition of 125000 sites is going to take the network Opex to maybe 75% higher levels? The revenue equation does not adjust; can you support that level of Opex? So I would really welcome any thoughts you have on where the disconnect is. Do you really need that level of network coverage or capacity?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes. And Rohit we always expect questions like this from you. Let me just step back a little bit and tell you overall the context of the way we are looking at the market. Firstly, out of the 700-odd districts that we have in the country, about 200 districts account for 80% of industry revenues. We really believe that these 200 districts, this is about 500, 600 taluks, these 200 districts are really the place where we think a disproportionate focus will be put. We currently have about 180,000 towers, as you said. We put up about 5,000, 6,000 towers this quarter. We will continue to roll out more towers depending on the needs across 2 areas. One is infill capacities, wherever there is a lot of congestion or where towns are actually growing in terms of the topography of the town. And the second, of course, is going further into rural areas. I would not put a number right now into how many towers we are going to have. But suffice it to say that we have strong measures by which we look at what is the revenue that we earn per site. And there are different solutions that then emerge for different types of markets. For example, if you look at the market like Karnataka, we are far deeper in our presence versus a market like Haryana, where we have a lot more focus in where we have gone. So it is a combination of things. And so I would not, at this stage, give any number in terms of the number of towers we will need. We will need what we need, and we would not hesitate to put in whatever Capex is required. But we will do that with discipline and focus on actually generating revenues.

Rohit Chordia - Kotak Securities – Mumbai

So Gopal, that helps. Can I ask it slightly differently, more at a philosophical level? How long can this revenue cost disconnect or the P&L balance sheet disconnect continue? I mean, you are at negative ROCE right now. Would you wait for the revenue equation to improve or this massive expansion that the 3 lakh number suggests, is it pretty much a non-negotiable thing? Is there an element of discretion that you would exploit at some point in time?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

No. I think, the fact that in the last one year, we have added up 12,000 towers is in itself suggestive of us applying some discretion, chasing, going where the revenue is. That has not meant that we have shied away from putting in the investments to create capacity in order to change the trajectory of 4G. So we will continue to apply that, because it is a prudent way that you'll finally manage this. Remember that where we are present, we want to deliver a great experience. We want to make sure that our networks are the best wherever we are. I think that is really how we are approaching it.

Rohit Chordia - Kotak Securities - Mumbai

Understood, very clear. Thank you.

Kamaldeep - Moderator

Thank you very much, Mr. Chordia. The next question comes from Mr. Pranav Kshatriya from Edelweiss, Mumbai. Mr. Kshatriya, you may ask your question now.

Pranav Kshatriya - Edelweiss - Mumbai

Hi, thanks for the opportunity. My first question is regarding the low ARPU subscriber weeding out. In the last call, you have highlighted that you have around 100 million subscribers who are relatively low ARPU customers, and you expect 30 million to 40 million of those to go away once you clean up your subscriber base, your comment suggested that you already have cleared 50 million and possibly more to go. So how should we read this? My second question is can you give some color on your how the revenue from smartphone versus feature phone is trending? Any quantitative order or qualitative color will be helpful.

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

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Pranav, Badal here. As suggested, that we are already at 284 million subs, where we have cleaned close to 49-50 million subs over the last quarter. And this is primarily the low ARPU low-end customers who were primarily incoming customers, who have been and who have gone away from our system. And this is exactly in line with whatever Gopal had recommended and suggested in the previous quarter. There could be some more to go here and there, but we really do not know what we do not know. So as of now, the 284 million subs, we feel comfortable about it, and they are the customers who are actually giving us revenue. And that is the right way, and that is the way we would like to measure ourselves going forward as well. Can you repeat the second question, Pranav?

Pranav Kshatriya - Edelweiss - Mumbai

Yes. My second question was, can you give some color on how the revenues have trended from smartphone versus the feature phone because we just know that your overall Indian ARPU India revenues are down 0.6% quarter-on-quarter. But how the movement is on for a smartphone? Are you gaining because we saw a fairly good traction in the smartphone side, and you added a fairly good number of customers, 11-odd million of 4G customers so how has the smartphone revenue trended versus a feature phone, any qualitative information will be helpful.

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

That is correct, Pranav. Pranav, we have historically seen, and this has been commented upon earlier, that as and when our customer moves from a feature phone to a smartphone, he ends up giving higher revenue. He upgrades himself to a little higher ARPU, which we get from these customers. So our trajectory on smartphone revenue has grown faster than the way our customer base has grown, and we continue to see that.

Pranav Kshatriya - Edelweiss - Mumbai

Okay. And so do you see this, the higher addition of 4G customers to continue? Because there's a good jump from 7-odd million in the last quarter to around 11 million this quarter?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes. Pranav, our single-minded focus has been to acquire 4G customers, upgrade them, and this is our focus area starting from go-to-market, online, wherever. So our focus is to acquire 4G customers and grow that segment. We have had a good quarter ending 3, and that will be our focus going forward as well.

Pranav Kshatriya - Edelweiss - Mumbai

Okay, thank you. That is it from my side.

Kamaldeep - Moderator

Thank you very much, Mr. Kshatriya. The next question comes from Mr. Sanjay Chawla from JM Financial, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financial - Mumbai

Good afternoon, thank you for the opportunity. My first question is on Africa financials. If I look at your Africa net debt, it has come down by to \$2,275 million quarter-on-quarter, second quarter to third quarter. Can you explain the movement in this line item, your net debt? What has caused this? And the related question is your Africa net finance cost has remained flat, around \$76 million, despite the steep decline in net debt. Can you explain that also, please? That is the first question.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

So in Africa net debt was actually just because at the consolidated level earlier, we had the money which came from the parent company sitting as shareholder loans. Those are now being converted into equity. And in addition, we raised a \$1.25 billion in the last quarter. But prior to that, basically, it was the shareholder loans, which were sitting as debt in the Africa balance sheet. So that is the answer for that.

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Sanjay Chawla - JM Financial - Mumbai

Sir is it due to the conversion of the loan to equity?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Yes. And the \$1.250 billion is a fresh infusion from third-party.

Sanjay Chawla - JM Financial - Mumbai

Okay, understood. And what is the reason for finance cost remaining flat?

Raghunath Mandava - Managing Director and Chief Executive Officer - Africa - Bharti Airtel Limited

Yes. So on finance cost, the repayment of debt, which has happened sometime end of November till middle of December. So you are not seeing the full benefit of the reduction of debt in this quarter. However, as you go forward, you will see that reduction will be flowing through in the P&L.

Sanjay Chawla - JM Financial - Mumbai

Okay. Related question if I could squeeze in on Africa. What kind of a target leverage ratio you have in mind for the Africa entity that is going for listing?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

So we do not have something really as yet. It is too premature. But if you see the comps, people are around the 2-ish or sub-2 level. So that is the comps. We will have to take a call closer to time.

Sanjay Chawla - JM Financial - Mumbai

So right now, we are at 3 times based on the latest disclosures. Do you think it will come down further?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

So if you do a raise, then you'll see the post raise net debt-EBITDA number. And so I am telling you the comps are around 2 at that level. So you can be headed that way with the raise.

Sanjay Chawla - JM Financial - Mumbai

Okay, thank you. And the second question is about regarding this impact of subscriber definition change and minimum ARPU plan on customer base. Has the VLR ratio gone up post revision in the subscriber recognition criteria as of end of December?

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

Sanjay, these customers are active on our network and using our network. So these are 100% active customers in a way. VLR what we report outside is on a larger base but these are almost all active customers in last 30 days.

Sanjay Chawla - JM Financial - Mumbai

So I am just wondering, this reduction in customer base is mainly from a reporting point of view, whereas a lot of these customers were just getting incoming calls, they will not be shelling out any money, but they are receiving incoming calls and you are getting interconnect revenues. They are actually active customers on a base. So in VLR ratio they would be counted?

Badal Bagri - Chief Financial Officer of India & South Asia - Bharti Airtel Limited

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That is true. But the post the recharge is not there. We are disconnecting their incoming calls as well. So these customers do not even get an incoming call in our network. So they are not generating revenue any longer, Sanjay. These are disconnected customers, they cannot make a call and they cannot receive a call.

Sanjay Chawla - JM Financial - Mumbai

Okay, thank you. And just one question on this 900 refarming. Can you indicate what is the incremental Capex that you incurred, moving your 3G BTS to 900?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Sorry. Sanjay, can you repeat the question?

Sanjay Chawla - JM Financial - Mumbai

With your 900 refarming and deploying 900 4G BTS, what is the incremental cost you are incurring when you are moving from a 3G 900 BTS?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

No incremental cost, in fact, you will reduce cost because they will be like old radios and old equipment. So when you refarm it, they move into SingleRAN equipment, which is far more efficient and takes lesser space. So it is actually a lowering of cost, no incremental cost.

Sanjay Chawla - JM Financial - Mumbai

Okay. Capex-wise also any software upgrade?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Capex, they will be depending on the equipment. If it is equipment, that is ready to be upgraded from 3G to 4G, there is only software. So there's no hardware also. But some of the circles have old equipment, which were invested in 10-15 years ago. Those will need to be swapped out.

Sanjay Chawla - JM Financial - Mumbai

Okay understood. Thank you so much and all the very best.

Kamaldeep - Moderator

Thank you very much, Mr. Chawla. The next question comes from Mr. Ravi Menon from Elara Securities, Mumbai. Mr. Menon you may ask your question now.

Ravi Menon - Elara Securities - Mumbai

Thank you for the opportunity. First question is on the smartphone additions. Gopal, I think you spoke about 100 million smartphone being sold in the country. And with the current base for 400 million-plus smartphone users or 4G users in the country, we are looking at more or less replacement at that level. So what do you think will drive additional growth in the 4G? The addition that you are seeing, is this really more market share gains?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

See currently, like I said, I think smartphones are adding in the market about 100 million phones. Like I mentioned, if the price were to come down some more and you have very high-end good devices with good brands, then maybe that number could be a little faster. But I would say in the next 2 to 3 years, 3 years perhaps, you'll have about 600 million to 700 million customers with 4G

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smartphones in this country. So to that extent, when you take a slightly longer view, a very large part of this market will be sitting on 4G.

Ravi Menon - Elara Securities - Mumbai

All right, great. Secondly, your SG&A costs, that has come down. Is this partly due to a simplification of plans or lowering of dealer incentives or anything of that sort that we should see on a sustained basis?

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Yes, Ravi. It is a combination of all. It is on account of simplification of processes planned. All of it together, and yes, we should be able to sustain it.

Ravi Menon - Elara Securities - Mumbai

Alright, great. And lastly, on the Capex side. Though you said you will give a guidance this later, just wanted to get a sense of which areas you think you'll need more Capex? Is it more on fiber or more on radios?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

I think it will be over the last 2 years, a lot of investment has gone into fiber and transmission that will continue. But yes, it will be a combination of radio and transmission, some smaller investments on the core network. But very large parts of it will be radio and transmission.

Ravi Menon - Elara Securities - Mumbai

Great. And one last thing about the EBITDA impact that you see. With this correction in traffic asymmetry, do you think that we would not see much of an EBITDA impact now next year when IUC goes to 0?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

We would see some because we are still recipients, while that is changing every quarter. I think even by the time we get to January 2020, we will still have more incoming minutes than outgoing minutes. And so there will be some impact, but it will be volatile.

Ravi Menon - Elara Securities - Mumbai

Thank you. Best of luck.

Kamaldeep - Moderator

Thank you very much. Mr. Menon. The last question comes from Mr. Rajiv Sharma from SBICAP Securities, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma - SBICAP Securities - Mumbai

Thanks for the opportunity. Just a couple of questions from my side. Firstly, I understand you are not providing any Capex guidance as of now for the next year. But just trying to understand that your 4G run rate has accelerated. In that case, your Capex should be higher next year, given that now you are doing 11 million and this is much more than what you were doing. Plus you are doing the fiber to home with your Telemedia. So just trying to understand why it should be lower? And you also mentioned about going to 5,000 cities in 4G from current 1,000. So there will be a case of more Capex. Secondly, what's your outlook on the DTH business? Would you look at consolidated something, given that Dish TV and share price have come down significantly? Or would you like to liquidate like you have done earlier? So would you like to dilute that? Thirdly, on given that whatever Jio has done with the tower thing, your sale in Infratel could be delayed. So any color on the equity raise and how do you see that happening? How much would you need to raise? And given that Voda-Idea are also there, will there be an appetite for so much of telecom equity? Your thoughts on all these three, please.

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On the Capex front, we feel that a very large part of the Capex has been put because our FD rollout over the last 2 years has been kind of Pan-India, and so all of that has been done. The rollout is modular, so we keep doing it as and when the traffic builds. Do not forget that even today, in every circle, about 30% of our sites give us barely any traffic or lower traffic. So TD will be more modular. And then of course, there are other solutions, like I mentioned small cells, small sectors, massive MIMOs, all of those will be to actually densify the networks. And the advantage is that when you already have a tower there, densification comes at more marginal Capex. The last thing I would say is that spectrum is starting to get refarmed. The 900 band we are already refarming. The 2100 band will get refarmed. All of this will also add capacity at almost no incremental cost. So all put together, we do see Capex sustaining, but not at this elevated level as we have seen this year. On the DTH, I think the business is continuing to grow. The new tariff order is now in place that came into effect from today. We are implementing the order as we speak. We think that in the longer term, this order could be beneficial in the sense that you could see some ARPU upside at the middle end as people sort of pick the channels that they think that they will pick. But let us wait and see how that actually plays out. And on the other front, on the capital raise, there is nothing that we have to say at this point in time. So that is what I would say.

Rajiv Sharma - SBICAP Securities - Mumbai

Yes, that answers my question. Thank you very much.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. At this moment, I would like to hand over the call proceedings back to Mr. Nilanjan Roy for the final remarks.

Nilanjan Roy - Global Chief Financial Officer- Bharti Airtel Limited

Thank you, everyone, for attending the call and look forward to interacting with you all in the coming quarter. Thank you.

Kamaldeep - Moderator

Thank you, Sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel, and have a pleasant evening.