

## Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter Ended September 30, 2018  
Earnings Conference Call

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**Bharti Airtel Limited Second Quarter Ended September 30, 2018 Earnings Conference Call****CORPORATE PARTICIPANTS****Gopal Vittal**

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**PRESENTATION****Kamaldeep - Moderator**

Good afternoon, ladies and gentlemen, I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Airtel Limited Second Quarter ended September 30, 2018 earnings call. For the duration of the presentation, all participants' 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.

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 you Mr. Roy!

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**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

**Bharti Airtel Limited Second Quarter Ended September 30, 2018 Earnings Conference Call**

Thank you. Good afternoon ladies and gentlemen. Thank you for joining us today for this earnings call to discuss the results for the second quarter ended September 30, 2018, which we announced yesterday. Present with me on the call today are Gopal, Raghu, Jaideep, Badal and Komal.

Let us start with the top themes in India's telecom industry during the quarter. The industry table continued to decline this quarter as well, and current telecom spend in India at approximately 0.7% of normal GDP is amongst the lowest in the world. The size of the industry, which at its peak was around 45000 Crores a quarter is now approximately 30000 Crores each quarter.

The good news however, remains that there is a massive demand for telecom services and usage parameters continue to rise with an average data user on our network alone using over 9GB per month. The role of the smart phone for the new customer today is more than just a connection, it is a convergence of connectivity, entertainment, trade, education, banking and this demand will only continue to increase. This coupled with the structural repair of the industry which we are now seeing with a three plus one operator structure bodes very well for the long-term opportunity; however, equally we believe that in order to allow operators to undertake massive network investments and provide right quality of services, pricing needs to move up to ensure industry viability.

The macroeconomic factors remained favorable in Africa during the quarter with increasing prices of crude and commodities which are helping the overall market growth and this augers well for the telecom sector there. In order to execute brilliantly in the market, we have a simple five-pronged strategy.

First is to win the 4G game decisively. This is crucial as India transforms to 4G. Starting this quarter, we have further heightened the disclosures to represent the 4G only customer additions and we are happy to say that we have added over 7.5 million 4G subscribers on our network. Each month India ships around 10 to 12 million smart phones with about 8 to 9 million being actual device sales for upgrades, within this we feel we are getting our fair share of our 4G net adds. We are also seeing good traction led by smart participation in device play both by our own platform as well as strategic alliances.

In order to drive upgrades of our user base, Airtel has launched one of the most attractive cash back offering for the existing customers on buying a new smart phone. Our device portal continues to do well and in this quarter we further expanded our devices by offering the latest iPhone models. Through an expansion of the models across price ranges coupled with expansion of credit and logistics partners we are hopeful of creating a truly compelling proposition of ensuring device affordability for our customers.

We are confident that these initiatives will continue to accelerate the smart phone adds on our network and render us as the "Network of Choice for 4G".

The second plank harbours around winning with brilliant network experience. High-speed network has to be the backbone of any operator and this quarter was no different in our quest of network transformation. In line with our stepped up deployment, we deployed over 27000 mobile broadband BTSs. We are happy to say that as per Ookla, the global leader in speed test, Airtel continues to be the fastest mobile network in India. This is a fourth time in a row that Ookla has rated Airtel as India's fastest network.

The third plank being building new revenues streams. In line with our philosophy of our being an open telco and working with multiple partners on our platforms to be able to provide the widest content choices for customers, we strengthened our product portfolio this quarter with a multitude of alliances and partnerships. We added Netflix, Zee5 and NDTV HOP to our already wide base of content choices. Whilst the Netflix partnership allows a three months of free trial only for Airtel customers, the Zee partnership allows to access to select premium original series and movies from Zee5 exclusively on Airtel's registered properties like Airtel TV. All these partnerships enable our customers to enjoy a superior and differentiated content experience.

We also launched Airtel Thanks, our biggest digital program to delight our valued customers with exclusive benefits. Under this first of its kind program, all Airtel customers who commit a monthly ARPU of Rs.100 and above will receive exciting additional benefits at no extra charge. These benefits will include access to premium digital content, great offers on smart phones and online shopping vouchers. This program also gives the brand the ability to engage with a vast base of smart phone customers.

By leveraging its deep customer insight Airtel will work with partners to co-create custom made offerings for Airtel customers. We have received very enthusiastic responses from our partners and look forward to building Airtel Thanks into a large scale telco brand collaboration property.

Fourthly, winning with "war on waste." Cost efficiencies is a company-wide focus while other cost line items have been largely flat, network costs have seen some increases in this quarter due to macro factors including the hike of diesel due to the weaker Rupee. We remain confident to drive synergies and be the lowest cost operator in the country.

Let me now turn to our Africa operations. Airtel Africa witnessed steady improvement across top and bottom lines on the back of the twin engines of data and Mobile Money underpinned by strict cost control. On a constant currency basis, revenue grew over about 11% year-on-year, Net revenue at a high of 13.2% year-on-year and the EBITDA growth was 24% year-on-year with EBITDA margins at a high of 37.1%.

While this quarter saw an impact of Forex fluctuation in Zambia, we are pleased to say that despite the additional servicing of acquisition interest, Africa is PAT positive for the third consecutive quarter. We are also very pleased to say that starting this quarter, we are providing detailed information on our Africa operations. The supplemental Africa pack within the quarterly report contains the segmental financials and operational KPIs of our three main regions, Nigeria, East Africa and Rest of Africa.

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Further product wise details namely mobile and Airtel Money have also been provided separately to give a full picture of the Africa business. You will see for yourself that in each of these operations, our businesses are growing faster than the market and are very well positioned to create long-term sustainable shareholder value.

Equally we are pleased that in line with the highest standards of corporate governance our Africa disclosures are also best in class. We feel that our Africa business has a very strong investment rationale underpinned by our unique portfolio of presence in high growth markets with organic and inorganic growth, we are now leading the operators across most of our markets with either being a number one or number two position across.

We have continued to invest ahead of the curve be it in network, distribution, IT, people, and with solid growth the operating leverage of the model is playing through. Our superior execution capabilities are demonstrated in Africa as we win with more customers with a strengthened distribution model. Driving data growth through mobile enterprise and home broadband and the expansion of Airtel Money where throughput has increased over 30% year-on-year to about \$6.2 billion this quarter.

Our enhancement of the consumer experience via network modernization has led to a rollout of broadband sites which continued during this quarter and we have over 15200 mobile broadband towers with over 26300 mobile broadband base stations. We now offer U900 in 10 Opcos and LTE in 10 Opcos as well with plans for launching in the balance soon.

The numbers demonstrate that this business has entered a sustainable positive cash flow era and that the investment rationale eight years ago with which we entered Africa is as valid today.

On the regulatory front, in India the Honorable Supreme Court has disallowed Aadhar eKYC based mobile SIM verification for mobile connections. Airtel is awaiting Department of Telecommunications' instructions on the way forward.

In Africa tax on mobile Internet and Money in a few key markets impacted the industry in some of our large markets.

Moving on to an update on fund raising. We are pleased to announce that Airtel Africa Limited a U.K. incorporated Subsidiary of Bharti Airtel announced that six leading global investors comprising Warburg Pincus, Temasek, Singtel, SoftBank Group International and others have agreed to invest US \$1.25 billion through a primary equity issuance in the company at a post money equity value of approximately US \$4.4 billion. Airtel Africa has seen a turnaround of its business in recent years and this investment demonstrates the confidence of leading global investors in the company's ongoing robust growth and profitability.

The investment also reinforces the increased growth potential of the African telecommunication sector. The proceeds will be used for deleveraging and for growth of the operations. Airtel Africa subsequently intends an IPO and use the proceeds primarily for further reduction of debt.

As regards Tata, we are currently in the final stages of hearing with the NCLT and post receiving NCLT approval we will approach DoT.

On Indus Infratel, following the CCI and SEBI approval, the merger petition has been filed with the NCLT.

Moving on to our financials, consolidated revenues came in at INR 204.2 billion, which is an underlying year-on-year growth of 0.5% adjusted for the IUC. Pricing pressures in mobile India continues even as Africa continued to grow strongly. Consolidated EBITDA of Rs.63.4 billion during the quarter, a decrease of 14.7% on an underlying basis mainly due to Opex headwinds on account of higher network cost as we aggressively rollout networks in India.

Africa organic EBITDA at constant currency at USD \$305 million is up 24% year-on-year. We remain focused on structural cost containment through our War on Waste program and we will continue to look for avenues of further cost rationalization. Depreciation and amortization expenses were at Rs.52.3 billion which increased due to an impact of sustained Capex trends aimed at enhancing our 4G capacities.

Net finance costs for the quarter were at Rs.29.8 billion mainly due to the higher interest charges at forex losses stemming from the rupee weakness and the appreciation of the Euro and the depreciation in the Zambian Kwacha this quarter.

From a standalone basis, the dollar exposure on the India books is only \$1.5 billion hence, we are very well cushioned from an adverse rupee movement. The company recognized an exceptional gain during the quarter largely on account of creation of deferred tax asset in our DTH business partially offsetting the charge towards network refarming and upgradation during the quarter.

Net income post exceptional items came in at Rs.1.18 billion. Capex at Rs.76.8 billion is slightly frontloaded even as we continue to maintain our overall guidance of Rs.270 billion for the full year. To enable our spend, strengthening our balance sheet and focus on debt reduction remains key priorities. Net debt during the quarter was INR 113.2 billion which increased due to additional debt undertaking for funding the OFCF shortfall and the higher Capex this quarter as well as the adverse effects causing a non cash translation impact. With the Airtel Africa primary issuance, the proceeds of which will be used to deleverage, this figure will come down further.

To sum up, with pricing softness continuing, India's telecom industry is fast consolidating and witnessing a huge expansion in data and voice usage with the move towards bundled offerings. With our scale and efficiencies backed by a superior spectrum and network footprint, we continue to hold and drive market share leadership. Finally our focus on strengthening our distribution model and enhancing consumer experience in Africa is leading to profitable topline growth.

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With that I hand you over to the moderator.

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**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.

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**Manish Adukia - Goldman Sachs - Mumbai**

Good afternoon and thank you for taking my questions. My first question is if you can just talk about the state of the India wireless industry at this point in time? What are the trends that you are seeing for different customer segments and what is your outlook for the industry over the next one to two years? Second question, Jio seems to be garnering a meaningful share of the feature phone market, how are you looking to stand the erosion of subscribers and revenues in that segment? And on similar lines, what is your outlook for your DTH and home broadband businesses given potential for competition in these segments in the near term? Thank you.

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

Manish this is Gopal. I think if you look at what is happening, firstly let me just talk about our mobility business. We have about 330-odd million customers on wireless, but if you look at the pattern of consumption across the base, you will find that there is a very large number of customers, some of whom we acquired from Telenor and some that we have ourselves, about 100 million customers with very low levels of ARPU so these ARPUs are at sort of a low double-digit. Now one of the big moves we made in the last one and a half months is really in three circles, in Tamil Nadu, UP West and Punjab where we moved in with minimum ARPU led plans at the low end. So we very dramatically simplified tariffs to just seven tariff plans and introduced these three minimum ARPU led plans. This is something that we have seen some good results in and we are now rolling this out across the country. In fact in the last seven days, we have already rolled out across the country, so if you see tariffs now there are brutally simplified seven or eight tariffs. With minimum ARPU plans starting at Rs.35. So that is on one side of the market, which is at the lower end. Then there is a second segment, which is in the prepaid segment, which is the high value prepaid segment, largely smart phones and this is where we believe that we really need to step up our act to actually win with 4G. There is a dramatic move that is taking place between feature phones and 3G phones to 4G. Today, if you look at our 3G devices and the contribution of these 3G devices to our overall revenue it is almost negligible, so we could very soon see the demise of 3G as a technology. And then there is a postpaid which is the real high end where I think we have been holding our share and we continue to do pretty strongly while the revenues on that segment have been under pressure that is largely because of the down trading and the movement into lower ARPU plans. I think we are holding the customer base, our churn is quite low, and we believe if in that segment we are able to hold at some stage the ARPU could lift. Now in order to meet these three broad segments, which is the low end, which I think will probably shrink, so you could expect some shrinkage of our low end customer base as we move to minimum ARPU plans, dramatic growth of prepaid on 4G and of course the postpaid segment, I think there are a few things that we are looking to do. Number one is really refarming our networks to L900. So the 900 band is going to 4G so in a way GSM on 900 will pretty much be done literally in the next three to four months. Like I said 3G networks will get sunset very soon and rapid focus on VoLTE to actually drive VoLTE growth. So that is as far as the overall wireless business is concerned. From our perspective, one of the big programs that Nilanjan referred to is our AirtelThanks which is really about serving our loyal customers who give us an ARPU of 100 and above and then trying to drive and upgrade them onto higher end plans given the low levels of pricing and this is where we are using content through partnerships with ZEE, Netflix and Amazon to actually try and upgrade them. So I would say that if you look forward a couple of years I think, we should probably see growth in the postpaid segment, we should see at the lower end the 100 million customers are giving us low double-digit ARPUs, are compressed further by 30% to 40% and an ARPU upside there and on the middle end, almost all customers will start sort of moving to 4G. We have chosen not to yet compete in the VoLTE feature phone space because we believe that there are customers already who are using our networks on feature phones, so our focus would be to actually get them to upgrade directly to smart phones. Finally as far as DTH and home broadband is concerned, on the DTH side, I think that business continues to look good. There still is a big opportunity to upgrade from terrestrial and cable. On the home broadband front, we have rolled out almost a million home passes in the first half of this year, which is equal to the entire rollout that we had last year. So, we have stepped up our home broadband home passes expansion and we are now beginning to see some growth in net adds. This quarter has been a little bit better than the prior quarter though we saw some ARPU dilution because of the pricing arbitrage that there is and the adjustment as a consequence that we have had to do on the broadband front.

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**Manish Adukia - Goldman Sachs - Mumbai**

Thank you Gopal for the detailed response. In fact if I can ask one quick follow up. I know this question keeps coming up on every quarter's call that Jio subscriber addition just on the smart phone side still continues to be much ahead of what Bharti is doing

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despite Bharti doing a lot of Capex and network still remains very good like you mentioned, but their subscriber addition still remains very, very strong, so what do you think is driving that divergence in subscriber addition trends and how soon do you think that gap could potentially be closed with Reliance Jio?

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

I think we have seen a growth of about 7.5 million 4G net adds this quarter. It is a little lower than the quarter that went by. And that is also partly on account of the seasonal effect that we have experienced. We are not competing at one end of the market which is the VoLTE phone or the feature phone so we are really competing only on the smart phone side. If you look at our performance, I would say in the top 1000 towns I believe that we are actually adding the most amount of customers. In rural areas we are still under indexed and this is beginning to shift as our networks are rolling out. In fact, if you look at our 4G footprint, that is getting to about 150000 sites. We added about 25000 sites in this quarter and as we roll networks out we find that our share of 4G net adds in those particular geographies takes a bump up. There is a direct correlation between our rollouts of our network and the performance in 4G, which is why for example, in markets like Karnataka where we have rolled out much in advance we are getting more than our fair share of 4G net ads. So I think there is a clear correlation between the network rollout and the performance on the smart phone front.

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**Manish Adukia - Goldman Sachs - Mumbai**

Sure that is helpful. Thank you and all the best.

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**Kamaldeep - Moderator**

Thank you very much Mr. Adukia. The next question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar, you may ask your question now.

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**Sachin Salgaonkar - Bank of America - Mumbai**

Thank you for the opportunity. My two questions are, first question is on EBITDA margin at India cellular, clearly it was pretty low at this quarter at 21% when we look at the trend what we saw in the past. Just wanted to understand are there any one-offs in this or is this more like a steady state? And Nilanjan again, you know, I did hear on the War on the Waste, but by the looks of it, the SG&A continues to remain high for not only this quarter but even last quarter, was a bit high? Second question was on any change in strategy you guys are looking at more like a fibre to the home market post Reliance acquisition of DEN and Hathway, given that this market perhaps has a little bit more potential and now perhaps one operator is trying, and wanted to understand how you guys are looking at it. Gopal, a follow-up question on your comments on the previous question, are you saying that GSM in 900 in the next three to four months will be completely shut down for Bharti?

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

I think it depends Sachin. It depends on the spectrum that we have. If you look at for example, markets like Karnataka where we have about 8.8 MHz of 900 there will be a small slug of spectrum that will continue to be run on GSM. The same would apply for markets like Andhra or northeast or Assam. In the case of Delhi, we have only 6 MHz of 900, so there the movement could be a little bit more rapid, but we are over a period of time, the best spectrum which is the 900 band spectrum, we believe will go to serve 4G customers rather than 2G and by and large we will operate with 1800 grade networks as far as GSM is concerned. Like I said there will be a transition plan for this and it would vary depending on the circle and that is a function of the extent of 2G revenues that we derive from the circle. On the FTTH market, I think like I said we have rolled out aggressively in fiber-to-the-home a million home passes during the first half. We will continue to rollout aggressively in the second half, we are also looking to step up our investments on home broadband in the following year and we will be open to looking at other partnerships to expand our home presence through other entities that may have access to the last mile. So that is still speculative.

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

Badal here. On the EBITDA margins for mobiles business we are at around 21%-odd and that seems to be a steady state as of now except for network expenses almost all our other lines of expenses have been kind of flat despite us going aggressively on content, we have been able to manage our other lines of expenses to offset the increase in content expenses. Network expenses have increased this quarter primarily led by three or four broad reasons. One, we have almost doubled the incremental new sites which we have rolled out this quarter close to 3700-odd. The number of base stations which we added were 27000 versus 22000 in the previous quarter. That has an impact. Diesel almost as Nilanjan mentioned in his opening speech went up by close to Rs.4-odd for the entire quarter and that had a fair amount of impact on our numbers and apart from that we have had some increase because of Voda-Idea exiting certain cites so we are having some increase on account of that, but on ballpark EBITDA margin at 21% seems reasonable, seems steady state.

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**Sachin Salgaonkar - Bank of America - Mumbai**

Sorry, despite the War on Waste and the focus on keeping Opex constant now you guys are saying that it is more like a 21% going forward EBITDA margin, which is perhaps a move away from what was your earlier statement in terms of costs largely being remaining controlled for the next three years?

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

Sachin, if you look at over the last three or four quarters despite substantial rollout in network, we have been able to hold our expenses in this market despite significant consolidation and MNP opportunities which we have got, we have been able to hold our SG&A fairly flat, so this has been offset by various war on waste based programs, which we have run over a period of time which have yielded results. As you will also appreciate that there are certain expenses which are semi-fixed in nature and it takes time for us to kind of work on it, it is not that our War on Waste program ends, but we are seeing that the programs which we are running right now will take us a couple of quarters so that they start yielding results.

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

One other point Sachin to make in addition to what Badal is saying is that minimum ARPU plans that we have launched across the country now should see a significant reduction in SG&A as well. I mean that is one of our ambition, so let us see how that plays out. But certainly it should do two things, one is it should reduce the amount of marginal customers and get a minimum ARPU from them and secondly it should reduce the amount of activity in the market and all the rotation that you see which is a function of the SG&A cost.

**Sachin Salgaonkar - Bank of America - Mumbai**

Thank you.

**Kamaldeep - Moderator**

Thank you, 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**

Thank you very much. Three questions if I may, please. First, I mean, if I look at your customer base and I think we have a slightly newer file, which you have sent sometime back. But broadly speaking, when you acquired or when you were in the process of acquiring Telenor and Tata, broadly they had a subscriber base of 70-odd million, I am kind of rounding off here, how much did actually you end up with in terms of active subs? It would be helpful to get a sense. And in this quarter, we have seen your overall subs have not gone up. Is that on account of the minimum ARPU plan, which was alluded right now? So that is my first question. Second, in terms of the homes passed and what you have indicated I mean, the current homes passed are almost 50% of the current subscriber base of home broadband. So should we expect a rapid increase in the subscriber base on the home side over the next 18 to 24 months? That is how this business typically tends to work, so any feedback on that would be helpful. Finally, on Africa Nilanjan thank you very much, on the increased disclosure. It is really useful. If I may ask another two questions; first, your margins in Nigeria are fairly robust, they are almost at 41%. Even though your revenue share gap with the leader is fairly significant, the margin gap seems to be a lot lower. So any thoughts around that would be helpful. And secondly, on an overall Africa basis, your margin improvement over 6-8 quarter has happened, half of that has come from access and half of that has come from SG&A. So how long can this trend continue? I mean, on access I believe it would be because of rising share of data revenues. But any feedback on the margin trend or cadence would be helpful in Africa. Thanks.

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

Let me take the Indian side first. I think on the customer base, we have about 332 million customers - a decline of about close to 11.8 million in this quarter. Much of it is the cleanup of the Telenor base. The definition of the customer that we look at is on a 30-day activity basis and that led to some reduction on the Telenor side.

And the second impact was; that in Tamil Nadu, UP and Punjab where we introduced the minimum ARPU plans, we saw some reduction in the customer base. So those are the two reasons for it.

On the homes passed, I think you are right, which is that if you're adding a lot of homes, then we should be stepping up acquisitions which is what you have started to see in Q2. Having said that, you must remember that in this business the gestation for translating a home pass into a utilized home pass is typically anywhere between three to four years. It depends on when you got in there, the rate at which the occupancy is moving in a high-rise, which is really where our strategy is focused, on high-rise more than flat bed.

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So it depends on the occupancy, it depends on when the building gets ready and so on. So on blended basis, if you look at the utilizations, they should come back to the levels that you normally have on the base over a 3 year period.

**Raghunath Mandava - Managing Director & Chief Executive Officer, Africa - Bharti Airtel Limited**

Hi, Raghu here. On Africa margins, first, let us talk about Nigeria. The key reason is if you see our revenue mix we have more of the high-yielding and high profitable revenues, which is largely voice and data revenues. We perhaps have a lot less share of the transit and lease lines revenues, which have much more lower margins. So I think that is one of the reasons you will see us having 41% margins. Of course, this is also due to our cost structure and our operating model being a little different. Overall, if you see what's happening in Africa in our revenue growth, is big growth is coming in from both data and mobile money, both of which are growing at between 30% and 50%. And these are substantial weightage to our business. Today, data is almost about 23% - 24% and Mobile Money is about 6%. So 30% of our portfolio is growing rapidly and this comes with lower access charges. Voice is also growing marginally so that is the big reason why you will see a swing towards net revenue growth being higher than gross revenue growth by about 2% - 3% and that flows down to EBITDA. On the cost you have seen, the SG&A costs are actually marginally lower. But network costs have grown as we have been investing very heavily on our LTE network and that is why you will see that we have not been able to get lot more savings on that. Thank you.

**Srinivas Rao - Deutsche Bank - Singapore**

Thank you. This is helpful, Raghu and Gopal. Thank you very much.

**Kamaldeep - Moderator**

Thank you Mr. Rao. 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 on the service validity pack or the minimum recharge pack. In the 3 circles which you introduced these in, how has the initial customer behavior been? Like are the customers paying to retain the number or leaving and for those who are on lifetime validity can you compel them to make a minimum payment? That is first. Second is access charges have shot up meaningfully in India while volumes are not really up much. Is it because of higher number of outgoing calls to Jio? And finally, how should we think about the Capex beyond fiscal 2019? Should we assume this level will be the minimum it will stay, or is there a chance that it can come up? That is it. Thank you.

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

It is still early to give you a decisive verdict on what is happening on the minimum plan, because remember, we have just gone through one round of outgoing barring. But in 45 days, incoming will also bar which is in about 15 days from now. So the full impact in these three circles will be seen in a couple of weeks' time. Our initial results seems to suggest that in these three circles we are seeing some reduction in the customer base, but some improvement in the overall recharge, which is a healthy thing because that means a smaller customer base but a much bigger ARPU.

On the access charges yes, I think one of the reasons for it has been the increase in the outgoing calling to other networks led by our strategy on driving bundles. Bundles are the first barometer or the first driver of actually getting onto the primary slot. So bundles are a big focus for us. And that is one of the reasons that you see some increase in the access charges.

On the Capex, we will give you our guidance a little later on. So as of now, I will not comment. Let's see how it shapes up over the next three months and then we'll give you a sense. It will certainly not be higher than this year's number. If anything, it'll be a little lower than this number but we'll come to you later; next quarter perhaps.

**Kunal Vora - BNP Paribas - Mumbai**

Just a small follow-up on the first one. On the service validity recharges. How does it apply to lifetime validity customers? Those customers will be under an impression that incoming is free forever and now suddenly they are being asked to make a minimum payment. So how is the applicability there?

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

We filed these tariffs with the TRAI. These are tariffs that are filed on the basis of a minimum rental. So all of this has been filed and done.

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**Kunal Vora - BNP Paribas - Mumbai**

Okay. So there are no regulatory issues on this side. That is very clear.

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

No.

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**Kunal Vora - BNP Paribas - Mumbai**

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

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**Kamaldeep - Moderator**

Thank you very much, Mr. Vora. The next question comes from Mr. Viral Shah from Credit Suisse, Mumbai. Mr. Shah, you may ask your question now.

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**Sunil Tirumalai - Credit Suisse - Mumbai**

Good afternoon. This is Sunil from Credit Suisse. Thank you for the opportunity. My first question is on your network rollouts and you Capex. So while your pace of base station additions has been fairly high and steady all through, you seem to be now reaching nearly 90% of your network sites at mobile broadband sites. And at this pace, probably in the next one or two quarters all your 2G sites would also have mobile broadband loaded on. Given that as you mentioned, you need to still step up on network rollouts in many places. Jio seems to be targeting nearly 300,000 sites versus your 170,000 that you have today. Do we expect more new network site additions going forward, network towers by your definition going forward? Or do you think loading can still be sufficient? That's my first question.

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

I think the way that we look at rollout is we are not chasing a number. We are looking at rollout of new towers based on where we believe there's a meaningful revenue opportunity. We think that there could be a case for a few more infill sites, there could be a case for a few more sites going into rural areas. What that number is, we are still working through, but over the next 12 months, we do believe that there will be some increase in the number of towers. What that number is, we will come back to you as we finalize the Capex guidance for the year. Yes, most of these sites now our 2G sites already have FD. There will be a requirement for more TD sites. There also be a requirement for more massive MIMO's where we have serious congestion. Some additional sectorization of existing sites and some fiber that will be needed to fiberize some of the nodes across. So that will be the main components of the Capex going forward this year.

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**Sunil Tirumalai - Credit Suisse - Mumbai**

So a related question to that is that so far over the last 2, 3 years your rollouts while your Capex was high with a lot of base station getting added. It was not really hitting you on the cost because most of these are loading? Will that trajectory change given in the light of what you just said, that you will be needing more towers?

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

I do not believe it will meaningfully change, but like I said, I think let us not get ahead of ourselves for the capex guidance- numbers for the subsequent year will be given when we give you guidance for the next year

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**Sunil Tirumalai - Credit Suisse - Mumbai**

Okay. Now going back to the question on your fiber rollout and 1 million homes passed. I mean, I notice that in your KPI excel sheet and in your report you still call your home broadband customers as DSL. I mean, is that still largely DSL, very few fiber and can we conclude that 1 million homes that you have now passed with fiber does not actually much overlap with these 2 million customers that you already have?

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

So let me clarify every new home that we are passing is also fiber. Our existing DSL asset base has been upgraded through the vectored fiber that we introduced for a year ago. So it was a good catch. We will change the nomenclature for that, all of that should be read as V-fiber.

**Sunil Tirumalai - Credit Suisse - Mumbai**

Right. Understood. And finally, you had with these minimum ARPU plans you said you are consciously rationalizing your customer base but you have still seen an ARPU reduction, probably that is seasonality that has driven that. After the close of the quarter, with the festive season, etc., how has your experience been? Do you think the ARPU should come back as per seasonality or last couple of years did not really matter whether it was seasonal or not, the ARPU kept going down? How do you see the experience going into the third quarter?

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

Sunil, Badal here. As you rightly pointed, this is a seasonal quarter and there is some impact of seasonality on ARPU. As earlier, Gopal mentioned, that there has been some down trading on account of postpaid as well. With these minimum ARPU plans which have been now rolled out nationally we see that in some point of time which is not if this quarter, coming quarter, we should start seeing an uptick as far as prepaid ARPU is concerned. Postpaid ARPU may still be under pressure for a couple of quarters here and there. But overall, we feel confident about the ARPU trajectory moving northward positively from here on.

**Sunil Tirumalai - Credit Suisse - Mumbai**

Thank you.

**Kamaldeep - Moderator**

Thank you, Mr. Tirumalai. 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 Gopal, what would be your thoughts on the smartphone sales in India and the penetration that you have achieved so far. Have the sales been below expectations, are they recovering? And what sort of a unique smartphone user base one could expect let us say by 2020? That is the first question.

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

So we are adding about anywhere between 10 million and 12 million smartphones a month, which is around 100 million to 120 million smartphones. About 25 million to 30 million tend to get damaged so those would not come back into the system, but about 90 million to 95 million phones are getting added onto the system through a combination of new phones and hand-me-downs of existing phones. So today, if you look at the smartphones, they are in the ballpark of about 300 million to 310 million. So if you look at it let us say, a year out, which is October of next year, there should be close to 400 million and if you are really seeing 2020, then there should be close to 500 million, is how we see the trajectory moving. So that is the trajectory at which it is moving.

However, while there are about 1 billion odd SIMs, our estimate is that unique devices in India will be about 750 million to 800 million. So if you take that number, then we are at a penetration of about 35%. But if you take the overall, SIM number, then our penetration is lower, substantially lower. So that is the trajectory at which the smartphone segment is moving. Also, the other also fact to point out is that if you take the revenue from smartphones, then that's much, much higher than the percentage of customers with smartphones. So that 35% number would play to probably around 65% to 70%.

**Sanjay Chawla - JM Financial - Mumbai**

Okay. Getting to 400 million next year and then 500 million by 2020. Is there any expectation of smartphone ASPs or prices, entry-level prices coming down or is it simply upgrade and income growth which will drive that?

**Bharti Airtel Limited Second Quarter Ended September 30, 2018 Earnings Conference Call****Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited**

Sanjay, the ASP should be in the same ratio like we have today. I do not think we will have a significant change in the ASP trajectory for smartphones sales in India. There will be people who will want to keep on upgrading but there are many people who are then on the feature phone, or VoLTE phone who would want to upgrade. So almost every ASP band will be relevant at least for the next 3 years in the country.

**Sanjay Chawla - JM Financial - Mumbai**

But we do not see any decline in the entry-level 4G-smartphone prices from there?

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

I would say that if you take mix of smartphones, the largest segment is not in the let us say Rs.3500 -Rs.4000 to Rs.6000. The largest volume is between the Rs.6000 to Rs.10000 price points. So there are entry phones which are at Rs.4000 and Rs.5000. They are largely Indian brands. But you do not see them as big as the ones between Rs.6000 to Rs.10000, which is led by Xiaomi, Oppo, Samsung, Vivo. Those are the brands that are the biggest ones. If one of these brands were to bring the pricing down from Rs.6000 to Rs.5000 and Rs.4500, yes, then that could be another opportunity for them to actually accelerate the adoption. But our sense is that, that is not happening as we speak.

**Sanjay Chawla - JM Financial - Mumbai**

Okay. And the second question is, you mentioned about the shift of 900 refarming to 4G. So what would be the penetration of 900 in the current device base that you have in 4G? And incrementally, where do you see this penetration of 900 be in terms of the range?

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

I think most of the devices today are already 900 band compatible. In fact, we have just concluded the refarming of 900 band in Karnataka so all our sites in Karnataka are now 4G ready on 900 band. With the exception of Xiaomi, where they do not have the 900 band chipset; handsets should also be compatible. We are working with them to try and see to get those devices also with the 900 band. A vast majority of the manufacturers already have 900 band on their chipset. And Xiaomi also has a plan to actually move it. So it is just that the existing stock of devices do not have it and that's the challenge.

**Sanjay Chawla - JM Financial - Mumbai**

And the existing stock of the 4G devices in your network I mean, what would be the percentage penetration of 900 devices?

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

On data side, very high, so I do not have a number off hand but I would imagine it would be upwards of 80% to 90%. On the VoLTE side, a little lower because that needs an upgrade cycle that kicks in on that particular device.

**Sanjay Chawla - JM Financial - Mumbai**

Thank you very much and all the best.

**Kamaldeep - Moderator**

Thank you, 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**

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Thank you for the opportunity. A lot of my questions have been answered. I just wanted to get into the access charges a little bit more. So the voice minutes have seen an increase of just about 1.3% q-o-q, but access charges have been up nearly 10%. So does this mean a significantly higher proportion of our calls are now outgoing?

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

Ravi, Badal here. Yes, our overall access charges are on account of 2. One is on the mobile side, what you are seeing is absolutely right. Our outgoing off net percentage has substantially increased in this current quarter, and this has led to higher access charges. And also we have seen some access charges increase in our wholesale business under the Enterprise segment. So both these put together have seen some increase, overall increase in the access charges.

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**Ravi Menon - Elara Securities - Mumbai**

And would the increase in the Enterprise segment be a seasonal phenomenon or should we expect that this is more or less permanent?

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

No, I would say it will be a seasonal phenomenon. There is some volume uptick but not too much of variation to my mind.

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**Kamaldeep - Moderator**

Thank you, Mr. Menon. The last question comes from Ms. Sharon Chen from Metlife, Hong Kong. Mr. Chen, you may ask your question now.

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**Sharon Chen - Metlife - Hong Kong**

Thanks for the opportunity. Just a quick question on the status of Airtel-Indus merger. And also whether you have been having discussions to potentially sell stakes after the merger completes?

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**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

No, nothing as of now. The only focus we have is to get the merger through. That is what we are working on. So nothing to report.

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**Sharon Chen - Metlife - Hong Kong**

It is still on track to complete by March, next year?

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**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

That's the plan. Yes.

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**Sharon Chen - Metlife - Hong Kong**

Thank you.

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**Kamaldeep - Moderator**

Thank you Ms. Chen. At this moment, I would hand over the call proceedings back to Mr. Nilanjan Roy for the final remarks.

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**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

Thank you, everyone, for joining us on this call. And we look forward to seeing you in the next quarter.

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**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.