

Conference Call Transcript

Event: Bharti Airtel Limited First Quarter Ended June 30th, 2018 Earnings Conference Call

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Bharti Airtel Limited First Quarter Ended June 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 First Quarter Ended June 30, 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.

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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!

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 first quarter ended 30th June 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.

1. Current telecom spend in India at ~ 0.66% of nominal GDP is the lowest in the world. Size of the industry, which at its peak was ~180,000 Cr., is now close to ~120,000 Cr.
2. With the exit of all marginal operators and merger approval of 2 leading players- the industry has effectively moved towards a 3+1 market structure where SIM consolidation is inevitable and this is good news for us.
3. Despite the short term pain, we continue to believe in the long term secular opportunity of the Indian markets - a market of 1.3 billion customers with less than 2/3rd unique mobile penetration and an even lower – 1/3rd data penetration.
4. Indians are spending more and more time on their phones – from about 3 hours last year, an average Indian today spends more than 4 hours on their phone daily and this just points to the demand being very robust for times to come

In such a mobile only market, with rising affordability and fall in pricing of phones globally, the featurephone market will remain a limited segment and smartphones will become the predominant gateway to internet for consumers across age groups. Each year, over 120mln smartphones are added to the networks and given our leadership position, we feel we are very well poised to be the natural beneficiary of the upgrade cycle. On our own networks, between Q1 of 2018 and 2019, we have added over 50mln 4G devices, with a very large portion of these users using Airtel as the primary 4G SIM – hence we are confident that we will decisively be able to win the 4G game.

To this end, our devices platform- which is a partnership led model with OEMs like Apple, Samsung and Nokia and players in the digital lending space- we have created an ecosystem of lenders, logistics companies and distributors to offer aspirational handsets at an affordable price at customer's doorstep. Our other programs like Mera Pehla Smartphone and JUMP- Just Upgrade my Phone are running successfully to enable millions of Indians to upgrade their devices

Similarly, being India's only integrated operator, our franchise offers a unique play of convergence across multiple screens of homes and businesses and this remains our strategic advantage. Besides the 345 mln customers we serve on mobile, we are a strong enterprises and homes franchise.

Talking about Enterprise:

We are the preferred partner of choice to over 50,000 business customers including leading global telcos, large global multinationals, OTT players, software companies etc- with strong relationships built over the last 20 years. We already run a very successful program "India with Airtel" for our global clients- which has seen phenomenal results. We rolled out a first-of-its-kind carrier digital platform for wholesale voice which offers paperless sign-up, quick voice interconnects and real-time traffic analytics for global carriers across the world. Our domestic business continues to benefit from our strong synergies with mobile and our uniquely positioned fiber assets and we continue to grow faster than the market.

We are also driving newer growth areas such as Data Centre, IoT, Security. On the Security side, we run a very successful partnership with Symantec, which allows us to offer security solutions alongside the infra layer.

We are expanding our fixed broadband network - deeper and wider to offer speeds up to 300 Mbps and higher using FTTH and Vectorization. Plans now also come with bundled content like Amazon Prime membership plus subscription free access to Airtel TV, Wynk Music. To enhance customer experience by bundling their various relationships with Airtel as one, we also recently launched "One Home One Bill"- which enables a single bill across postpaid, fixed broadband and DTH, and discounts on bundles therein.

We are also very pleased to state that Airtel Payments Bank has received requisite approvals from RBI to start on-boarding new customers. Airtel Payments Bank has also been permitted by the UIDAI to resume the on-boarding of customers using Aadhar based e-KYC.

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Another milestone achieved this quarter has been on Airtel TV – which crossed the 50 million download mark on the Android store, underlining its growing popularity amongst smartphone users as the go to destination for digital content.

To cater to this exponential data growth, investments necessitate an increase in pricing and we continue to believe that mobile tariffs need to move up. This, along with the natural upgrade cycle to smartphones and data will render strong industry revenue and profitability growth going forward.

Let me now turn to our Africa operations:

Africa saw a stabilization in prices of crude and commodities which led to rebound in growth and fundamentals of the economies. Despite Q1 being a seasonally weak quarter, Airtel Africa witnessed steady improvement across top and bottom lines on the back of twin engines of data and mobile money, underpinned by strict cost controls.

On a Constant currency basis:

GR growth: 13.9% YOY
NR growth: 16.6% YOY
EBITDA growth: 44.8% YOY
EBITDA margin: 36.4% is a new record.

Starting this quarter, borrowings for the acquisition of Africa operations and its associated finance costs have been included in Africa segment, re-classed from India SA segment, and we are very pleased that despite the additional servicing of acquisition interest, Africa is PAT positive.

Let me talk about our Africa operations in some detail:

Africa has seen strong revenue growth – outperforming markets and competition. Airtel has, for the last 8 quarters seen a constant currency CAGR of 7.2% - which not only exceeds market, but also competition. In our top 5 markets, we are on an average growing between 10-12% on GR and this positions us very well for a strong overall growth.

Our growth has been premised around 3 main pillars:

Enhancing distribution – we created a very strong direct distribution model to serve the underpenetrated markets of the country, with special focus on ensuring strong presence of activation outlets, which not only ensures quality of acquisition but also KYC compliance. As on date, across our 15 countries, we have close to 1.25m retail points of presence and ~184,000 activating outlets.

Networks- we undertook a massive network modernization program and upgraded networks from conventional 3G to U900 in 11 Opcos and launched 4G in 9 Opcos, with the balance being underway. By investing in future ready, single RAN architecture, we were able to increase site throughputs to cater to the fast growing data demand. Over the last 8 quarters, our 3G site count has increased by 23%, while our LTE site count has exponentially grown from what it used to be. Equally, we have invested in transmission and backhaul and given our unique presence, we are the only operator with coast to coast fibre capability. This has meant that our data revenues have grown very strongly at ~35% YoY and today contribute over 21% of our revenues.

Money: Average banking penetration in Africa is < 25% and we were able to leverage our product and distribution architecture to grow mobile money across. As of Q1FY19, our annualized throughput is over USD 24bn. Airtel money now contributes 5% of our overall revenues and clocked a 47% YoY growth.

Costs – Zero based cost rebasing is a very critical part of our strategy and we have ensured that constant currency opex has stayed constant or reduced every quarter, leading to margin expansion. We have grown margins every single quarter for the last 8 quarters and closed Q1FY19 at 36.4% margins.

We are now the leading operator in most of our markets (with #1 or #2 position across).

With average telecom penetration of ~41% and Smartphone penetration of 27%, we remain very excited about the overall opportunity that the continent presents. Equally, we are confident that our investments ahead of the curve – be it in networks, distribution, IT, brand or people will keep us very well positioned for the future

An update on M&A:

Telenor – we completed the acquisition of Telenor India on 14th May 2018, having received all statutory and regulatory approvals for the same. The transaction will add 43.4 MHz of paired spectrum in 1800Mhz band across seven circles besides bolstering our customer base and leadership position. We have consolidated the financials of Telenor India from the said date.

Tata – we are currently seeking approvals from NCLT following which we will approach DOT.

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Indus-Infratel Merger update: CCI, SEBI approvals were received for the merger between Indus and Infratel and now the company will file the first motion petition before the NCLT in due course.

Moving onto our financials

Consolidated revenues came in at INR 200.8 billion, which is a QoQ growth of 2.3%. While revenue growth was aided by growth in Africa, Mobile India saw a growth of 1.2% sequentially. This was aided by the addition of Telenor's business, but on an underlying basis, we are seeing some degree of stabilization, led by our strong net adds, including data. Africa (AOP CC) revenues at USD 794 mln– growth of 1.7% sequentially and 13.9% YoY.

Consolidated EBITDA at INR 68.3 billion is down 2.80% QoQ and 12.6% % YOY led 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 289mln is up 3% sequentially and 44.5% YOY. We remain focused on structural cost containment through our "War on Waste" program.

Depreciation and amortization expenses were at Rs 51.4 billion – an increase of Rs 2.4 billion due to additional Capex. Net finance costs for the quarter were at Rs 21.2 billion due to higher interest charges and forex losses this quarter.

The company recognized an exceptional gain during the quarter largely on account of creation of deferred tax asset in Nigeria; partially offset by charge towards network re-farming / up-gradation program and integration related costs pertaining to the business combinations consummated during the quarter.

Net Income, post exceptional items, came in at Rs 973million

Capex at Rs 82.1billion is slightly front loaded, even as we continue to maintain our overall guidance of Rs 270 billion for the full year.

To enable our spends, strengthening our Balance Sheet and focus on debt reduction remain key priorities. Net debt during the quarter was Rs 1,029 billion – increased in part due to the Telenor related deferred payment liabilities and other liabilities assumed by us, besides additional debt undertaken for funding OFCF shortfall given the higher capex this quarter and also impacted by adverse FX causing a translation impact. Net Debt to EBITDA is at 3.61. We continue to look at various monetization opportunities to further strengthen the balance sheet.

To sum up, while pricing softness continues, 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 our 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 top line growth.

With this I hand over to 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. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. First question is on Capex, and Nilanjan, your comment taken that it appears to be front-end loaded, but any upside risk you see it to the overall Capex number for this year? And it would be great to understand where the Capex went in this quarter. Because we did not see an equivalent jump in your 4G BTS or fiber kilometer roll out. And second question is to Gopal. This is more on a feature phone perspective. Clearly, Jio has 25 million feature phones and they are gaining customers. And given the fact that you guys are in leadership position, I presume a bit of your customers also moving out there. And as you know, they are looking to target 100 million customers going forward. So the question out here is which is a sub segment which is going perhaps in the direction of these feature phones? Are these the current feature phone guys or there is a bit of a downgrade from the smartphones? And how do you actually look to respond to this, because till date, we have not seen any response coming from you guys?

Bharti Airtel Limited First Quarter Ended June 30, 2018 Earnings Conference Call**Badal Bagri - Chief Financial Officer – India & South Asia- Bharti Airtel Limited**

Sachin, Badal here. First of all, we think we will be in absolutely in line with the overall Capex guidance given earlier for the current financial year. Yes, we have front ending of Capex, for which we have procured material, and most of the material is under progress. So you should see the capitalization in the forthcoming quarters, starting from second quarter.

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

Sachin to your second question, the new feature phone is largely taking some share away from existing feature phone users and less a downgrade from smartphones. I think for us, the single biggest priority is to really get the right quality of customer. So our focus has been in the 4G space and smartphones, like I mentioned last quarter, to get the primary SIM slot and drive share of primary SIM slot. And the second part is on the feature phone side, to try and ring-fence and hold on to our higher-ARPU customers. Those are the two key strategies that we are driving.

Sachin Salgaonkar - Bank of America – Mumbai

Thanks Gopal, I have a quick follow-up out here. When we look at the monthly broadband subscriber additions, clearly, the gap appears to be huge between Jio and Bharti. And one could understand the Jio numbers are getting masked by feature phone numbers. But how do you look at it? Do you see this gap narrowing down, given your push program, seeing incremental increase in the overall net adds going forward?

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

We have done close to about 10 million broadband net adds this quarter. Part of it is also on account of some loss that we saw on the Telenor side as those customers got integrated in the first half of the quarter. So by and large on smartphones, we are getting more than our fair share of broadband net adds. Where we are obviously not competing is on the feature phone side, because on the feature phone side, those are not broadband net adds, those are generally just voice net adds.

Sachin Salgaonkar - Bank of America – Mumbai

Got it. Thanks.

Kamaldeep – Moderator

Thank you very much Mr. Salgaonkar. 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. I have two questions, one on the mobile and another one on FTTH. First is on mobile. If I take a slightly longer-term view, 2-3 year view, where do you see the tariff stabilizing? Today, we have Rs.150 plans and Rs.200 plans. When do you see, low end Rs.50 plans, Rs.70 plans coming in. So where do you see the tariff stabilizing? Do you think it can be much higher? Where do you see in two years' time it stabilizing? That is one. And also would you look to charge for content? Or content will always remain a part of the bundle? That is on the mobile side. And coming to broadband, I wanted to hear your thoughts on what do you see as the potential size of the market? You have been stable at 2 million, while Jio is talking about a 50 to 100 million potential market size. Do you share that vision that you have that kind of potential? And would you look to accelerate investment on the FTTH side? That is it. Thank you.

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

I think firstly on the pricing front, clearly, we are in unsustainable levels of pricing today. I mean not so long ago our ARPU used to be about close to Rs.200. So we have lost a very significant amount of ARPU and if we were to go back to the same level of ARPU, then clearly, our business would be double of where it is today. I think that this is, at this point in time, there is obviously a very competitive context. My own sense is that pricing should start lifting in the next, perhaps, six months. So hopefully, we will start seeing some pricing movement, but this is obviously a function of competitive dynamics. On the content side, for now we have announced that till December, we will give this content free with the bundle. One of the advantages of doing that is that our churn comes down when people pick the content along with the bundle. On broadband, I think the larger point you are making is right, which is India is a very, very under-served market in broadband. There clearly is a big opportunity to expand home broadband. What that number is, can be debated. But for us, last couple of years we have been rolling out about 500,000 to 600,000 home passes. This year, our plan is to step it up to close to 2 million. We have begun this quarter in a slightly slower wicket, it takes time to ramp

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up, getting clearances and permissions and all. So you will see a step-up in our broadband, home broadband investment during the course of this year.

Kunal Vora - BNP Paribas – Mumbai

On the fixed broadband, that number has been stable at 2 million, even now the plans that you are talking about are not really very aggressive plans, that is about modest improvement. Do you see an exponential growth possibility in this segment? Or do you think ROI is not there in the business?

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

No, I think that this is a business that unlike mobile, it is not a business based on a cloud that you provide across the country and then there are millions of customers that you can acquire. This is a home-by-home, street-by-street, office-by-office type of business. Typically, what you find is if you look at our history over the last decade, you will find utilizations of anywhere between 40% and 45%, maybe 48%. It takes some time to actually get utilization going, simply because you are going in into new buildings, into new homes. Some of those may not be occupied, then gradually the occupation begins to come in. So you will see this sort of playing out over a period of time. And our focus right now is to really go into more of high rises and in very, very important cities where we believe there is a lot of affluence, then even on a selective basis even going into flat big geographies.

Kunal Vora - BNP Paribas - Mumbai

That is it from my side. Thanks Gopal.

Kamaldeep – Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Manish Adukia from Goldman Sachs, Mumbai. Mr. Adukia you may ask your question now.

Manish Adukia - Goldman Sachs - Mumbai

Good afternoon. Thank you for taking my questions. I have 2 questions. First one is just a follow-up to the comment that you made in the earlier question. You mentioned that, of course depending on competitive intensity, pricing could potentially go up in the next 6 months. I wanted to check in your opinion, what would need to change for the industry over the next 6 months for pricing to actually go up? That is question one. Question number two is on your net debt to EBITDA, which is about 3.7x as of last quarter. While we understand that you've said you could sell some of the noncore assets, etc., but they all look like they will be some time in 2019. Given your elevated Capex right now, is there anything you are exploring for more immediate-term de-leveraging? Or are you comfortable with your balance sheet at this point in time? Thank you.

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

Okay. I will take the second one before Gopal reverts on the pricing issue. On net debt to EBITDA, like I said, it is up from about 3.25 to about 3.6. Part of the reason is because we had an operational FCF shortfall due to the Capex in this quarter, which was higher. Part of it was forex, part of it was Telenor. So while 3.6 is not unduly alarming in this sector, of course we being conservative, always are looking at inorganic opportunities. Hopefully, we will get DTH approved this quarter. Strategically of course, you know about Indus-Infratel. Hopefully that is moving faster and in that case, we look at other opportunities as time comes, but nothing, which unduly concerns us immediately. We continue to explore opportunities for inorganic monetization.

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

To your first question, yesterday, you would have seen that the approvals for the merger of Vodafone-Idea have come through. I have said this before that India is rapidly moving towards more or less equal sized 3-player market. And that is I think something that is now on the cards. And I believe that current levels of pricing, like I have mentioned, are untenable. And so pricing should start lifting in some time. I am not a soothsayer to say exactly when, but I think that this is currently an unsustainable situation. And therefore, it should start moving in the context of a 3 more or less strong equal-sized players in the marketplace.

Bharti Airtel Limited First Quarter Ended June 30, 2018 Earnings Conference Call**Manish Adukia – Goldman Sachs – Mumbai**

Sure. If I can just follow up on the response around net debt to EBITDA, so in terms of your Capex, what percentage of your 4G rollout is already done? So you said that of course in the quarter, the Capex was front-loaded. But going forward, I mean starting FY 2020 for example, should we start seeing a decline in Capex intensity in your view?

Nilanjan Roy – Global Chief Financial Officer – Bharti Airtel Limited

Yes, overall Capex should go down, but of course like I said, we will not starve the business if it demands additional Capex where we have to compete in different areas. But like I said, most of our Capex today is on the FD coverage layout. And we put the TD coverage wherever capacity demands it. So I think in that sense, we are not starving the business, and that's the correct way to handle this.

Gopal Vittal – Joint Managing Director and Chief Executive Officer – India & South Asia – Bharti Airtel Limited

Let me supplement what Nilanjan is saying. Our focus is to make sure that we deliver a really solid experience on the network side with customers. We are obsessed about that. What are we doing out there? Obviously, the rapid deployment that we have done in the recent past, over the last 12 to 15 months, is really to create the capacities in order to deliver that experience. Our FD footprint is more or less complete across the country. Our TDD footprint, which is the 2300-footprint, would be complete in about maybe 50%-60% of the country. And we are also looking at refarming some of our 900 megahertz to actually take it into 4G over the course of the next 6 months to 12 months, which should give us again increased capacities and better spectral utilization of the same spectrum that we are holding, expensive spectrum that we are holding. So I would say that a lot of the radio Capex is now already underway. We've put in a lot more investments on fiber and transmission and getting our networks ready. From hereon I think we are going to be very smart about where we deploy Capex and how we think about Capex. So to that extent, wherever it's required, we will do it. Our focus would be to continue to deliver a really strong customer experience.

Manish Adukia – Goldman Sachs – Mumbai

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

Kamaldeep – Moderator

Thank you very much Mr. Adukia. 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

This is Srin here. I have two questions. First, could you throw some light on the Telenor impact for the quarter? Or let me ask in a slightly longer term. From the time you acquired, or you talked about acquiring Telenor to finally when you got it, what kind of subscriber additions finally you saw from that franchise? Secondly, on the same note, you have mentioned that your ARPU would have been 109, excluding the impact of Telenor's base addition. If I just do a broad math, and again I do not have the full information, but it looks like your organic additions would have been quite less for the quarter. So if you can clarify on that count? That would be helpful. Thirdly, I just wanted your view on the whole content space if do you see the ability to monetize content on a sustainable basis in India on mobile, is that possible? I ask that in the context of for example, iconic content like cricket, which Hotstar has got. And while they are trying to monetize on the mobile space, a large part still is ad funded effectively. So how do you see content getting monetized in India going forward on the mobile side? These are three of my questions. I will come back for more if I have time.

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

So on the Telenor front, I think first and foremost, the integration that we have had has been a very, very solid exercise, has been seamless. And I think our teams have done really a solid job on all fronts, integrating the networks, shutting off the sites that we did not need, leveraging their core, and really migrating all of those customers on to Airtel at the same tariffs that Telenor was providing. So I think that has been job really well done. I think from Telenor impact perspective, about 28 million customers are the ones that we have now acquired. The revenue from Telenor is in the ballpark of about 150-odd Crores that we got this quarter. And we believe that in addition to all of this, we have got spectrum in 6 circles from Telenor in the 1800 band, which is priceless spectrum. It will actually be moved into providing a second carrier, or in some cases a third carrier of FD-LTE, which will dramatically raise our capacities at marginal cost because we do not need to invest in radios. So I think that really is the sum and substance of Telenor. On the content side like I said, I think we are currently providing content now free till December. And we believe monetizing this content is a challenge in this market. So we are going to be very, very smart and careful about the sort of content investments we make. We are not going around making large content bets and investments. We will prefer to actually ally and use alliances to drive

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our content offers with the customers. You have seen what we've done on our postpaid side through a combination of 2 things. One is leveraging the family or the add-on, coupled with providing content like Amazon to high-end customers and even perhaps Netflix to super-high-value customers. We will use all of these relationships as well to actually play in the content space, while we continue to drive Airtel TV with content from linear television and a bunch of other webisodes and so on, which are available on the platform.

Srinivas Rao - Deutsche Bank – Singapore

Thanks, this is helpful. Just 1 question, I mean is there any network cost impact of Telenor? Or that's largely not there? I mean your network cost has gone up a bit, but it's not materially high in the context of that.

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

Yes, it is not material.

Srinivas Rao - Deutsche Bank – Singapore

Thanks. Thank you.

Kamaldeep – Moderator

Thank you very much Mr. Rao. 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. Just if we look at the subscriber numbers for broadband alone from TRAI, it looks like you had 91.6 million broadband subs in May, and that has come off a little bit. And from your early comments, it seems that you have about 10 million adds so that implies about 7 million to 8 million broadband subscribers that you have lost in Telenor. It is right and why would this loss occur at all?

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

Ravi, when we look at our numbers, a slight disconnect, but overall, we have actually ~94.7 million data customers. And we have added close to 9-odd million customers in the last quarter. Overall from Telenor, as Gopal mentioned earlier, we have added, net added 28 million customers. The overall number was approximately 31. We have lost 3-3.5 million customers, purely on account of dual simming or any other reason. But we haven't really lost too many customers as part of this overall integration with Telenor.

Ravi Menon - Elara Securities - Mumbai

Right. And that 94.7 million is overall data customer base side. I am looking at just the 3G and 4G, which I think is what TRAI also provides. So that shows a month-on-month decline. So I was just wondering why that would be?

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

So even 3G, 4G customers is around 85.7 versus 76.5, we have added close to 9 million customers in 3G, 4G as well. So maybe we can take this offline, Ravi, and you can clarify on the numbers. But net-net, we have had substantial and super additions as far as data customer is considered in the last quarter.

Ravi Menon - Elara Securities - Mumbai

Right. And also I wanted to get your thoughts on what you think of the replacement cycle that is going on in smartphones. On your subscriber base, you would have seen that. Do you think that people upgrading every 2.5-3 years? Or is it shorter than that? And is there any change to that, which you've seen over the last 1-year or so?

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

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Yes, it is about 22 months, so anywhere between 20 and 22 months.

Ravi Menon - Elara Securities - Mumbai

Thank you.

Kamaldeep – Moderator

Thank you very much Mr. Menon. The next question comes from Mr. Rajeev Sharma from HSBC, Mumbai. Mr. Sharma you may ask your question now.

Rajeev Sharma – HSBC - Mumbai

Thanks for the opportunity. I just got a few questions. First question is for Gopal regarding the progress, VoLTE has been slower than expected. So what are the challenges you are facing? And by when we could see pan-India VoLTE rollout? Second is, if you can help me understand the Capex this year? How much of this is going into fiber, radio, and how much you plan for home broadband and increasing home pass? Third is it on your radar even to look at the listed or not listed cable TV players who offer both home broadband and TV, at some point of time to compete better with Jio in the FTTH space? And lastly, your cash burn for the year is around Rs.10,000 to Rs.12,000 Crores. And if we take the spectrum liability payments next year, this would be INR 15,000 Crores. So how do you see this? Is it a temporary situation, could we see some equity dilution, some color on this?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

Okay, I will take the last one. In terms of ability to finance, we have enough lines lined up for a refinancing for any short-term debt, bonds, which are coming up in December. And of course as usual, rollovers which we'll have for bank loans and the CP which we run. So from a liquidity position, I do not think we are very concerned. Like I said before, we will always look at inorganic opportunities wherever they are if and when that is required. So we are not unduly concerned about that.

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

Rajiv, on the Capex side as Gopal mentioned earlier, our FD coverage is by and large over. There are certain additional sites, which we have to put, which we'll put in the coming 2 or 3 quarters. Our focus will be to expand our TD footprint and densify our network and also significantly enhance our transmission capacity. That would be primarily on the mobile side. On the broadband, specific home broadband, we have substantial plans for the current year of at least 2 million to 2.5 million home passes to be rolled out in the current year. And also we will be looking at replacing in the marquee areas wherever we are in copper right now, to convert that into fiber. That could be another 1 million-1.5 million home passes all of it is planned in the next 3, 4 to 5 quarters.

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

And to your last question on VoLTE, we have rolled out VoLTE in most circles now, just a couple of circles left. I think the challenges on VoLTE are 2 or 3. One is that those devices that are there need to have the VoLTE standards of Airtel. Most of the new devices now coming in do, but some of the older devices needed software patches through the latest over-the-air upgrades. That's also been sort of worked out with the device manufacturers, and some of them are happening as we speak. The second part of the funnel in terms of drop off has been optimization of our networks, making sure that we tune it well. When it comes to VoLTE, what you find is that what you call the linked budget, which is the propagation of VoLTE tends to be slightly lower than non-VoLTE and therefore, a lot of network tuning needs to be done. That said, I think we have made a significant progress. In fact, one of the key cities that we picked up as a pilot to really drive VoLTE much harder, we have been very encouraged. We are carrying almost 25% of VoLTE traffic of VoLTE in that city. And we are going to use that knowledge to actually to take it across the country and really drive VoLTE very hard in the next 6 months.

Rajeev Sharma – HSBC - Mumbai

Just one question, which I asked on the cable, any inorganic approach towards the cable space? And just to follow up that on your feature phone, you said that, is it correct to assume that you are okay losing some low-end subscribers if that's the case maybe, because you see that only as voice?

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On the cable part, it is a bit speculative for me to answer that question. I think there are several challenges there in terms of the quality of the network, the permissions on the last mile fiber and so on and so forth. Yes, I think to your last point, we would be delighted with a better quality of customer base. And if we have to shed some customers at the low end, we would be happy to shed those customers. We will be much happier to drive better quality of customers. Yes, I think that's absolutely accurate.

Rajeev Sharma – HSBC - Mumbai

Thank you so very much.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Naveen Kulkarni from Philip Capital, Mumbai. Mr. Kulkarni, you may ask your question now.

Naveen Kulkarni – Philip Capital - Mumbai

Thanks for taking my questions. My question is on the per subscriber data utilization, so this quarter the average utilization was around 7.9 GB per subscriber and probably the exact utilization might be higher than that number, so do you think that we are reaching pretty close to the peak levels of utilization per subscriber, if I were to also look at the minutes per subscriber they are also close to 700 minutes per subscriber per month, so more or less do you think that we are very, very close to the peak levels or is there is further scope for this to go up, so your thoughts please on this?

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

If you look at last 3 quarters, in every single quarter, we have added about 1.3 GB per month in terms of customer usage, so 4 in quarter 2, went to 5.3, which is 1.3 GB. 5.3 went to 6.5 or close to 6.6. And 6.6 is now looking like 7.9. So it has been a 1.3 GB addition that we've seen every quarter I think there will be obviously a point at which it will not rise further. I do not think that it is quite close to that. So you will still see some increase in data usage per customer. And this is primarily because of the very large allowances that are being given at incredibly low prices. I mean nowhere in the world you have, for Rs.130 to Rs.140, almost 40 gigabytes of data a month with unlimited calling. I mean it is absolutely a staggering amount of data allowances, and that is why people are kind of moving up. In a way, this bodes well, because as customers tend to get stickier in terms of the time they spend on the device and as like Nilanjan explained, from an average of 3 hours, they are now spending close to 4 hours on their device. This should hopefully translate to solid ARPUs as pricing begins to lift. On the voice front, I would say we are getting close to a point where this should not see beyond a point, too much of increase. But we have obviously been surprised by the amount that people in India love to talk.

Naveen Kulkarni – Philip Capital - Mumbai

Okay. My question was in the context of if I were to look at Jio's per subscriber utilization, that is at around 9.7 GB per month, that is more or less kind of stable. So do you think it has implications on future Capex and future build-out of network for us?

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

The future build-out of Capex and networks, like I said, I think there is 2 parts to it. One is coverage Capex, which would be pretty much done. There will be some places where there could be some sub-gigahertz spectrum that will drive coverage. And as cities get more dense, what you will need is a little more capacity, capacity sites rather, which should be in certain key hotspots. There are multiple technologies for this, whether it is a fourth factor addition, maybe a separate site or technologies like massive MIMOs, which will be the other place where investment will need to be made. And the third part of the investment is really on getting the backhaul networks right, fiber transmission and the core networks.

Naveen Kulkarni – Philip Capital - Mumbai

Thank you.

Bharti Airtel Limited First Quarter Ended June 30, 2018 Earnings Conference Call**Kamaldeep - Moderator**

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

Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Thank you for the opportunity. I got 2 questions. First one is on the mobile business. You mentioned that your feature phone would remain a limited segment. But obviously, there is competitive action going on there. So how are you looking to defending the top end of your feature phone base? Do you think ARPU will do the trick in terms of compelling price point? Or you think handset partnerships are possible for bringing out a cheaper 4G version, and you would be okay with giving some subsidy to go with that? That is the first question on mobile.

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

We are watching this space carefully. We are extremely averse to the prospect of providing subsidies at the feature phone side to subsidizing really low-end customers who do not have the potential to actually upgrade, it is not an idea that makes great business sense for us at the stage that we are in. Having said that, our focus is to actually identify those customers who are at a higher ARPU, and try and find ways and means to ring-fence them. There is a real great emphasis and focus on driving our bundles, even on the feature phone side in order to nip those customers to our networks, which is one of the reasons why we see a secular decline in the churn levels over the last few quarters.

Sanjay Chawla - JM Financial - Mumbai

So you would be looking at feature phone bundles and not necessarily a 4G VoLTE kind of a bundle to counter and to defend your base?

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

I think on feature phones you do not need to bundle. The feature phones already exist. I am talking about more bundles in terms of pricing on the feature phone side in order to ring-fence those customers. Whether they buy a new feature phone or get it on an existing feature phone really is not of great consequence.

Sanjay Chawla - JM Financial - Mumbai

A related question is now we have not seen much action obviously. Probably, the top end of the feature phone is also going to upgrade to smartphones. But we have not seen much action on the low-cost, Android Go platform smartphones below Rs.2500 and offering a good acceptable quality so far. Do you think it's really possible to have such kind of cheaper smartphones coming into the market? Or you think it's more of a hope rather than what can be actually real?

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

I think there are 2 conflicting pressures here. One is that when you look at devices in the price range of between Rs.3000 and Rs.4000, what you find is that the contribution of these devices is actually very, very small. And this is very atypical and not the case in most categories across the country. So if you look at most categories, at the lower end you will see a lot more volume. In India, actually the volume on smartphones begins around Rs.5,000, which means that because people spend four hours on their device, there is a huge element of aspiration where people want to buy a better device, a good device, a good brand. And so while I do think that Android Go will be a big driver to bring the prices of devices further down below the Rs.3000 mark, I think time will tell whether that will be attractive enough for somebody upgrading to a feature phone, will they actually go for that? Or will they invest another Rs.1,000 and go for a better phone? So I think that has to be tested and seen how it works. But we think that this could be a big driver to actually upgrade feature phones, with the caveat of aspiration that I mentioned.

Sanjay Chawla - JM Financial - Mumbai

Okay. Second question is on the fixed broadband strategy. When you are saying that you're looking to upgrade some of your existing customers and home passes from ADSL to fiber to the home. I mean are we actually doing fiber to the home? Are you doing underground or is it more of fiber to the building and overhead kind of a structure?

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

A large part of our fiber is underground. Right up to the last mile, we go underground, and then we use the building ducts to actually go into the homes. So I would say large part of it is really underground.

Sanjay Chawla - JM Financial - Mumbai

You mean the access network is underground, close to the building and inside the building?

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

Exactly, yes.

Sanjay Chawla - JM Financial - Mumbai

Okay, so does it mean it is a viable business? Because ARPUs are constantly under pressure, they keep coming down especially now Jio is talking about a launch there. So underground tends to be expensive. So do you think it's a viable business? Because even in the ADSL, I know the Capex used to be very high, although it came down later, in later years. Like at sub- Rs.1,000 ARPUs, is this a viable business?

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

Sanjay, if you look at our home business segments first of all, there are 2 points I would like to make is our focus generally is high rises where the cost of rollout and Capex is substantially lower than a flatbed, and we go only go for marquee flatbeds. Secondly, if you look at historically, if you look our home broadband business financials, we have always maintained around 40% to 45% of EBITDA margin if you look at the last 8, 10, 12 quarters or so. Despite the pricing pressures, we have been able to hold and maintain it. And long term, we feel that there could be small short-term pressures out here. But overall in the long run, this is an extremely profitable segment and a stable segment for us to be in.

Sanjay Chawla - JM Financial - Mumbai

Okay, maybe if I can squeeze in one small question on the mobile business. I mean you have a pretty substantial chunk of your customers having smartphones, but not all of them are your MBB, mobile broadband data user, because they are using rival telcos' data. What have you done so far to pull them back? Is it really possible to pull them back? Or is that a lost cause?

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

I think it is a daily effort, I think it is a function of the networks and the network experience. It is also a function of pricing, so there are some customers in India who are looking for the best deal and given that we are at a premium, some of these customers may be difficult to attract back, but we do keep bringing customers back on to the fold on the quality of our network experience.

Sanjay Chawla - JM Financial - Mumbai

So do you think once we have enough capacity and coverage available on 4G, you would use pricing mechanism to pull some of them back?

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

We do not want to further destroy pricing in the market. Like I mentioned I think what we would like to do as players in the market is actually to see pricing lift, so beyond a point I think bringing pricing down is going to hurt the whole industry. Industry revenues as you are aware have fallen from close to 200,000 Crores to 120,000 Crores.

Sanjay Chawla - JM Financial - Mumbai

Thank you so much.

Bharti Airtel Limited First Quarter Ended June 30, 2018 Earnings Conference Call**Kamaldeep - Moderator**

Thank you very much Mr. Chawla. 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

Good afternoon. This is Sunil Tirumalai, thank you for the opportunity. My first question is on how the Telenor acquisition played out on the network side. I was surprised to see that the number of network sites additions was fairly low. And I mean I am sure Telenor, at the time of announcement, would have had 25,000, 30,000-odd sites, and none of them seem to have come in. How did it actually play out? I mean did they shut down their sites before the conclusion of the merger, and you had already moved the Telenor subscriber traffic on to your network, and then pretty much nothing was left for you to integrate later on? And is that how you and Tata could play out?

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

This was a merger that, like I mentioned earlier on, was very well planned. We took almost 6 to 9 months. We knew exactly which site we needed, which site we did not need. Many of these sites that Telenor had were co-located sites, so we did not need the Telenor site. And I think the moment the D-Day of the merger approval took place our teams went into full force in terms of working. The first 30 days, we actually shut off 3 circles. And then the next 30 days, we shut off another couple of circles. And we are now left with just 1 circle, which will be shut down very soon. So I think it was just a function of very good planning and clarity in terms of where we needed it and where we did not. Because there is no point to have duplicate network, or a network running where we did not really need the sites.

Sunil Tirumalai - Credit Suisse - Mumbai

Right, so basically in about a couple of months you could rationalize these overlaps?

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

Yes.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay. My second question is Gopal on your comment that hopefully in a 3-player market with equal shares, we can hope for improvement and returns for the industry. Do you think an equal share amongst the three of you is the point we have to wait for till the ARPU increases happen? Because till the time, the market shares are shifting I am not sure if the ARPUs can sustainably go up. And related to that, do you think let us say a 30-30-30, or 33-33-33 market share split, is that a stable equilibrium? Thank you.

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

Well I was saying that in the long term, I think this is now if you look at the positive side of this, Sunil, I think it is a large market in India, 1.3 billion customers, 3 large players serving these customers plus BSNL is actually a good industry structure. I think we are reaching a point where all the players are getting larger by the day. And therefore, there is a strong possibility that at the low levels of pricing, which are clearly sustainable in terms of return on capital and all the investments that have gone into the industry, also the fact that just an incredible amount of allowances that are being given to customers, I think some of this has to correct. So that's really the context in which I made the statement.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. The next question comes from Mr. Viju George from J P Morgan, Mumbai. Mr. George you may ask your question now.

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Viju George - J P Morgan - Mumbai

Thank you for the opportunity. I just want to understand the implication of the Idea-Vodafone merger for your costs. Presumably, I think they had guided for rationalization of sites of up to 70,000. In many of those towers at present your colocation also should be present, which means your rents might increase, your energy costs might increase. Is that something material you think that would play out in the next couple of quarters as 70,000 sites get shut down?

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

Viju, Badal here. We are assessing, we will get more clarity as and when they announce which sites they want to exit and what the implication to us is there or not. But we do not expect that to be material enough, in our assessment, which we have done.

Viju George - J P Morgan - Mumbai

Sure. The other question I had was on the 4G-feature phone side. I think, Gopal did mention that many of the customers that are going there are essentially feature phone subscribers and not smartphone, not downgrading from smartphones. But I think R-Jio has also indicated that a very substantial percentage of their feature phone subscribers are those who have gone for the smartphone-like plan of Rs.153. So in that context, I am just trying to understand what has been the real attraction, just the fact that they do not have to pay for the device up front? Because affordability-wise, they seem to be already up there as far as smartphone is concerned.

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

Viju, it is very difficult to comment on what's playing out at the other end. But when we look at our data, and we are looking at our analysis, we are seeing more feature phone people who are kind of going towards the 4G-feature phone.

Viju George - J P Morgan - Mumbai

Sure, thank you.

Kamaldeep - Moderator

Thank you very much Mr. George. The last question comes from Mr. Vinay Jaising from Enam Asset Management, Mumbai. Mr. Jaising you may ask your question now.

Vinay Jaising - Enam Asset Management - Mumbai

Thank you so much. Firstly, congratulations on a good set of numbers, considering the tough environment. I have 2 questions here. First on Africa, the business has done very, very well, margins have moved up, and you're looking at some kind of divestment on that. Any updates on what are your thought processes on where the margins can go to and how you are seeing the business out there? That is my first question. Second, Gopal has spent so much of time a possible 6-month forward improvement in the overall ARPU or the overall revenues for the wireless business. My question is here, does it first downgrade more, because we have seen some amount of postpaid pain coming in from competition from Jio? And in case they do not reach their subscriber base of what they want to, do we still think that we will see some positive light, in terms of our tariffs moving up from today after doing nothing? And just because of the amount of volume growth, which has happened on data, we will either way see the revenues of the sector and Bharti's wireless mobility move up significantly?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

Vinay, before, Raghu answers, I am glad you asked that question because Raghu has been asking, "Why the hell am I coming to the earnings call?" This is actually a landmark in the quarter, because for the first time in the history of Africa's acquisition, that has been PAT positive including the acquisition interest. So I think Raghu was waiting to get that question. Raghu, so over to you now!

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

Yes. Vinay the key thing is for the last few years, we have had first, a structural correction on our costs. And then, we started inching up our revenues. This year on constant currency, this quarter, we are well into mid-teens on revenue growth. Costs have been more or less kept stable, with a small increase due to network expansion. But overall if you see, we still think there is a marginal scope and we will continue to hopefully grow these revenues while trying to keep costs low.

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Vinay Jaising - Enam Asset Management - Mumbai

Can you give us the margin front?

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

Yes. I mean we'll need to see it. I mean we are continuously, that is exactly what management does, try to grow revenues and try to keep costs low. Hopefully, we should see something. That is exactly our endeavor.

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

Vinay, on the postpaid down trading specific questions, we have not seen much impact so far, but there could be some potential down trading which we could see in the couple of quarters also. But by and large on an overall basis, we feel that in a couple of quarters, it should be fairly stable as far as overall ARPU for the industry is concerned.

Vinay Jaising - Enam Asset Management - Mumbai

Thank you so much, Sir.

Kamaldeep - Moderator

Thank you very much Mr. Jaising. 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, and look forward to speaking with you in the next quarter and in analyst conferences. Thanks again.

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.