

Bharti Airtel Limited First Quarter ended June 30, 2017 Earnings Conference Call

Conference Call Transcript

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Bharti Airtel Limited First Quarter ended June 30, 2017 Earnings Conference Call**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 30th, 2017 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 announcement. Present with us on the call today is the senior leadership team of Bharti Airtel Limited.

Before I handover 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 – Global CFO. 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 2017, which we announced yesterday. Let me introduce you to the senior leadership team who are present with me on the call today – Gopal Vittal, Raghu Mandava, Jaideep Paul, Badal Bagri and Parag Toley.

A few thoughts on the industry and the company.

First, let me share a few thoughts on the developments in the regulatory space.

Pursuant to the Supreme Court order, DoT has directed that all Licensees have to re-verify all existing mobile subscribers (prepaid and postpaid) through Aadhaar based E-KYC process before 6th Feb 2018. We welcome this move as the process will digitize the entire customer KYC databases.

Continuation of disruptive pricing by a new operator further deteriorated the financial health of the telecom industry in India. The sector registered de-growth in revenues year on year and this has severely hit the industry's net income and return on capital employed. We welcome the setup of the Inter Ministerial Group in light of this growing financial stress to examine issues that are affecting viability of telecom companies.

The new operator's adopted pricing approach is aimed at winning market share by providing services below cost. Incumbents have been suffering losses every quarter due to the tsunami of calls that originated from the network of the new entrant. We feel that TRAI which is currently conducting the IUC consultation paper should address this anomaly.

In this heightened phase of competitive intensity, our priorities for the year centre on retaining and growing our high-quality customer base while optimizing cost, all of which will be enabled via our network leadership and an uncompromising commitment to our customers. In pursuit of this goal, to transform customer experience across all services and touch points, Airtel recently launched 'Project Next' which will entail an investment of up to Rs 2,000 crores over the next three years to launch several exciting digital innovations to step change the simplicity and interactivity of the Airtel customer experience. Via next-gen Airtel stores, innovations on Postpaid and a refreshed Airtel app, Project Next will aid our aspiration to eliminate customer frustration and make their experiences better via digital innovation.

Airtel continued to innovate across its segments. The company rolled out a first-of-its-kind dedicated digital platform to serve the growing connectivity, communication and collaboration requirements of emerging businesses, including SMEs and startups. With Airtel's new digital platform, small businesses can buy communication and collaboration products that will enable faster time to market and enhance ease of doing business.

During the quarter we announced partnerships across our non-mobile portfolio. Airtel entered into a partnership with Ola to provide seamless digital experience for customers, announced a partnership with Amazon for Amazon's fire stick, and with Facebook to deploy 20,000 hotspots across India, allowing Express Wi-Fi to reach millions of Indians and provide super-fast and affordable connectivity.

Post announcement of acquisition of Telenor last quarter, Airtel has received approval from SEBI, BSE, and NSE for the proposed scheme of merger. Airtel has subsequently filed the application with the National Company Law Tribunal for approval of Scheme of Merger.

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Our industry leading efforts were recognized at various forums. Airtel won the TM Forum's Excellence Award 2017 in the 'Smart Service Provider – Business of the Year' category for accelerating digital transformations in India and was awarded the 'Aon Best Employer India 2017' for its innovative people practices and achieving high levels of employer brand, employee engagement and well established people practices.

Let me now turn to the Company's operating metrics

First, let's enumerate the overarching trends in the Indian telecom industry:

- Competition continues to be fierce with the new operator continuing it's paid, albeit below cost services;
- The industry's move towards bundled plans and unlimited voice is negating the multi-simming trend, putting further pressure on the smaller sub scale operators;
- With the industry consolidating due to the above, operators with superior networks are witnessing an unprecedented expansion in volumes. Airtel's total minutes on the network increased 34% YoY while data usage increased c. 200% YoY with data usage per customer crossing 2.6GB for the first time;
- This interim phase of consolidation will continue to put pressure on both capex and opex, especially on those operators that have underinvested;
- In the new normal, ARPU will soon be a key metric to measure quality of customers and revenue growth.

In this consolidation albeit competitive phase, Airtel stands tall due to its industry leading spectrum and network, both in terms of capacity and coverage, as well as superior customer service. As we further cement our leadership, we invested Rs 62 bn in India during the quarter, adding ~13K mobile broadband base stations and over 1k RKms of optic fiber. Our mobile broadband towers now stand at over 120,000 across India with over 203,000 mobile broadband base stations on them.

On the back of our superior network, our strong focus on retaining and growing our high-quality customer base continues to result in healthy customer net additions. We added 7 million customers on our network during the quarter, with c. 5.2 mn data customers as well. Despite increased competitive intensity, our commitment to best in class customer experience resulted in the industry's lowest churn levels along with a lifetime high RMS of nearly 34%. We firmly believe that our innovative offers with substantial data benefits designed to curate usage, coupled with our network strength and reliability, allows us to attract, retain and grow high-value customer relationships.

Our non-mobile portfolio in India continues its strong performance. DTH grew over 7%, and Airtel Business grew c. 4% YoY as we exited some low margin wholesale businesses. Our Homes segment, where we refreshed our broadband plans during the quarter, though flat sequentially, continues to be a key pillar of our quad-play capabilities. This diverse yet complimentary product suite gives Airtel a unique proposition to own the home market in India across the three screens (mobile, TV and broadband).

Our Africa operations are witnessing a steady improvement in momentum across the top and bottom lines, as we continue to build on a potential turnaround. Underlying Africa revenues were marginally down sequentially due to traditional seasonality and KYC related issues. However, with our War on Waste efforts to enhanced opex efficiencies, Underlying EBITDA margin expanded by 740 bps YoY and now stands at 28% on a constant currency basis.

While our monthly churn rate reduced to 5.0% this quarter, the twin engines of data and mobile money continue to drive Africa's growth story. Data traffic increased 75% YoY and data usage per customer this quarter stood at 860 MBs as compared to 591 MBs in the corresponding quarter last year, an increase of 45.6%. Total value of transactions on the Airtel money platform witnessed a strong growth of 31.4% to \$4.3 Bn in the current quarter as compared to \$3.3 Bn in the corresponding quarter last year. This continuing trend of growth in data volumes, as well as the adoption of mobile money is a re-affirmation of the potential growth opportunity in Africa. Coupled with the demographic dividend, there is no doubt that Africa should see the benefits of scale in the future.

Now moving onto our consolidated financials

The consolidated revenues for the quarter dropped 11.1% YoY on underlying basis, adjusted for disposals of 2 Africa operating units, tower sales and sale of Bangladesh operations. While this was primarily due to decline of mobile revenues in India, Nigeria currency devaluation had an impact on revenue growth of 2.6%. Consequently, consolidated EBITDA de-grew 18.4% Y-o-Y with EBITDA margin dropping by 1.9% to 35.6%, led by India margin drop of 5.3% Y-o-Y. Our diverse portfolio benefit beyond India Mobile operations is clearly visible in the muted consolidated margin impact.

Depreciation and Amortization costs have decreased YoY primarily due to impact of Nigeria currency devaluation, divestment of operating units and tower assets in Africa / Bangladesh. Net finance costs at Rs 18.3 bn decreased as compared to corresponding quarter last year on account of lower forex and derivative losses led by forex gains in Africa, which was partially off-set by higher interest contributed by an increase in spectrum borrowing costs in India.

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Cash flows from subsidiaries, congenial FX as well as improvement in working capital resulted in a decline in the Company's consolidated net debt by Rs 35.6 Bn to Rs 878.4 Bn as compared to Rs 914 Bn for the previous quarter. Consequently Net Debt to LTM EBITDA ratio of 2.67x was largely flat vs previous quarter. The net debt excluding DOT obligations decreased by Rs 46.3 Bln as compared to previous quarter and stood at Rs 428 Bn.

EBITDA decline in India along with higher spectrum costs and consequent increase in associated amortization costs have resulted in decline of ROCE to 5.6% from 7.6% in the corresponding quarter last year.

To sum up, the telecom industry in India continues to be under financial stress due to disruptive pricing by the new operator. However, with the huge expansion in data usage and the move towards bundled offerings, the industry is fast transforming. With our scale and efficiencies backed by our rich spectrum and network footprint, we will emerge only stronger with a superior market share position. Finally, focus on profitable top line growth along with capital reallocation is helping stabilize and turn around our African operations.

On this note, I would now like to hand over back to the Moderator, for conducting the Q&A part of this earnings call.

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 question on a first in line basis. To ask a question participants may please press “*1” now. The first question comes from Mr. Sachin Salgoankar from Bank of America, Mumbai. Mr. Salgoankar you may ask your question now.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. Congratulations for good set of numbers. My two questions are: first, I wanted to know your thoughts on recently launched or announced feature phone from Jio, your thoughts on the impact on your subscriber base and any plans of tying up with handset companies to offer, perhaps a similar bundled 4G phone whenever you launch your own VoLTE? Second question, Bharti historically enjoyed coverage advantage versus peers, now Jio is clearly aggressively moving towards its targeted 200,000 towers. So how do you guys look at it? Where do you think Bharti's ideal coverage should be eventually as and how data picks up?

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

Sachin, hi. This is Gopal. Firstly, I think we have traditionally and historically, been of the view that the device market must be treated as a really open ecosystem. We partner with all devices. One of the things that we have stayed away from, and we have no intention to get into is subsidizing devices, manning the device inventories and running these devices like they belong to us. That is something that we do not like doing. The way I see the impact of what has happened with the launch of the new feature phone, VoLTE feature phone is that this is a new segment that is likely to open up. We saw when the launch of low-cost smartphones came in, it really opened up to entire 4G ecosystems. So we believe that actually this could propel the growth of cheaper phones in the market, and that is something that we embrace. We will work with all the device companies to encourage this. And of course, as this happens, there is going to be increase in consolidation, which always benefits a leader like us, because the customer then consolidates their spend behind one SIM. As far as your question on coverage is concerned, I think we have a robust criteria around which we measure deployment of sites. We have a time-tested formula over the last 10 years to look at sites where we need to expand coverage. We look at lower revenue, low utilization sites. We make sure that every site is almost treated like a factory with its own P&L and shut down sites that are unprofitable. At the same time, we are, at this point in time, relentlessly focused on driving our broadband coverage. A bulk of our investments, almost all of our investments are going behind 4G and fiber. And that is really the shape of the investment that we believe we must make over the coming years.

Sachin Salgaonkar - Bank of America – Mumbai

Thank you Gopal for that. One small follow-up you did mention about seeing increase in consolidation. Now assuming a part of subscribers will start consolidating in favor of Bharti, I guess you guys need to have a counter unlimited voice VoLTE feature phone offering, perhaps at a lower price point. Any thoughts on when you guys are looking to launch something like that?

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

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Sachin, we do bundle with different device manufacturers. I want to clarify the difference between bundling versus discounting and subsidizing. We do not brand handsets on our own. We do not subsidize. We do not manage the inventories. We work with different device players to bundle. We have done that in the smartphone side for many, many months, and perhaps a couple of years. We will continue to look at opportunities where we can bundle. To your specific question on competitive pricing, I think you have seen the action in the market already. One of the reasons we have lost ARPU over the last few quarters, and we have seen revenue erosion, is simply because we have responded in the marketplace with aggressive pricing in order to compete and grow our market share. That effort will continue. We will continue to look at opportunities to grow our market share. I think that is very important. And the reason that is important is that, as you come out of this war that is currently there, the battle that is there, we believe that this market will consolidate behind three players plus the government player maybe four, but perhaps three. And we believe we are well-poised, as Nilanjan mentioned, for a combination of reasons - our spectrum assets, our financial scale, the fact that we have invested ahead of the curve and our execution in the marketplace in terms of go to market capabilities, we believe that actually our objective should be to consolidate and grow market share in a rapidly consolidating market. If we look at the last two years that has pretty much happened, as the incumbents have actually grown market share. We think in the context of the uncertainty where the value players are melting down, there are mergers between large players, the #2 and #3 player, we think there is an opportunity for us to stay focused on the market and actually, consolidate our position.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you.

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 Sir. First question is on IUC. Can you share the termination revenue and cost during the quarter and when do you expect the TRAI decision on IUC to come out? And the status of past litigation on IUC? That is one. And second, thoughts on Nigeria market. Would you look at consolidation opportunity in the market, it seems Etisalat is in pressure? That is the second question.

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

So Kunal, I will take your question first and then hand it to Raghu. We do not report the termination revenue and costs. Suffice it to say that the interconnect costs that we currently have, 0.14 paise is below the cost of producing a minute. We made our position quite clear to the TRAI. The decision of the TRAI is impending. We do not know when the decision will come out. We hope that they will come out with a fair and reasonable outcome and cover the cost of producing a minute.

Kunal Vora - BNP Paribas - Mumbai

Okay. Sure. On the past litigation sir, when they lowered the pricing like last time, operators had gone to court, any resolution in sight?

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

That matter is in court. We cannot comment on that beyond what is there.

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

Nigeria is a large market for us in Africa. We are the No.2 player on revenue share. In the last year or two, we have been really growing very well, far ahead of the market, growing our shares and our profitability. I think it has been a good story for us, and we continue to invest and grow in Nigeria.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Regarding the consolidation, I think there is a lot of stuff that, which you also see in the news, and I do not think the dust has settled in what way it is going to go. So at this stage, there's nothing much we can add on this thought.

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Kunal Vora - BNP Paribas - Mumbai

Sure. Just a follow-up on Africa, what is happening in the SG&A cost. On a constant currency basis, it has gone down by almost 25% from 180 million to 135 million. Can you share some initiatives which you have worked there?

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

Yes. The SG&A costs have seen some reduction across various heads. Firstly, there has been a lot of price renegotiation and good pricing that we have got on rate reductions on SIMs and recharge coupons and media costs and others. We have also done a lot of operational model reworking. On the way our shops run, warehouses, logistics and the others. And logistics and warehousing are big costs in Africa because of the geographical spreads. We have also got a lot of failure and defect reduction and reduced our customer experience costs. And on top of it, actually, there have also been a lot of facilities reworking and a lot of cost reduction there. So across, we have been working on a remodeling of our business model, and so we see some savings in costs.

Kunal Vora - BNP Paribas - Mumbai

That is it from my side. Thank you Sir.

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.

Sunil Tirumalai - Credit Suisse - Mumbai

This is Sunil Tirumalai. Sir, I have a couple of questions on the data numbers and the volumes that you have reported. So we are seeing significant rise in data volumes and 2.6 GB per month that you guys have reported. Two questions over there while the volumes are expanding, the number of customer additions are not really that high. I mean we actually have Jio reporting on a monthly basis as many net adds even on active basis, what you added in a quarter in terms of mobile broadband customers. You have kind of matched tariffs with what Jio has given. So you are pretty much equal in terms of what they are offering. So why it is that Bharti Airtel is unable to participate in if there is any expansion in the market that is happening on the same pace? And secondly, even after charging, it appears Jio has about 8 GB to 9 GB per month of data usage. While your numbers have definitely increased, at the moment, it appears it is good for you because of the same pricing you are actually giving a lot less data, but then it may not be a sustainable situation. Firstly, why is there such a big difference? I mean do you see a scope for your number to increase as well? And what does it mean in terms of the network capacity? Because I think last time you had mentioned something about 15% - 18% capacity utilization. What could be the number now? Thank you.

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

We have added close to 5 million customers in the quarter, which has been amongst our highest net additions that we have ever seen in terms of customer additions on the Airtel network on data. One of the things that we track very carefully is our share of 4G devices, we also look at getting the SIMs in the right SIM slot, which is the primary slot, which has a 4G, 3G radio, bulk of the devices have 4G, 3G radio on 1 slot and the 2G radio on the second slot. So we do not really celebrate if we get it on the secondary slot, which is a 2G slot, we celebrate it if we get it on the right slot. And that is the reason that we have been actually participating quite aggressively in the bundled space because that drives the SIM onto the right SIM slot. We think there is more to be done to drive our share of 4G devices. One of the big elements of our strategy is really to drive disproportionate share of high ARPU customers. And that has two parts to it. One is to accelerate our postpaid business. We have seen a softening of our postpaid business because of the deep discounting that has happened on the prepaid side. We have had a major relaunch of our postpaid offer in the last month or so, and initial results of that are good. The other part that we look at very carefully is really driving greater share of 4G devices, which is a surrogate indicator for higher-ARPU customers. We do a bunch of things in the go to market side through alliances and so on and so forth. And we believe that we are well positioned, both from a brand perspective as well as go-to-market perspective to try and pick up a higher share of these 4G devices, which ultimately will mean a greater share of high-ARPU customers. I think the fact is that despite this, the pricing of the new entrant is substantially below what we have been offering. In effect, the new entrant is offering everything free for Rs.100 a month, and to take it down to that level, if we did, we would actually get an even greater share of these 4G devices, but that is something that we have to sort of manage and calibrate carefully so we do that in a sensible way. From a capacity utilization perspective, I think on the 4G side we still have a lot of headroom for driving up demand because there is still capacity, the networks are not full, it is quite empty. And of course, we are rolling out very substantial amount of 4G sites as we speak, which will give us further capacity to fight the game. I think the current levels of pricing that we have in the market, given that they are pretty much ARPU-capped plans, there is a lot of value being offered at a low level.

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These are unsustainable. But that is the way that the market has actually shaped up, and therefore, we are forced to compete in order to grow market share.

Sunil Tirumalai - Credit Suisse - Mumbai

Sorry, just a clarification. So basically, you have Jio with 90 million-odd active customers, and then the overall customer base they have about 8 GB to 9 GB per month whereas in your case, you have about 40 million data customers, broadband customers using 2.5 GB per month. That is a big difference. I mean, why do you think that difference is there. I mean, is it a capacity issue? Or is it just a pricing issue? You seem to have matched on pricing with your plans as well.

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

Remember, in this market, if you were to give stuff away free, most devices have a second SIM. So people will pick it up and actually put it there and then see what happens. And that is really what has happened. There is a substantial amount of discounting that has happened because of free services. In fact, these free services were continued for a long time. And that is one of the reasons why we have seen such a large amount of dual simming and such a large amount of customer uptake on the competition side. Once they start pricing in and once the pricing sort of reaches sustainable levels, time will tell what actually happens. But given the free services that have been there, we have seen a lot of customers actually pick up those free SIMs. The way we think about capacity and I mentioned this last time as well, is that we do not want to create capacity now three years ahead, today or tomorrow morning. We can do it on a modular basis. We have made some very, very sensible and significant investments on our spectrum. We are well covered in 1,800 band everywhere, 2,300 band, 30 megahertz in most circles, sub-gigahertz band in 10 circles plus 5 circles where we have administered spectrum on the sub-gigahertz band and we think that the way to actually continue to invest is to do it on a modular basis, see where we actually need to invest, where the devices are coming up, where we need to put in greater capacities and do it. Because in a data network, you find that 20%, 30%, 40% of sites at the bottom, are not all congested. The congestion happens in a normal distribution curve. And so being clever about where you put that CAPEX is something that we believe is one of our strengths. As a consequence, I think we plan this on a granular basis in order to maximize the capital productivity.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks a lot for the opportunity. Just a few questions from my side. First is, Gopal, where are we on the VoLTE deployment? How far are we from a pan India or top 10-20 markets VoLTE deployment? Second is, Jio has a 4G device share plus customer share in the 4G market of more than 50%. And this feature phone could be a similar phenomenon. And in this 4G segment, it is despite that you guys and everybody has responded. Don't you think that the whole feature phone thing could also play out similarly? And historically, you stayed away from subsidies. But this is not subsidy, this is just packaging, financing schemes. So is there a reason why you do not want to respond similarly; your thought process on this. And lastly, are we close to a moment where 2G, 3G networks, you will have to take a call where you need to decide on 3G shutdown because the game is changing rapidly towards 4G; your thoughts on all these things?

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

VoLTE I think I mentioned it last time as well that we are doing trials right now. We have done trials in about 5, 6 cities. And towards the end of the fiscal year, we should pretty much be taking VoLTE everywhere. The uptake of VoLTE devices will depend on the certification of VoLTE, making sure that those devices are tested and actually moving some of the voice traffic on to the VoLTE layer. That will take its time, but we should be pretty much national in the coming months, so let us say in the next 6 to 9 months. On your second question of device share of competitor being more than 50% on 4G, well, one of the reasons for that has been the free services that I mentioned. And I think the important thing is to actually look at what is the share of higher ARPU customers because that is really where the capacity for paying is actually determined. Like I said, I think there is more to do, and we are determined to actually continue to drive up our 4G share, that is a very important metric that we track. Let us see how the feature phone responds. It is currently a price plan that is very similar in fact or slight premium to what the plan is on smartphones and the price of the feature phone is at the upper end of what feature phones are sold because 60% to 65% of feature phones are sold below Rs.1000 in India. So this is the higher end of that. There may be other things that we need to understand in terms of what the terms and conditions are and how customers respond. Suffice it to say that we will respond at the right point in time. We have always done that, but like I said, I think our objective is not to go into device subsidies and so on. We will find ways to bundle, which is something that we have done in the past in order to compete.

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On your third question, my own sense is that 3G networks will probably move fast and shutdown faster in India than in other parts of the world simply because all smartphones that are now coming in are coming with a 4G as well as a 3G chipset. And as you know, 4G is spectrally more efficient. It has better delivery speeds, so the world will go to 4G. But the fact is that you still have about 30 million, 35 million of feature phones being shipped out every quarter. The installed base of feature phones in India is still about 70%. That is unlikely to change in a hurry. It will change overtime. But even in advanced markets, you still see that 2G continues to work. So my sense is that India will get to a situation where 4G and 2G networks will coexists for a while. 3G will probably shutdown faster. The good news is that for our 3G networks, most of the hardware that we have bought are also 4G compatible. So we click it on through the software, and so at the click of a button, we can actually move from the 3G bands to the 4G band as the traffic diminishes. Currently, 3G is also carrying voice, and so with the growth of VoLTE, what you will find is actually 3G networks getting released. And at some stage, yes, you may be right that there could be a need for shutting down 3G networks and actually moving the spectrum on to 4G bands.

Rajiv Sharma - HSBC - Mumbai

So just a follow up Gopal, thanks so much for this. Are there any markets where we are attempting this right away? And given that you have a feature phone, I understand handset subsidy, but why so delayed deployment in VoLTE? Is it because of the practical execution on ground things that it is going to take time? Or is it that you're not so worried that VOLTE feature phone combination and you're not there at all being VOLTE, when in December or October this phone gets commercially launched.. means how do you see that?

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

Well, first and foremost, I think you must understand that from a customer's perspective voice is voice. And so whether the voice is riding on a 2G network, 3G network or 4G network, it is still voice. So we have enough capacity to serve customers on voice. The second point is that one of the advantages of a VoLTE is that if a customer is sitting on a 4G layer, they do not have to toggle back and drop on to a 3G or a 2G layer. They can still be sitting on a 4G layer doing a simultaneous data reception plus a voice session. What happens if you are not on a 4G layer is that you drop to a 3G layer, the data session shuts off, you finish the voice call and then you go back. It instantaneously happens within a fraction of a second, you go back to the 4G layer. So it is not a consumer-perceptible difference, but it is a difference which we think is good for customer experience over the long-term. And that is why we have not been in any great hurry and compulsion to actually get out there and put our VoLTE networks out. VoLTE is a complex technology. It needs a lot of optimization, needs to be tested device by device, and that is what we are currently doing. But once all that is done, the acceleration will be very fast and we'll be able to roll it out and pick up a lot more traffic on the 4G layer very soon. So we are currently engaged in making that happen.

Rajiv Sharma - HSBC - Mumbai

And any market where you are trying to shut down 3G in the near term?

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

No, not now.

Kamaldeep - Moderator

Thank you Mr. Sharma. The next question comes from Mr Viju George from JP Morgan Mumbai. Mr. George you may ask your question now.

Viju K. George - JP Morgan - Mumbai

Thank you for the opportunity. Just one question on market growth trends. If I just look at the results declared for Vodafone and of Bharti, also may be backing the Rjio customer collections or estimated customer collections and maybe allow for some steep decline of these smaller operators, it seems that the market has started to grow maybe tentatively, but do you think that we are in a stage where we can look for market growth hereon?

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

I do not know where you are picking up that the market is growing because the market on a year-on-year basis is declining at more than double digits.

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Viju K. George - JP Morgan - Mumbai

I mean sequentially.

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

Sequentially, you must remember that this is the quarter where the market actually grows because this is a seasonally strong quarter, and I think the market has declined marginally. So if you look at the value players, most of them have seen very sharp decline. Many of them do not report their results, but our estimation is they are seeing declines of anywhere between 5% and 10%. Secondly, one of the listed operators, as you said, has seen kind of a flattish sort of situation. We do not know what the other listed operator is going to declare. So if you actually put all that together, the market has continued to decline, perhaps by a couple of percentage points, where, in fact, it should have grown by around 3% to 4% points. So in a way the market has declined by 6% from the normal situation of where it should have been. So there is no reason to suggest that the market has now started to grow. That is not the case.

Viju K. George - JP Morgan - Mumbai

Thank you.

Kamaldeep - Moderator

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

Naveen Kulkarni – Phillip Capital - Mumbai

Thanks for taking my question. I have two questions on the Africa business. First is, we have seen this is the third consecutive quarter of profitability. We have seen that there has been a lot of work which has gone into the management, of course, but how long do you think that this thing is sustainable without increasing the cost structure significantly? And do you believe that we can maintain the profitability trend and probably also grow from these levels? So that is the first question. Second question is, is it possible for us to carve out the debt number for the Africa business, including the financial lease obligation? Those are my two questions.

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

Naveen, Raghu here. So as I mentioned before, there are two aspects to this on profitability. One is we need to continue to grow our revenues, and that is very separate from how we run our cost structures. We have been working on remodelling our costs, and we have seen some work on that, results of that. So that remodelling of our basic business model in Africa continues. While we continue to focus on increasing our revenue, we are embarking on a big program of modernizing our networks and getting U900 on 8 of our OpCos and also launching 4G in five countries. So this should give a big flip to our data revenues and the high value customer revenue. So I think our continuous focus in line is to continue to grow top line. And with focus on data, money and high-value customers, we are going to continue to work on our costs.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

We do not distinguish Africa debt, but report the FLO debt, which we actually disclosed in our KPI sheet. In terms of bank debt, we have very, very little, in the OpCos itself. And otherwise, there is the acquisition debt, which is lying at the holding company level.

Kamaldeep - Moderator

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

Pranav Kshatriya - Edelweiss - Mumbai

My first question is, can you comment on your capacity utilization? I understand you said there would be a lot of capacity available on 4G. But if you can just put a number or a range on where do you see this currently and how do you see this moving. That is my first question. Secondly, on margin, we have seen sharp erosion in the margin, and we are anticipating that margin will start

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plateauing or bottoming out when the revenue growth deceleration stops. But in this quarter despite flattish revenues, there has been a margin decline. So how should we see this going forward? These are my two questions. Thank you.

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

This is Badal here. In terms of utilization, we do not publish those numbers, but suffice to say that we have enough capacity available to take on additional traffic. As far as margins are concerned, overall, while our revenues have been flat, but the IUC pay out for the current quarter has significantly increased, which is driven by substantially higher minutes in the current quarter. And as and when we see this bundle penetration adoption to increase that continues to be the case. Overall on OPEX, we have been flattish quarter-over-quarter. We have some one-off hits in the current quarter, which is driven by bad debt, which has always been the case in the first quarter due to delayed collection in the enterprise business segment.

Kamaldeep - Moderator

Thank you very much Mr. Kshatriya. The next question comes from Ms. Sharon Chen from Metlife, Hong Kong. Ms. Chen you may ask your question now.

Sharon Chen - Metlife - Hong Kong

Thanks for taking my question. So my first question is really on the outlook. How close do you think you are to the bottom of the market? So for example, one metric that we could use look at is in terms of your subscribers looking to move to Jio's network. Have you seen any trends there in terms of declining or increasing number of subscribers moving to Jio? And my second question, I am not sure if you can comment on it, any thoughts in terms of asset disposals or mergers or acquisitions? Thank you.

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

Badal here. This is in response to the first question, have you seen the bottom of the market. I think it is early days. We still have to wait and watch. While we see trends on a weekly and daily basis, the full pricing effect of Jio is yet to come to play. As and when people start adopting new pricing plans, which they have recently announced, we will get a sense on how the movement is going to happen, whether people are willing to pay almost double the price of what they were paying in the previous quarter. And also, with the feature phone, we will have to assess the situation over the next one or two quarters to figure out whether we are truly at the bottom of the market or not. So we have to wait and watch.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

On the asset disposal, M&A stuff, I think we already are in play as you know in Telenor and Tikona, which we hope to consummate very soon, but other than that, nothing else to report for now.

Kamaldeep - Moderator

Thank you very much Ms. Chen. The next question comes from Mr. GV Giri from IIFL Mumbai. Mr. Giri you may ask your question now.

G.V. Giri - IIFL - Mumbai

Gopal, your CAPEX stepped up this quarter. Are you likely to raise your CAPEX guidance? Would you consider that with competitors having relatively weaker balance sheets, in fact significantly weaker in some cases, this is time to step on the capex?

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

Giri, right now, for this quarter, there has been a substantial amount of capital work in progress, almost Rs.3000 Crores. So at this point in time, the guidance that we've given stays.

G.V. Giri - IIFL - Mumbai

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Okay. And also, on IUC, can you give a bit of colour in terms of what happened this quarter? Because all competitors of Jio moved to unlimited voice plans. And did you see a corresponding increase in inter-operator revenue also? Or was it sort of neutralized by any change in Jio's traffic pattern when they went from free to priced?

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

So as we mentioned earlier, yes, our IUC costs have increased quarter over quarter due to adoption of bundles. We did see some uptrend in incumbent revenue from Jio. But overall, with all the operators adopting the bundles, overall, it is getting neutralized with all other operators.

G.V. Giri - IIFI - Mumbai

So Jio incoming also went up you said, although they went from free to priced?

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

We are still seeing about 90% of incoming traffic from Jio, so the asymmetry is very high still.

Kamaldeep - Moderator

Thank you very much Mr. Giri. The next question comes from Mr. Deepak Sharma from AllianceBernstein, Pune. Mr. Sharma you may ask your question now.

Deepak Sharma - AllianceBernstein - Pune

Thank you for taking my question. My question is on the rating outlook. So currently, it is negative and looking at the net leverage now versus adjusted for deferred spectrum and also the operating and finance lease it is around 3.27x. So I would like your comments on the future asset sales and also potentially acquisition of Vodafone and Idea's sites in Bharti Infratel, which could put pressure on leverage?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes. So as I said in my speech, our reported leverage is now about 2.67, which is pretty comfortable in terms of where we want to be. Now from a rating outlook agency, since they do their numbers on an LTM basis you will see some pressure of this going upwards. And of course, adjusting for the FLO, this may be trending towards 3, where the rating agencies view this. Having said that, what we have said is that we are also looking at the monetization possibility as well. We have Infratel stake sale sitting in a company called Nettle. We can look at opportunity on monetizing that when we want to. But at this stage, we are not so concerned because we are pretty much in the safe zone, and it is only one agency who has turned down the outlook towards negative. The other two rating agencies seem comfortable where we are.

Deepak Sharma - AllianceBernstein - Pune

Okay. So my second question is on the news that SoftBank will be taking a minority stake. So I would like to have your views on the same.

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

No, nothing, no comment on this.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. Ladies and gentlemen due to constraints of time we will take only two more questions. The next question comes from Mr. Aditya Srinath from Quantum Asset Management Mumbai. Mr. Srinath you may ask your question now.

Aditya Srinath - Quantum Asset Management - Mumbai

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Good afternoon. Thanks for the opportunity. I just wanted to know the data realization per minute there has been a very, very significant drop over there. So given the bundle plans, I just wanted to know if you could give some qualitative insight into how you actually segregate out between the voice and the data pricing.

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

So Aditya, bundles are still a small proportion of our total income, however, the principles which are applied to segregate or allocate the realization from bundles, is on fair value principles for offers being made and usage by the consumers. So it is a fair value principle, which is applied, refreshed every quarter or six months depending on things move.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Going forward, like I mentioned, I think we will start moving towards a combined ARPU. It will become very, very difficult to start segregating these revenues on some notional values, etc. which will be probably misleading. So I think we will have to start moving towards full ARPU and focus on that.

Kamaldeep - Moderator

Thank you very much Mr. Srinath. The last question comes from Mr. Aliasgar Shakir from Motilal Oswal, Mumbai. Mr. Shakir you may ask your question now.

Aliasgar Shakir - Motilal Oswal - Mumbai

Thanks for the opportunity. My first question is on CAPEX. So this quarter, we saw nearly about \$1 billion CAPEX on consolidated basis. So just wanted to understand if this has any repudiation on your overall annual CAPEX guidance of \$3 billion. And while we have not given guidance for next year, but considering the amount of high CAPEX that we have done in the last two years, if you could share your trend trajectory that could be possible for the next year. That is the first question. Second question on VoLTE just wanted your thoughts on what could be the cannibalization risk from smartphone subscribers if one assumes that you may have to probably match Jio's low ARPU VoLTE offering? And what is the device capability of the current VoLTE feature phones? I mean, are they capable to also operate on 2G, 3G or are they only purely VoLTE devices?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

CAPEX I think Gopal already mentioned, the \$1 billion, I think, includes about Rs.3000-odd Crores of actually CWIP, which has not been deployed. So I think it is lumpier than anything else because we have only put 13,000 4G sites in this quarter, as you have seen in the reports. So we stay committed to our guidance for the year of about \$3 billion odd. No guidance for next year, too premature.

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

On the VoLTE feature phone, I think I have already answered that we will wait and watch. We do not subsidize phones, but we will bundle wherever we need to. We understand that this device is a SIM-locked device, and so it can only work on the Jio network, which is a 4G network. We are told that it also had a 2G radio, but that is irrelevant because that SIM is locked to the Jio network for three years effectively, which is when they have said that they will return the security deposits they have taken. So I believe that it does not have a 3G radio. It has only a 4G and a 2G radio. But like I said, that 2G radio may be irrelevant because the Jio network is only a 4G network.

Aliasgar Shakir - Motilal Oswal - Mumbai

Okay. If I can slip in a follow-up over here; if I understand correctly, there are a couple of domestic brands also which have their own VoLTE feature phones, which are not locked phones, generally open phones. Are they also only VoLTE capable or like you mentioned, they have 2G and 4G so that sort of allows the subscriber to use either of those for voice calling?

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

So the one phone that did get launched in India is a phone by Lava, which is a VoLTE feature phone. That has a 4G, 3G and 2G radio, and it's a dual-sim device. I think with this sort of a phone coming in, it will be an encouragement for all the device manufacturers to get out there and actually innovate in order to do something on devices. And we will encourage that because, I

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think, with the growth of this segment, that in a way is a good thing, and we saw that in the smartphones as well. When the segment grew, that benefits us as well.

Aliasgar Shakir - Motilal Oswal - Mumbai

Thanks, that is very helpful.

Kamaldeep – Moderator

Thank you Mr. Shakir. At this moment, I would like to handover the call proceedings back to Mr. Nilanjan Roy for the final remarks.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Thank you all for an interesting round of Q&A. We look forward to talking to you once again next quarter and probably meeting some of you during the quarterly investor conferences and meetings. Thank you.

Kamaldeep – Moderator

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