

Conference Call Transcript

Event: Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Event Date/Time:

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call**CORPORATE PARTICIPANTS****Mr. Gopal Vittal**

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Global Chief Financial Officer - Bharti Airtel Limited

Mr. Jaideep Paul

Chief Finance Officer - Africa - Bharti Airtel Limited

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PRESENTATION**Rajyita - Moderator**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Airtel Limited Fourth Quarter and Full Year ended March 31, 2019 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. 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. Badal Bagri. Thank you. And over to you, Mr. Bagri!

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

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the Fourth Quarter and Full Year ended March 31, 2019, which we announced on May 6, 2019.

Present with me on the call today are Gopal, Raghu, Jaideep, Nakul and Komal.

The earnings call this time is a few weeks delayed as our rights issue was ongoing and, thus, we were unable to engage with investors during this period. While most of you may have already gone through the limited set of financials that we were able to release post the results, I appreciate your dialing into this call today where we will get a chance to discuss the underlying trends of our results in more detail.

Before I move on to the results, I would like to thank our investors for the confidence that they have reposed through their strong participation in our rights issue. I am happy to inform that our rights issue of Rs.25,000 crores was received very well by investors and the same got oversubscribed to the extent of 105.6%. The issue closed on May 17, 2019 and the proceeds will be used towards its stated objective of deleveraging.

Moving on to business and performance, starting with our India operations. Let us talk about our mobile business first. The broader industry, having now consolidated to 3 large players, saw some return of stability and green shoots of growth. Revenue for the quarter at Rs10.5 billion was up 4.3% quarter-on-quarter and 2.6% year-over-year.

While this is largely stemming from the minimum commitment plans that the incumbent operators launched, we continue to believe that prices need to move up in the long-term to ensure industry viability.

Our 4G base continues to grow, and we added almost 10 million customers during this quarter. Our ARPU has expanded to Rs.123, up by Rs.5 compared to the exit ARPU of the previous quarter. Mobile EBITDA margin at 24.1% was aided by realization of certain onetime benefits. The underlying margin stood marginally above 22%.

We continue to invest significantly towards upgrading and expanding our network with an aim to further enhance our 4G coverage and deliver superior network experience. We have initiated reframing of our 900-megahertz spectrum and have completed deployment of L900 sites in 7 cities.

Similarly, spectrum in 2100-megahertz band, which was being used for 3G, is being reframed to 4G for providing additional capacity. During the year, mobile broadband towers increased by around 28,000 and mobile broadband base station increased by around 120,000.

As a part of our network modernization program, we announced plans to build one of the world's largest photonic route-control plane networks in India. The new backbone network spanning 130,000 kilometers will use available fiber resources efficiently to enable superfast broadband experiences over 4G, 5G, LTE architectures to serve the exploding demand for high speed data services.

Talking briefly about other businesses. After many quarters, the Homes Business has seen some revenue uptick, albeit modest. We continue to be bullish about the segment and are continuously working towards expansion of our fiber presence and offer superior proposition to our customers. The customer base stood at 2.27 million as at the end of March 31, 2019.

Digital TV Services Business continues to witness double-digit revenue growth on the back of strong customer relations. We added approximately 391,000 customers during the quarter and a total base stood at 15.4 million as at the end of March 2019.

Airtel Business segment has reported revenues of Rs.30 billion as compared to Rs.28 billion in the corresponding quarter last year, and an increase of 6.2 percentage points on a reported basis and 7.6 percentage points on an underlying basis. Net revenue grew faster at 9.1 percentage points as compared to corresponding quarter last year. On a sequential basis, the business saw a modest dip mainly due to lower transit at hubbing minutes. Overall, trends in the other lines of business remained intact.

Let me talk a little bit about the long-term trends we see for ourselves and how this is sizing with our overall strategy. In order to remain a meaningful, relevant player in this era of digitization, Airtel is making a dynamic shift in its strategy from simply being a pipe providing connectivity to being an ecosystem of digital services with an aim to win quality customers across verticals and offer them brilliant experience across all touch points.

This strategy would be enabled through five key pillars, the primary pillar being providing services at scale. We will continue to scale up our digital services, such as Airtel TV, Wynk, Books, Payments, etc., which we offer as part of our flagship Airtel Thanks program. Services at scale will need partnership and this will continue to be core to our differentiated offerings. We aspire to be the best partner in the ecosystem with ability to quickly and seamlessly integrate offerings on our platform.

Services and partnership can be useful only with strong customer understanding and deep micro marketing, which we aspire to do across our online and offline channels. To be able to seamlessly offer these services to our customers and to quickly adapt to the changing industry contours, we will simplify our processes to be an agile customer-centric organization. On all of the above, we will continue to look through the lens of War on Waste program to ensure cost savings and delivering incremental EBITDAs.

On the non-wireless front, we will focus on serving the digital needs of our home and try to take a lead in conversions and Triple Play across content, speed and mobile. In B2B, we will focus on growing our core connectivity business, and at the same time, build new revenue streams.

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Let me now turn to Africa operations. Airtel Africa witnessed steady improvement across top and bottom line. On a constant currency basis, revenues grew largely on account of data and mobile money even as voice growth self-sustained. Revenue growth, coupled with tight cost control, translated into a strong EBITDA growth year-on-year.

Africa business is creating a strong foundation for a solid and sustainable business. We aspire to increase our mobile revenue and market share through widest smartphone network leadership, data penetration, introduction of new products and addition of quality customers. Airtel Money provides a unique opportunity to build a scalable business at a minimal incremental capex while fully leveraging the existing platform to provide a solution to the low banking penetration seen across the continent.

Further to the infusion of USD \$1.45 billion from private equity investors, Airtel Africa had announced its intention to potentially IPO the company, and I am pleased to say that the registration document filed by Airtel Africa has received approval from the U.K. Financial Conduct Authority on the May 28, 2019. As we are under publicity restrictions, we will be unable to answer any questions around the potential IPO.

Moving on quickly to another noteworthy areas. We are happy to announce that Airtel was ranked amongst the top 10 companies out of 100 in the Indian Corporate Governance Scorecard. Bharti Airtel is the only telecom company to make it to the top 10.

On regulatory front, the TRAI implemented the new tariff order in the television broadcast industry with effect from Feb 1, 2019. We are happy to inform that we complied with the deadline and have successfully implemented the order. We also welcome this move as we are hopeful that it will help to usher in the next wave of digitized broadcasting across the country and is also in line with the ethos of putting customers first.

On M&A, in India, DoT has recorded an in-principle approval for the merger of consumer mobile business of Tata Teleservices Maharashtra Limited and Tata Teleservices Limited with Bharti Airtel Limited and Bharti Hexacom Limited subject to fulfillment of certain conditions. We expect the merger to close shortly.

In Africa, Airtel Kenya and Telecom Kenya entered agreement to merge mobile, enterprise and carrier services business in Kenya to operate as Airtel Telecom. We expect the merger to be completed shortly as well.

Moving on to our consolidated financials. Consolidated revenues came in at Rs.206 billion, which is a quarter-over-quarter growth of 1.8% and a year-over-year growth of 6%. As discussed earlier, growth this quarter was led by Mobile India and Africa.

Consolidated EBITDA at Rs.68 billion is up by 7.9% quarter-over-quarter and down 3.2% year-over-year, led mainly due to opex headwinds on account of high network cost as we aggressively rollout networks in India. We remain focused on structural cost containment through our War on Waste program.

Depreciation and amortization expenses were at Rs.55 billion, an increase of Rs.6 billion year-over-year mainly due to additional capitalization. Net finance cost for the quarter stood at Rs.25 billion, higher by Rs.7 billion year-over-year. The increase has largely been on account of higher interest on borrowings due to additional borrowings. The company recognized a net exceptional gain of Rs.13 billion during this quarter mainly due to reassessment of certain levies.

Profit after tax, post exceptional items, came in at Rs.1.07 billion. We closed the year with a capex spent of Rs.287 billion.

Net debt during the quarter was Rs.1082 billion, which increased due to additional debt undertaken mainly for the higher capex this quarter. The net debt-to-EBITDA stood at 4.12 versus 4.78 in the previous quarter. The rights issue, which closed post the quarter end, will aid in the reduction of debt.

To sum up, the telecom industry in India continues to witness a huge expansion in data and voice usage even as it consolidates towards the largely 3-player market. With our scale and efficiencies, backed by our superior spectrum and network footprint, we continue to hold our market share despite below cost pricing. Our non-mobile business continues to expand at a healthy rate and Africa remains on its profitable growth journey through its focus on strengthening the distribution models and enhancing customer experience.

With that I hand over the call to the moderator.

Rajyita - 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 participant may please press "*" "1" now. The first question comes from Mr. Manish Adukia from Goldman Sachs, Mumbai. Mr. Adukia, you may ask your question now.

Manish Adukia - Goldman Sachs - Mumbai

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Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Thank you for taking my questions. I have 2 questions, please. Firstly, just on the India wireless business, you saw growth return on top line after a number of quarters. Can you just break that down for us in terms of what were the key components that led to the growth? You talked about a few pricing interventions in the quarter. I am just trying to understand how sustainable these interventions are and how should we look at growth in the coming quarters. Second question on capex, if you can provide some outlook. Would you say FY2019 was the peak year in terms of capex? And how should we think about capex in FY2020 and beyond? Thank you.

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

So, Manish, let me take both those questions. I think on the growth side, like Badal said, we grew at little over 4% on mobile, which was largely driven by ARPU increases. And I would say a very disproportionate part of that came from the minimum ARPU plans that we had launched. The full impact of that was felt in the quarter.

We also had some movement of pricing, and we have been trying different pilots. So, we moved our pack, which was selling at about Rs.99 on a segmented basis. We moved that up to Rs.119, went open market with it, so that gave us a little bit. We also had a Rs.149 pack, which was with rich data allowance. That went up to Rs.169. So again, we saw some ARPU coming out of that. So, I would say a vast majority of the ARPU increase came from minimum ARPU and some of it came from the price increase.

As far as capex is concerned, this last two years have been peak levels of capex. We had announced a project called Leap three years ago, which was a Rs.10 billion capex plan and I think we are on track with that.

Historically, we have been giving capex guidance for the coming year. This year we have decided against it as this was being done for legacy reasons. We normally do not give guidance on revenue or profit or anything like that, so we are not going to give guidance on capex as well.

In any case, we report the capex every quarter, so you will see those numbers. But I would definitely say that the peak level of capex was seen last year. The capex will be lower in the course of this year. But given the growth of data, I think it is something that we will wait and watch. What we will not compromise on is customer experience.

I think for us, delivering the best experience in terms of video, in terms of payments, in terms of gaming and overall in terms of speed, is absolutely a top priority. And this is why we take great pride in the fact that across all the third-party platforms whether it is Open Network, OpenSignal or Ookla, we tend to come out as the fastest and the best network.

Manish Adukia - Goldman Sachs - Mumbai

Right. Thank you so much Gopal. Just a couple of quick follow-ups on those. So, you mentioned that the larger proportion of the revenue increase this quarter was led by those minimum recharge plans. So, is it then safe to say that the following quarters, June onwards, because that is already in the base, the growth could potentially come down with those minimum recharge now in your base? And second, on capex, you mentioned that we have seen peak years of capex now behind us. But what do you think about any upcoming spectrum option in the next 12-odd months that could potentially move that CapEx number up again?

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

Manish, on the revenue number, we will not give guidance. All I will tell you is that we took some bold moves on the minimum ARPU plans. But equally, when you look at our postpaid business or our broadband business, you may have noticed that we rearchitected the price architecture or we have rearchitected pricing in both postpaid and broadband. This was done with a view to prevent down gradation, and we are pleased to see, in broadband, even in acquisition, they are holding up which is why the ARPU has kind of flattened out. It is much the same story that we would be looking at in all aspects of the business. But suffice it to say that this quarter, we did see a couple of big moves, the minimum ARPU plan as well as some price increase. Your second question on spectrum. I think on spectrum; we made our position quite clear. We believe that the 3.5-gigahertz spectrum auction, we do not know when it is likely, but whether reserve prices were indicated by TRAI, were in the ballpark of about Rs.50,000 -Rs.55,000 Crores for 100 megahertz of spectrum. The reason I say 100 megahertz is that 5G requires large quantities of spectrum at least. If you have 40 megahertz, you do not get really 5G-type requirement. So, both in terms of speed and latency, you need large chunks of spectrum 75 megahertz and above. Clearly, these are prices that we cannot afford, and we believe that these prices are exorbitant. Given that the state of the 5G ecosystem is still nascent, so we would encourage, or we would hope that the government brings down pricing of spectrum and reserve price of spectrum and that is the stage when we would look seriously at 5G.

Manish Adukia - Goldman Sachs - Mumbai

Great. Thank you so much for that answer and all the best.

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call**Rajyita - 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

Thank you very much. Two questions, one on India and another kind of sort of try and touch base on Africa. On the India side, if you can kind of comment on your fixed line business, I mean where the ARPUs, ARPU has been declining a bit, and how do you see the competitive intensity play out over the next 2 years in that business? And how do you think about that nonmobile piece where you also have DTH as well on them? So that is number one. Also, is it fair to say that the competitive intensity is probably now stable rather than increasing in the India mobile business? That would be my first part of my question. Second on Africa, again, it will be very helpful if we can get some commentary on the competitive landscape particularly in Nigeria. Thanks.

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

Well, let me take the India piece and then maybe I will hand over to Raghu for the Africa side. On the fixed line, on the broadband business, we have about 2.2 million or 2.3 million customers. Our ARPUs have kind of stabilized, marginally down, but broadly stabilized. And that is because of the rearchitecting of the pricing. We think this business is a very different type of business from wireless. This is street-by-street, home-by-home business. Stickiness tends to be very high. Churn on this business is exceedingly low. And unless you make a mistake, chances are, unlike wireless, where people have dual SIMs and the cost of entry is very low, the stickiness tends to be high.

One of the things that we are looking to do is to further strengthen that stickiness through the launch bringing in other services across our mobile as well as our DTH platforms into the home. We track that very closely and we have metric that drives that. We are also trying to see what we can do to digitally enable the several services to be sold seamlessly to customers. So that is something that we will continue to look at.

Our B2B business, your question was on non-wireless, our B2B business is we are very excited about the opportunity particularly on the domestic enterprise, both the large as well as small and medium enterprise presents. We think that this market is very large. And through a combination of connectivity, collaboration-based services and several partnerships, we want to try and really double down and focus there.

Again, especially when it comes to large enterprises, relationships matter. People trust us with their data. People trust us with the fact that we value security and privacy. And these relationships are built over years. This is something that plays to our strength and is part of our DNA.

When it comes to DTH, I think that the opportunity in DTH, given that there is a very large cable industry, which is still not digitized and still got quite fragmented, we do think that the DTH business has a big opportunity to continue to grow its customer base and that is really where we are focused on.

The question on competitive intensity, I would say that this is not over just one quarter. Over the last three to four quarters, you would have seen that our revenues have kind of flattened out. And this is one quarter where we are seeing some revenue growth. But if you look over a long period of time, pricing is not coming down anymore so to that extent, if your question is competitive intensity stable? Yes, it is stable because we are not seeing any further reduction in pricing, but is it a brutal marketplace in terms of the pricing structure? Yes, that is true because you will remember that two years ago, our ARPU used to be Rs. 200, and now, it is down to Rs. 125-odd. So, to that the extent, there is a significant ARPU reduction, and for that, industry repair has to happen. But we are currently not assuming any change in pricing. We are focused is on actually growing our business without any change in pricing. Raghu, over to you.

Raghunath Mandava - MD & CEO of Africa - Bharti Airtel Limited

Yes. Thanks. the key thing in Africa, if you have noticed, amongst our 14 countries, and 11 out of the 14 countries, we are either number one or number two player. Nigeria too is about four players, but largely I think the big investing ones and the high growth ones are two of them and we think we are growing faster than the rest of the industry. Fortunately, Nigeria is booming. The markets are growing very well in double digits. And I think we are able to grow much faster than the rest of the market, thanks to our focus on LTE, we have raced ahead with the rest of the industry on our investments on LTE. And more than 60% of our market is already LTE ready. Our sites are on LTE. And I think that is really helping us gain a disproportionate share in the market. So, this is on Nigeria.

Srinivas Rao - Deutsche Bank - Singapore

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Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Thanks a lot. Thank you very much. I will welcome back for more questions if I get a chance.

Rajyita – Moderator

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

Pranav Kshatriya - Edelweiss Securities - Mumbai

Thanks for the opportunity. I have two questions. Firstly, the SG&A for this quarter for India business has come down sharply. How should we see this? Is there any one-off in this? And my second question is, what are your thoughts on monetization of the stake in Infratel? And should we assume that over a period of time you will sell that as you have been doing in the past or you might see a onetime exit from that?

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

Hi Pranav, this is Badal here. On the SG&A side, fourth quarter, historically, has been a quarter where we see significant collection which comes specifically on the B2B business and we get some benefit on account of the bad debt provision reversal, which we end up making throughout the year. So, the reduction is primarily driven by the reversal of provision, which we have created during the current financial year.

Nakul Sehgal - Corporate Chief Financial Officer - Bharti Airtel Limited

Thanks for the question, Pranav. This is Nakul Sehgal. Your specific question with respect to Infratel. As of now, we are awaiting approval from the NCLT with respect to the scheme that has been put in front of them. So that is awaited for now. And in terms of monetization, I think we will evaluate all possible opportunities as we go forward and take the best decision in the interest for the company. So far nothing as of now is available for us to give any further color to what we are doing on Infratel. But this is one opportunity that we will evaluate as we go forward.

Pranav Kshatriya - Edelweiss Securities - Mumbai

Okay. Thank you.

Rajyita – Moderator

Thank you very much Mr. Kshatriya. The next question comes from Mr. Rajiv Sharma from SBI Capital, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma - SBI Capital - Mumbai

Thank you so much for the opportunity. Just a couple of questions from my side. Firstly, Gopal, what do you think about subscriber additions? So, for you, this quarter, it was a very marginal decline in the India mobile subs. Now that you have been investing and you will continue to invest in network. So, do you expect your subscriber additions to improve and you expect to gain share from Vodafone Idea, which is not investing enough and/or have other issues to solve given the merger? Second is you said that one bold measure or one thing, which has improved ARPUs this quarter, is the minimum recharge plans. Why is not the data conversion leading to any ARPU improvement? Is it that 2G guys who are at Rs.199 moving to data so there is not ARPU improvement? So, will this whole 2G or going to 4G, is that not going to help us in ARPU improvement going forward? And lastly, will you be doing something for the Kirana space given that you have got Payment Bank, you have got Airtel Money and you have enterprise solution. So, is that space where you would like to see Airtel in? Are you doing something on those lines or its just out of radar?

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

Rajiv, we had indicated that we would continue to see some softness on the customer numbers because the choice that customers would make on the SIM based on a minimum ARPU plans, would play out over a period of three to six odd months and therefore, you are seeing the customer numbers kind of soft as a consequence of that. I will not comment on our competitors. I think that, that question, I will leave aside. 2G to 4G, yes, there is an upgradation in ARPU that happens. Typically, these customers give you an ARPU of Rs.70 to Rs.80, so you get a small ARPU increase, but the reality also is that there are many of our 2G customers sitting on slightly higher plans with a lot more data and those also tend to find the right plan to go through process of down gradation, so historically, this has not given us a big ARPU kicker because of the flux in the pricing and where customers sit at, at different points

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Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

in time. I think this is something that we hope that will slowly begin to correct. The third question is really our strategy is built on building a solid digital layer, which uses the strengths that we have which is around our data, our payments, our network and our distribution and what we have done essentially is created this one digital app for consumers, which is Airtel Thanks, where we are trying to bring all our services, whether it is entertainment, music, video as well as our telco benefits. We are also looking at financial services. We have just launched a plan with life insurance. So, our effort is actually to use that to create an array of services that would allow us to create greater stickiness with customers, trade up through ARPU increases. Some of the relationships that we have with Amazon or Netflix or Zee enable us to actually put these pieces of content or this content with premium plans and that drives upgradation. Going forward, we could also look at selling many of these services through our payment's platform, but that is something we have begun piloting very recently using our distribution app, which is what we call Mitra, which is used across a million retailers. Today, you can pay water bills, you can pay electricity bills, you can buy insurance policies, all through the app for which we get a commission. So that is really the way that we are thinking of creating an ecosystem. Our basic strategy is going to be built around creating some of these platforms and then driving partnerships. So, it is really that what our basic strategy is going to be built around, with the effort of trying to improve ARPU and then drive some new streams of revenue.

Rajiv Sharma – SBI Capital – Mumbai

That is very helpful. If I could just chip in one last question, in Africa, how much revenues would be coming from Airtel Money?

Raghunath Mandava – Chief Operating Officer – Africa – Bharti Airtel Limited

Last year, we almost had about 8% of our revenues coming from Airtel Money and Airtel Money is growing at about almost 50% year-on-year growth.

Rajiv Sharma – SBI Capital – Mumbai

That is helpful. Thank you so much.

Rajvita - Moderator

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

Ravi Menon – Elara – Mumbai

Thank you for the opportunity. Firstly, you talked about how the capex cycle is the peak has passed, but there are still you talked about optic fiber expansion to, how much capex utilization do you expect given that you still are going in for a big optic fiber expansion?

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

I would say that even including all that, we have sort of well past our peak capex, at least the capex numbers that we saw over the last two years. I think the contribution of capex, if you look at most Telco's today, there is greater contribution of capex on the transmission and on the transport side when compared to the radio side overtime, so in the past, if the contribution was sort of very low, this has now grown to be pretty substantial and while radio continues to be a very large part of the capex, transport is becoming more and more important. Over the last two years, we have done a lot of work on transport. While Badal talked about the photonics strategy, I think there has been a lot of work done on creating fiber-to-the-site. In addition to that, creating an entire MPLS network, building data centers closer to the EDGE, caching content closer to the EDGE using all our intelligence, so a lot of investments have been made on that front.

Ravi Menon – Elara – Mumbai

Secondly, you have a network operation cost. I have seen it has continued to go up how much of this is one off due to loading charges?

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

Ravi, the loading charges would not be one off because there will be regular cost, which will be part of our network expansion plan. The growth in network expenses is primarily driven by the rollouts, which we have done in some new towers and including loading of base stations on our existing network.

Ravi Menon – Elara Securities – Mumbai

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Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Great. Where do you think it will stabilize at once your 4G upgrade is done?

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

Ravi, very difficult to call out in the future because we will continue to invest on network whatever and wherever it is required to deliver the best experience to the consumer. However, as we always maintain that there are several programs, which we run in parallel, which is under our War on Waste umbrella, which is where we keep on optimizing the expenses under various other heads, including network.

Ravi Menon – Elara Securities – Mumbai

Thank you. Best of luck.

Rajyita – Moderator

Thank you very much Mr. Menon. Participants who wish to ask questions may please “*” and “1”. The next question comes from Mr. Sanjay Chawla from J M Financial, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla – J M Financial – Mumbai

Thank you for the opportunity. Gopal, my first question is on this launch of a low-price smartphone by Xiaomi, this Redmi Go how it has impacted the smartphone upgrade and adoption rate. Do you think this could provide uplift to the first-time smartphone upgrades, which are happening in the market from 2G to 4G in a significant way, so that is the first question. The second question is on Africa, we have seen a significant intangible investment, capex investment in the cash flows at least it is appearing, so if you back out the cable acquisition, sub-sea cable acquisition and also the Telenor acquisition how much investment is going in Africa in terms of the spectrum in FY2019 how much it has gone and in FY2020 how much one should expect and a small question on the L900 that you mentioned the deployment, which is now ongoing. What sort of L900 site penetration one should expect with respect to your total 4G site by let us say March 2020?

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

I will take your India related questions. On L900, we have liberalized spectrum in 10 circles of 900 band and I would say by March 2020 pretty much all of the sites that we have, our effort will be to re-farm in all of those 10 circles almost all of the sites with L900, so that is going to be our effort. When it comes to the new device on the low-priced smartphones you talked to are Xiaomi, I do not think it has made any significant impact to smartphone shipments overall.

Sanjay Chawla – J M Financial – Mumbai

The Africa spectrum

Raghunath Mandava – Chief Operating Officer – Africa – Bharti Airtel Limited

So, most of our costs have gone into, the regular spectrum costs are not very high and most of our costs have gone into new 4G licenses and 4G renewal. We spent about USD 70 million in three of our countries for fresh 4G licenses of 20 years and a license extension of our 2G license in GRC for 20 years. That is not very much.

Sanjay Chawla – J M Financial – Mumbai

So, do we expect a higher similar amount in FY2020?

Raghunath Mandava – Chief Operating Officer – Africa – Bharti Airtel Limited

No. We are not expecting. There are not too many renewals at this period of time unless we decide to go ahead with this spectrum, but at this stage not really expecting much.

Sanjay Chawla – J M Financial – Mumbai

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Gopal a follow-up on the first part of the Redmi? What exactly do you think can happen in the marketplace because this is a fairly attractively priced phone Rs.4500 and it is by one of the major brands. It is a popular brand for the market what exactly do you think needs to happen, which could really take the smartphone upgrades to a different level, new level?

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

Well, today, if you look at most smartphones, decent smartphones are priced at Rs.6000, so a reduction to Rs.4500 is a good reduction. I am not sure how much incremental shipment that will result in. Many of these markets have their own cycles. I do not think if you are looking at a phone with good specifications, with decent camera, all the spectrum bands, decent memory, then unless the price drops down to a dramatic level which is like let us say Rs.2000, it is not going to be something that would completely change the complexion of the market, so I would say we beyond a point, I think we just have to be a little patient as more and more people upgrade over time.

Sanjay Chawla – J M Financial – Mumbai

Why I am asking this is because we have an intermediate stage which Jio's providing via the JioPhone at Rs.1500 and now with exchange offer at Rs.500 and if the smartphone entry-level prices do not come down to such a low level of Rs. 2000 odd that you mentioned do you think this JioPhone kind of addition and the people will keep adapting to that intermediate stage and that will cause actually more and more churn in the feature phone customer base?

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

I think there are a segment of customers who would choose to go to a smartphone directly. I think our strategy is very clear, which is we want to go after quality customers. We want to deliver a brilliant experience for these quality customers. Our postpaid business and even on prepaid we are really focused on quality customers and we would much rather customers go straight into a smartphone. The smartphone continues to be an aspirational device and at some stage many of these customers will trade up and actually buy a smartphone, so that is really the thesis behind which we continue to focus in the market.

Sanjay Chawla – J M Financial – Mumbai

Thank you very much and all the best.

Rajita - Moderator

Thank you very much Mr. Chawla. The next question comes from Mr. Himanshu Shah from HDFC Securities, Mumbai. Mr. Shah you may ask your question now.

Himanshu Shah – HDFC Securities - Mumbai

Thank you, Sir. Thanks for the opportunity. Sir there has been stable access cost quarter-on-quarter despite increase in minutes of usage in India business, so what should have led to this kind of a number?

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

Access cost for Airtel is a combination coming out of various businesses, primarily Airtel business and the mobile business, so we have seen as I mentioned earlier, there has been an increase in minutes for mobile business, which has led to increase in access cost, but that has been offset by lower hubbing and transit business in our Airtel Business. That is the reason you see the access cost to be stable quarter-on-quarter despite increase in mobile business.

Himanshu Shah – HDFC Securities - Mumbai

Thank you, Sir. Sir secondly, in DTH business, we have seen quite a good traction and subscriber addition and even on revenue front despite two days less and this is despite of TRAI led tariff order disruption so what is driving this thing and related to the business there had been some media article, so with respect to Dish TV acquisition by Airtel, does it make strategic sense from our perspective. If you can provide some color on that front?

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

Like I said, the opening, the DTH industry or the DTH market for us is a large market because there are still probably about 90 million odd customers who are sitting with cable and terrestrial connection, so there is still a big upgradation opportunity from cable to DTH. In context of the TRAI order, I would imagine there has been some uncertainty and some challenges of implementation and

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Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

that may have been one of the reasons why we are seeing a faster acceleration from cable to DTH, so that is one of the reasons why customer additions have been strong. On the media reports, they are speculators, so I am not going to comment on that.

Himanshu Shah – HDFC Securities

Lastly Sir in the India wireless business is it possible to provide some ARPU band wise mix of customers. Some color on that broader picture?

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

We do not do that. That is something that we do not provide, so I won't be able to provide that.

Himanshu Shah – HDFC Securities

Thank you. That's it from my side and all the best.

Rajyita - Moderator

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

Srinivas Rao – Deutsche Bank – Singapore

Thank you very much for the second opportunity. First, can you throw some light on how much spectrum you have put to use particularly the higher band, the 2300 and 2500 and any perspective that given how much capacity increases you expect over the next, say one year to one and a half that would be helpful. I know you have suggested this is the year of peak capex, so any increase in the capacity would be helpful? Again, just going back to Africa if I look at a slightly longer term even over the last six to seven quarters, most of the gains and profitability have come via SG&A. A) is that something, which is probably now where you will have less opportunity to kind of take it further down and B), is there a chance that as in Africa you move to more data, you will see profitability improve because the access charges will kind of not go up? Is that a fair way to think about the Africa profitability? Thanks.

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

We have four bands of spectrum: 900, 1800, 2100 and 2300. We do not have any 2500 in any geography. 900 band, 10 circles is where we have liberalized spectrum. Five circles is administrative spectrum. The 10 circles, like I mentioned, by in this year, we will re-farm pretty much all of it. 1800 band, we use for 4G. Wherever we have spectrum, it has all been deployed and all being used. 2100 band use to be historically used on 3G. As Badal mentioned, many circles have reframed carrier of that already onto 4G and we are going to continue on the effort. All the 2300 band, wherever we have it, whether it is our own spectrum or the ones that we acquired from the Tikona acquisition, all of it is being deployed not just 20 megahertz, but the full 30 megahertz, so that is as far as the spectrum is concerned. Our utilizations are low. We believe there is still a lot of capacity headroom to drive up data throughput with the amount of deployment that we have done, which is the reason we feel that the capex that we saw this year the year that concluded March 2019 would probably be amongst the highest years of capex and we will see a moderation in capex in full year March 2020.

Jaideep Paul – Chief Finance Officer – Africa – Bharti Airtel Limited

Yes so, Srinivas, this is Jaideep. So actually, if you look at last five quarters, obviously, SG&A is one element of it, but if you look at the revenue growth, we have been consistently growing revenue at a double-digit, about 10% to 14% on a year-on-year basis every quarter, so it is not really SG&A is the only driving factor for the EBITDA growth. It is a combination of cost initiative as well as the revenue growth. Second one was on the data part. Yes we see data is growing at almost 30% year-on-year while the overall revenue is at about 10% with voice in the low single digits, so we do expect the flow through from data to be far better than in voice as you have rightly put it.

Srinivas Rao – Deutsche Bank – Singapore

Understood. This is helpful. Thanks a lot. Thank you.

Rajyita - Moderator

Bharti Airtel Limited Fourth Quarter & Full Year Ended March 31, 2019 Earnings Conference Call

Thank you very much Mr. Rao. At this moment, I would like to hand over the call proceedings to Mr. Badal Bagri for the final remarks.

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

Thank you all for joining in and look forward to engaging with you during the course of this quarter and talking to you again next quarter. Thank you.

Rajyita - Moderator

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.