

## Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter ended September 30<sup>th</sup>, 2017 Earnings Conference Call

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**Bharti Airtel Limited Second Quarter ended September 30, 2017 Earnings Conference Call****CORPORATE PARTICIPANTS****Gopal Vittal**

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**Badal Bagri**

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

Good afternoon ladies and gentlemen I am Kamaldeep the moderator for this conference. Welcome to the Bharti Airtel Limited second quarter ended September 30, 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

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certain forward looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day Mr. Nilanjan Roy. Thank you and over to you Mr. Roy!

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

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the second quarter ended 30th September 2017, which we announced yesterday.

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

Let's start with the overarching trends in India's telecom industry:

During the last 12 months, the Indian mobile services industry has witnessed dramatic value erosion that began with the launch of free services by the new operator.

1. The below cost pricing of services has fueled a surge in the industry's voice and data traffic indicating latency of demand. This has led to two impacts. Firstly, a decline in multi-simming, as unlimited voice bundles start squeezing out 'second sim' operators. Secondly, increased data demand calling for higher investments which cash strapped operators can ill afford. Smaller operators with weak financials and networks are facing faster churn thereby accelerating their need for exit opportunities and faster industry consolidation.
2. Data demand will continue to explode led by growth in smartphone penetration. We believe that smart phone penetration in India will more than double to over 500 mln by 2020.
3. In order to justify the significant investments in network infrastructure and modernization, we believe operators will have to increase ARPUs especially from such customers. With the decline in pricing, consumers in India now spend appx 1% of GDP on telecom services – an outlier by global standards. We believe this has to change to enable the industry to lead the next billion consumers connected into the digital economy.
4. In this new normal, consolidated customer ARPU is the key metric to measure quality of customers and revenue growth. We have thus changed our reporting to move away from per unit pricing of voice and data to Customer ARPUs in line with other global telecom companies.

Against this backdrop, let me reiterate our strategy priorities:

The 1st is to grab and retain high ARPU customers.

Postpaid customers is a strong focus segment for us. The data rollover plan via our all new Postpaid Promises is a step towards reiterating our commitment to these customers. In an industry first, Airtel Postpaid customers are now able to carry forward their unused monthly data quota to the next billing cycle subject to a 200 GB cap. Similarly Post-paid users can also enjoy savings of up to 20% by creating customized "family plans" with which they can pool and share data benefits.

As the smartphone network of choice, we are excited to announce the launch of our 'Mera Pehla Smartphone' campaign. With the aim to digitally empower every Indian, Airtel will partner with multiple mobile handset manufacturers to create an 'open ecosystem' of affordable 4G smartphones and bring them to market for virtually the price of a feature phone. The first such partnership is with Karbonn Mobiles – "Karbonn A40 Indian" is available to our customers at an effective price of Rs. 1399 only.

Our customer centric efforts resulted in the addition of over 6m mobile broadband customers this quarter. Airtel's share in total 4G shipments continues to increase QoQ – a metric we track closely. In this background, we are happy to inform that Airtel gained revenue shares in 15 out of India's 22 circles in Q1'18.

Our 2nd strategic plank revolves around providing more services per customer.

One of the key focus here is to build India's largest payments bank. While the payments space is fast evolving, India is still heavily dependent on cash with more than 90% transactions done via cash. In just 9 months of launch, Airtel Payments Bank has over 20mn accounts, with a healthy mix of rural and urban customers and throughput of over Rs. 12 bn per month. The adoption of digital services is our other big objective. Airtel's TV app, which offers over 130 live TV channels and OTT content has already registered close to 20mn app downloads. Our Wynk Music app continues to retain its pole position in India, with approx. 70mn customers as of September 2017. We believe there is a strong role for a customer-oriented company like Airtel to aggregate content and make it easy and affordable for customers to access it online in a seamless manner.

Our 3rd strategic pillar centers on creating a brilliant customer experience.

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Obsessed about delivering a great experience, we looked at the customer journey holistically and identified 17 moments of truth. At each of these moments, our aspiration is to eliminate customer frustration and make the experience better via digital innovation. "Project Next" is our industry leading initiative in pursuit of this goal. With an investment of up to Rs. 2,000 crore over the next three years, "Project Next" is aimed at enhancing the simplicity and interactivity of the Airtel customer experience with efforts such as e-KYC, a refreshed Airtel self-service app, an improved in-store experience with best-in-class retail formats and last but not the least – a world class network experience.

Consumer experience on Airtel's network will further be enhanced with the proliferation of VoLTE services. While we have already deployed VoLTE across Mumbai, MPCG and Gujarat, we plan to rapidly expand VoLTE services and have them available across major cities by end of FY'18. This will also enable more efficient usage of network resources hence resulting in lower operational costs, at the same time allowing the Company to re-farm voice-only spectrum for increasing capacity on 4G networks.

To further holistically support India's move towards exponential and unprecedented data growth, Airtel led the industry and deployed Massive MIMO, the first step towards 5G. With Massive MIMO, Airtel's existing network capacity will be enhanced 5 to 7 times using the existing spectrum, thereby improving spectral efficiency. Airtel has yet again been rated as India's fastest 4G data network by Open Signal.

Strategic Pillar #4 is our portfolio of quad-play capabilities as well as our B2B services. Accelerating home broadband via both expansion and speed upgrades as well as driving HD on our DTH platform are thus our key focus areas. V-fiber technology which provides data speeds of over 40 mbps, has been largely enabled across our fixed line network. HD penetration on our DTH subscriber base is now more than a third. To drive B2B growth, besides expansion into more geographies, Airtel continues to lead with innovative partnerships. We launched the GST tool enabling SMBs to file their GST returns accurately, securely and seamlessly. We also announced a strategic partnership with Symantec to serve the growing cyber security requirements of businesses.

War on waste is our 5th strategic priority. Cost efficiencies is a company-wide focus which is being targeted by driving zero based costing and optimizing network investment by accelerating active sharing as well as co-building fiber. As a result, operating expenses declined sequentially with savings led by rationalization of network expenses and SG&A. EBITDA margins for the India business thus rose 0.3% sequentially and came in at 37.8%

While our 5 strategic pillars will help us organically achieve our mission of growing market share while holding costs, Airtel has led the consolidation of the industry inorganically as well.

We are happy to announce proposed merger of Bharti Airtel with Tata Teleservices mobile consumer business. It will also enable us to provide quality services to their customers and further bolster the spectrum foot-print with the addition of 178.5 MHz spectrum.

Airtel also completed acquisition of Tikona Digital Networks which has now become a wholly owned subsidiary of the company. The transaction involving trading of spectrum in Rajasthan is however yet to be approved by DOT.

Approvals from Telenor merger are progressing and we expect the transaction to be completed by Q4'18.

Moving on to Africa:

Our Africa operations continue to witness steady improvement across top and bottom lines on the back of twin engines of data and mobile money. Airtel Africa's underlying net revenues grew 6.3% Y-o-Y. Coupled with our efforts to create a profitable business model for Africa, underlying margins expanded by 9.1% Y-o-Y resulting in our highest ever EBITDA margin of 32.1%. The business has entered into a sustainable positive cash flow era which gives us confidence that the investment rationale 7 years ago is as valid today. While data growth and the adoption of mobile money are central to the growth in our African operations, our strategy in the continent has centered around strengthening our distribution model and enhancing consumer experience via network modernization and optimal bundling of products.

- Our enhanced distribution model, along with the opening of over 8,000 exclusive outlets, has resulted in strong net additions of close to 2 million subscribers, while at the same time lowering churn to 4.9%.
- This has also enabled the expansion of Airtel Money's reach in rural areas. The throughput on our network has expanded over 30% Y-o-Y with annualized transaction volumes currently almost \$20 bn.
- Network modernization is a key focus area. Having already covered almost 2,100 U-900 sites across 8 countries and launched 4G across 3 countries. We plan to expand our 4G broadband network across 8 countries by the end of this year. Data volumes on our network have increased over 80% Y-o-Y.

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Supplementing our efforts on the ground and in line with our strategy to be #1 or #2 in all the countries we operate in Africa, we are pleased to inform that Ghana's communication regulator has approved the merger of Bharti Ghana with Millicom Ghana. With this, the merged entity will become the second largest mobile network operator in the country. Ghana will be deconsolidated from Africa reporting w.e.f. Q3'18 and we will report underlying metrics across the remainder 14 operating units.

Airtel's industry leading efforts were recognized at various forums:

Due to our continuous innovations and industry leading initiatives, we are pleased to inform that Airtel is one of 3 companies from India to be ranked amongst the Forbes' list of 100 most innovative companies in the world for 2017. In Africa, Airtel Nigeria won the 'Service Excellence in Telecommunication Award' and 'Payment Innovation Award'.

Let me now turn to regulatory events during the quarter?

TRAI during the quarter announced reduction in Interconnect Usage Charges by 57% to 6p from 14p currently, effective 1st Oct 2017. We would like to reiterate that in the last 5 years, there has been a significant loss to Airtel as the termination charges have been well below 30-35p per min which is the actual cost of carrying a call on our network. The reduction in IUC de-incentivizes investments in rural and remote areas which are largely on 2G. With asymmetry of traffic flow between incumbents and new entrant, this move will negatively impact the already financially stressed telecom industry.

Moving onto our consolidated financials:

Consolidated revenues for the quarter dropped 10.4% YoY on underlying basis primarily due to decline in mobile revenues in India. Consequently, consolidated EBITDA of Rs 80 Bln during the quarter decreased 15.4% on underlying basis, with EBITDA margin dropping by 1.6% to 36.8%.

Depreciation and amortization expenses amounted to Rs 46,873 Mn down from Rs 49,560 Mn in the corresponding quarter last year, primarily due to divestment of operating units and tower assets in Africa and Bangladesh. Net finance costs for the quarter were higher as compared to corresponding quarter last year mainly due to lower investment income and higher forex & derivative losses.

Airtel now holds 58% of Bharti Infratel after having monetized 3.65% stake in the subsidiary to a pool of investors. While proceeds of the sale were utilized towards deleveraging, the front-loading of our capex investments, coupled with decline in EBITDA resulted in an increase in our Net Debt to EBITDA ratio, which now stands at 2.91.

We have spent Rs 140 Bln on capex in H1 including increase in CWIP of Rs 63 Bln. Considering the explosion in data traffic in India, we believe it is expedient to accelerate our 4G rollout in terms of coverage and also build additional capacity in existing geographies along with fibre connectivity and backhaul. Consequently our capex forecast for the year is being upped from the initial guidance of Rs 20,000 cr to Rs 25,000 cr. We believe that tactically advancing of these future capex spends to provide the best and widest broadband data coverage will augment our growth and revenue market share ambitions.

To sum up, the telecom industry in India is fast transforming and witnessing a huge expansion in data usage with the move towards bundled offerings. With our scale and efficiencies backed by our rich spectrum and network footprint, we continue to hold a superior market share position. Finally, our focus on profitable top line growth along with capital reallocation is leading to continuous improvements of 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.

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**Kamaldeep - Moderator**

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence management will take only two questions per participant to ensure maximum participation. Participants who wish to ask question 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. Manish Adukia from Goldman Sachs, Mumbai. Mr. Adukia, you may ask your question now.

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**Bharti Airtel Limited Second Quarter ended September 30, 2017 Earnings Conference Call****Manish Adukia - Goldman Sachs - Mumbai**

Good afternoon and thank you for taking my question. My first question if I can start with Africa this time, really strong margins quarter-after-quarter, I understand you have mentioned that you are doing a lot on cost optimization there, but can you tell us in a bit more detail, how much more runway do you have left there? And in terms of cost structure, is there anything fundamentally different in the Africa business that margins there may not get to the levels of, let us say, 40%, which I have seen at Vodacom or let us India wireless pre-Jio? That is my first question. And my second question is on the ARPU dynamics in India, and if you can throw some more color on what you saw in the recent quarter. Your ARPU saw about a 6% decline, but was there any impact of continued ARPU down trading that you are still seeing from customers, or has that now stabilized? Those are my questions.

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

Hi Manish, Raghu here. If you see our business in the last few quarters, that we have been here, there has been some business model restructuring of the way we run our operations and some of that has yielded some cost savings. So our margin increases have been a mixture of, as you see, a top line growth about 55%, 60% coming from that and some OpEx savings. I see this has been quite a long journey for us to get here and the improvement that we are working on in remodeling are continuous, but I would not be able to say where it will end up or where we will reach.

**Manish Adukia - Goldman Sachs - Mumbai**

That is understandable. What I was trying to get at is that in terms of the market structure, in terms of the cost structure that you have in your Africa business, I mean is your cost structure, for example, significantly different, let us say, what a Vodacom would have in Africa, who today have, let us say, 40% margin?

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

As you understand, it is a portfolio of countries, which we have. There are countries well above 40%, there are countries well below 40%. And I think it just depends on the market dynamics. Yes, where you are, number 1 or 2, you will see sizable margins as well. And where we are below, you see margins well below these numbers. So I think you will have to just see how the portfolio expands and the cost savings by country which Raghu is driving. But to say that this portfolio is going to suddenly start going to a Vodacom number, I think, will be completely premature.

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

Manish, on the ARPU question in India, there is some impact of GST which has had some impact on ARPU in the current quarter, and then there have also been some seasonal impacts, which we normally see in this quarter. There has been some down trading, because of this capped ARPU pricing that we have today in the market. So I would say it is a combination of all 3 factors.

**Manish Adukia - Goldman Sachs - Mumbai**

If I can just ask a follow-up on that, I think Nilanjan mentioned in his opening remarks that operators will have to increase ARPU going forward. And now Jio, for example, recently took out promotions or lowered promotions on its price plans. So how do you see the pricing environment evolving over the next 12 months? Do you think that ARPU for you, for example, can start going up in the near term or is that still some time way?

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

Well, it all depends on how the competitive situation plays out. We have always said that the current level of pricing or the value that is being given to customers is unsustainable. And that is what led to some adjustment in the value that the new entrant was actually delivering. I would say as we go forward, some of this value will need to be pulled back and that will impact ARPU positively. But in the short term, the competitive intensity continues unabated.

**Manish Adukia - Goldman Sachs - Mumbai**

Okay, sure, that's very helpful. Thank you and all the best.

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

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**Kunal Vora - BNP Paribas - Mumbai**

Thanks for the opportunity and congrats for the good numbers. First question on the acquisitions of Tata Teleservices and Telenor what proportion of revenue do you expect to retain and what should we expect in terms of increase of EBITDA margin on the incremental revenue which you get? And also on Tata what is the debt or liability which you will be assuming? That is question #1. Second question, sir, on Bharti Infratel, what is the level of ownership, which you would be comfortable with? And assuming you decide to sell controlling stake in BIL, would you still want to hold on to a minority stake? That's it from me.

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

On the Telenor side as you are aware, CCI approvals have come through. We are awaiting NCLT approval, which should come very soon and then soon after that will be DoT approvals and then the merger will be complete. As far as Tata is concerned, we still do not have CCI approval so we have just signed a term sheet and cannot divulge great details on what the terms of the deal are. Suffice it to say that we get access to the customers, the spectral assets of Tata Teleservices and certain other assets that they have on the ground. That said, I would say value players by and large have been melting down much faster. So if you look at our performance, you will find it substantially better than the smaller players. They have really been hit very hard on account of this competitive intensity and Tata Teleservices and Telenor are no different in that scenario. So as time goes on, there will be revenue decline. We still expect some revenue to come in once the merger happens; with Telenor, it will be sooner and with Tata, it may be a little bit later. Obviously whatever revenue comes in, our expectation would be that the marginal EBITDA that revenue generates for us is accretive to our existing P&L. That will be the effort because ultimately you do these deals because of both the value that there is as well as the synergy benefits. So, that is what I would say.

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**Kunal Vora - BNP Paribas - Mumbai**

Okay. So, that would imply a significant cost rationalization, right? Like few are saying that it will be higher EBITDA margin compared to the level at which Airtel is currently operating.

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

Yes. The biggest reason really, as you can well imagine, is around the network cost because we already have an operational network and we do not have to put up a new network now to manage that customer base. So for a large operator like us, that is the single biggest synergy advantage that we would get.

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

On your question on the Infratel stake. As you know yesterday in the board meeting, the board has authorized to look at whether we can dilute our stake from a controlling interest. Today we have 58%, out of which 8% is in the company called Nettle and 50% sits with Airtel with an effective control of 58%. We have seen some interest like I have mentioned and it was mentioned in the release and I think the board will take a call of how much, when, at what level to dilute; but in principle, they have an agreement that we can dilute our controlling stake in Infratel.

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**Kunal Vora - BNP Paribas - Mumbai**

But would you be comfortable I giving up the stake completely or would you want to continue holding on to minority stake or it is still too early to comment on these?

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

It is just too early. I am saying, you'll have to talk to who's on the other side, et cetera. So, there are too many permutation combinations. So, I mean we have no real hard position so that'll have to be seen. But as of now, as you know the way the release is it is basically that we are ready to go to release up our controlling stake.

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**Kunal Vora - BNP Paribas - Mumbai**

Understood, that's it from my side. Thank you, sir.

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**Kamaldeep - Moderator**

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

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**Sunil Tirumalai - Crédit Suisse - Mumbai**

Hi, thank you very much for the opportunity. The first question is on the IUC potential hit. If you could quantify the, net IUC revenues for the last quarter, it will help us get some sense of how much to factor in, in terms of a hit.

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

So at the consol level, it is about 4% of our EBITDA. I think that's the ballpark you can take.

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**Sunil Tirumalai - Crédit Suisse - Mumbai**

So, the India net IUC revenue impact is 4% of consol EBITDA.

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

Yes.

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**Sunil Tirumalai - Crédit Suisse - Mumbai**

Okay. My second question is on Africa. We are seeing fairly sharp rise in capex in India, but in Africa it seems to be extremely low. What is the strategy there? I mean I am assuming that this is a business, which requires continuous investments, and some of your competitors are continuing to do that. So will that resume and in your new guidance, what is India versus Africa split? Thank you.

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

So, actually we are continuously investing. You would see a lower spend in the first half. It is more of a little of timing during the year and I think you will see a bump up during the second half. Our guidance remains quite close to what we have given.

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**Sunil Tirumalai - Crédit Suisse - Mumbai**

So, there is no timing issue now? All the increase is primarily in India, that is what you are saying and there is no change for you.

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

Yes.

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**Sunil Tirumalai - Crédit Suisse - Mumbai**

Okay, thank you.

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**Kamaldeep - Moderator**

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

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**Srinivas Rao - Deutsche Bank - Singapore**

Thank you very much Sir. I have two questions; first on the industry, just wanted to understand how do you see Airtel getting resolved? Do you have any thoughts around that given that they have spectrum and you probably have some gaps in the spectrum portfolio? That is the first question. Second, on Africa you are running extraordinarily low capex relative to the other players. Is that even sustainable in say the next year? If I am not mistaken this quarter was something like \$50 million. So, just trying to get a sense of is that it is more of a timing issue rather than a new normal? Those are my 2 questions. Thank you.

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

Firstly, Airtel is a sub-scale operator, as you know. They have strong presence in three circles; Jammu Kashmir, Northeast Assam and Tamil Nadu. The rest of the places they are really sub-scale and this business has now become a business where substantial investments are required. So, I am not sure that they have the financial wherewithal to make those investments. So, our sense is like we always said value players would continue to lose market share. I am not at a liberty to say what will happen over time, but it is not a very sustainable situation. Having said that, if you look at our spectrum assets, we have pretty much everywhere now with sub-gigahertz band across most circles. There are some gaps in a few Western circles and a few other circles. With the Tata acquisition, we do get access to some of that spectrum and we have to decide what to do with it. Mid-band we are in a very, very good shape, the 1800 band and the 2100 band, that is a large chunk of spectrum in many circles. We have two to three carriers; some of them have four and five carriers between 1800 and 2100. And then of course the 2300 we have a good slug of spectrum, 30 megahertz in most circles and 10 megahertz, 20 megahertz in a few circles. So, I would say spectrum-wise we are in very good shape. Sub-gigahertz spectrum again we have a pretty solid footprint now. So, spectrum-wise we are fine.

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

Just repeating what Raghu had said on Africa capex, I think there is no hiatus. I think it is just a temporary hold back as they look at the refarming of the network of U900 and 1800. I think it is just going through all the contracting processes, et cetera, but there is no real stop at our end to reduce. There, you will see a step-up like Raghu mentioned in the second half definitely.

**Srinivas Rao - Deutsche Bank - Singapore**

Thanks, if I may just ask one question; on the fixed broadband side, do you see a similar scenario play out where Jio's entry could cause sector distress and allow you to pick up assets like what has happened on the mobile side?

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

Let me say on fixed broadband it is slightly different from mobile. In the case of mobile, most of these customers have 2 Sims. And so when you have deeply discounted pricing on one side, there is a strong likelihood that a certain section of customers; young people, traders, people who are looking for value; are likely to get a second sim, put it in their phones and actually use it. And that has really what has happened in the last one year with the entry of Jio. In fixed broadband, it is a slightly different game because firstly you will need to then rip the wiring out, you need to bring in a new operator, you need to go through a little bit of pain and most of these homes are typically affluent homes. The real question is what is the value that you are delivering, both in terms of the plan that you have and the area of services that you can deliver. So, our effort on home broadband is; how can we upgrade our speeds, which is why our investment on V-Fiber. Secondly, how can we deliver better value so now we have speed agnostic plans with a lot more data that is thrown in. And thirdly, what more can we deliver in terms of services, which is where we were trying to put in more content and so on into the services.

**Srinivas Rao - Deutsche Bank - Singapore**

Understood, this is really helpful. Thank you so much.

**Kamaldeep - Moderator**

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

**Varun Ahuja - JP Morgan - Hong Kong**

Good afternoon. Thanks so much for the time and congratulations on the numbers. A couple of things, one, I understand you are revising capex higher to about \$4 billion or Rs. 25,000. Whether this is purely because of front-loading some of the 4G related

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rollouts and whether we should see that reverting back to Rs. 20,000 in FY 2019? If you could just give some guidance on that one. The second thing is you mentioned that the board will take a call on the Infratel sale, but just trying to get what are the factors that are under consideration? If you could throw some light whether is it a question mainly of valuations, is it a question that a minority stake in Infratel would make sense for you to give you optionality in the future to monetize again or whether an overriding factor would be leverage because if I look at your credit metrics and now with higher, it really seems like you would be testing the downgrade triggers for both S&P and Moody's now. So, if you could just help with these two questions.

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

So, let me take the question first, Varun. If you look at Q2, we have done about 780 billion megabytes on the network compared to 470 billion megabytes in the prior quarter. So, we are seeing massive growth in data throughputs and data demand. And so a lot of capex is really going behind investing in our radio networks, which is primarily 4G and investing in transmission and fiber backhaul, which again is required for heavy data throughputs. So if pricing continues to remain low, this capex will be required in order to deliver a better customer experience. I think the good news from our perspective is we have the spectrum. So the bulk of the heavy lifting has been done, now it is modular investments that are required as data throughput grows. So we will keep putting these modular investments in rolling out more base stations, more transmission electronics and more backhaul. And that is why we have upped our guidance because looking at what is happening the rest of the five to six months; we feel that the time has come for us to step up those modular investments in order to deliver the right experience. So, I would say there is a period of volatility over the next few - maybe 12 to 15 months till things stabilize. At this point in time, our objective is simple. We have got to continue to grow market share and we have to deliver the right customer experience.

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

On the Infratel side and to your larger question about debt leverage. So, we are sitting at about 2.9x. Now considering where the telecom industry is you know that there are bigger operators who are sitting at 4.4x, 4.5x etc. So, we do not think we are really in the danger zone. Our free cash flows continue to be positive quarter-on-quarter. So from a leverage side, we are not that concerned. Yes, we always keep an eye out on the rating agencies, but I think that is not the driving force behind this decision. I think we have always said from the day one that this company has been over the period of time diluted in terms of our stake. We sold 13% just in the last 12 months and I think it is just 1 step ahead into creating clearly an independent tower co., and all its aspects. I do not think there is anything more than that. But yes, looking at overall debt positions, etc., probably thought goes into that when we take these decisions.

**Varun Ahuja - JP Morgan - Hong Kong**

Just internally, what is your comfortable leverage level that you would target?

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

I think this is something that depends on how the market behaves. I mean I do not think we can drive the business and take business decisions based on our leverage. We are in a very hyper competitive market scenario and I think the most important thing is to make sure that we are building a sustainable business model for the future. That overrides anything else from the leverage perspective. So, we will not shortcut the business needs to protect our rating.

**Varun Ahuja - JP Morgan - Hong Kong**

Understood. Thank you and all the best.

**Kamaldeep - Moderator**

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

**Rajiv Sharma - HSBC - Mumbai**

Hi, thanks for the opportunity. I have just got three questions. First on Africa, has there been an improvement in the pricing environment particularly in Nigeria because of Etisalat having its own issues and are these margins sustainable? Second on the India side, Jio has taken one price hike. But going forward, what will be your priority; subscriber growth because there is lot coming out of these value players or you will try to balance both? And given that earlier you were offering unlimited voice at like Rs.349, now you are offering at Rs.199 as well and in some cases Rs. 149 as well. So is there more ARPU pressure, which could be seen apart

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from the IUC impact, which we will see in 3Q for the India business? And lastly on the India business, what is your TV strategy? Means are you good -- selling your DTH business to improve balance sheet? Thank you.

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

First on Africa, the big thing that we are changing in the way we approach is moving away from pricing into more on ARPUs. What we are trying to do is to actually do better bundles, more customer oriented stuff to hold our ARPUs and that's what we have been able to do as we increase our customers. Nigeria, not yet. What is happening to 9mobile is not yet taking any impact, they are holding on to their revenues as yet. Margins, as I told you, we have been working on remodeling our cost structure and getting our revenues up. I think a mixture of these activities is helping us reap there. I mean that is our job and endeavor to continue this and I do not want to give you any future guidance.

**Rajiv Sharma - HSBC - Mumbai**

Yes. But it is possible that you may come back to 29 so this could be a volatile journey you mean?

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

You have seen the trend, most important like Raghu says, I think there is a consistency in the performance, it is coming both from topline and from bottom-line and like I said if we continue to invest, there is no reason why this market cannot grow, I mean which is the investment thesis we had seven years back.

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

Rajiv, on the revenue side, there is always a balance between subs growth and the revenue protections being an incumbent. So, that is what has been our strategy over the last three, four quarters and we will continue with that. As far as ARPU is concerned, there could be marginal impact in the coming quarters here and there apart from the IUC drop, which we will see in the third quarter. And on DTH, I would just say that we continue to evaluate options

**Rajiv Sharma - HSBC - Mumbai**

Thanks Gopal. But what I was trying to understand is on the DTH side, you are perceived as an integrated operator and you definitely think going forward TV content will be important. So when you say evaluate options, do you think that it is possible both without DTH and with DTH, both the possibilities are there?

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

Rajiv, I am not sure what the question is. I mean our DTH business as a standalone business is doing well. We continue to drive strong growth. There are a lot of opportunities still left because of digitization that is still on the anvil and we will use all of those triggers to continue to drive growth. The second part is on the mobile side. We have a TV strategy, which is our Airtel TV, which we have tried to now converge along with the DTH offer, which is the Android box that we launched. As far as the Airtel TV is concerned the experience is still not where we would like it to be. A big revamp of the app is underway and will happen very soon, and that should catapult into one of the top apps in the country. So both TV on the mobile as well as TV through DTH will continue to be focus areas. Now whether we sell down a stake or do not sell a stake, I mean these are speculative questions which we will let you know when we have something on the table.

**Rajiv Sharma - HSBC - Mumbai**

Thanks for these, I was just trying to understand whether you will acquire Tata DTH or you will sell your DTH to the Tata. So just trying to understand that. Thanks a lot.

**Kamaldeep - Moderator**

Thank you very much Mr. Sharma. The next question comes from Mr. Parag Gupta from Morgan Stanley, Mumbai. Mr. Gupta, you may ask your question now.

**Bharti Airtel Limited Second Quarter ended September 30, 2017 Earnings Conference Call****Parag Gupta - Morgan Stanley - Mumbai**

Thanks. Good afternoon everyone. So I have three questions. Firstly, just wanted to get a better sense of how do you see the bundle plans getting taken up by customers. So could you just give us a sense of how many or what percentage of your 3G, 4G customers are currently on bundle plans? And how do you see that trending over the last couple of months? The second is with Airtel adopting VoLTE. Could you give us a sense of how can we think about your margin profile over, let us say, the next two to three years? What parts of your costs -- how can they actually trend just qualitatively? And thirdly, with the new plan that you had offered with Karbonn on the smartphone side, have you seen any initial pick up in that? Could you just give us a sense of what has been the customer response? And has that surprised you on the positive as yet? So those are my three questions.

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

So on bundles, we do not report that segment out separately. If I were to be looking at this market, let us say, two years from now, my sense is 75% to 80% of customers will be in the bundle. The market is decisively moving in that direction. And the advantage from our perspective is that it leads to significant SIM consolidation. On VoLTE, I am not sure there is any impact on margin, because we've always maintained that VoLTE has nothing to do with cost. Finally the cost of carrying a minute or a call is a function of the energy on the site, electricity, diesel, rental that you pay for those towers and all the operational cost that runs in the business. What you do have is better customer experience, because the customer now resides on a 4G layer using both data and voice on 4G, and that leads to spectral efficiency. So that is really what happens. We have launched VoLTE in Mumbai, Maharashtra, Gujarat and MP. Initial results are encouraging and we will continue to work with different device manufacturers to bring more and more devices, which are VoLTE compatible. The third question on Karbonn, our initial feedback has been very strong. We have had modest stock in the market, but all of that stock is now out. So we are out of stock. They are ordering more inventories, as we speak, and hopefully that should bolster over the coming weeks.

**Parag Gupta - Morgan Stanley - Mumbai**

Thank you very much.

**Kamaldeep - Moderator**

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

**Naveen Kulkarni - PhillipCapital - Mumbai**

Yes, thanks for taking my question and congratulations on a very good set of numbers. My first question is on the market share. So the revenue market share picture is slightly fuzzy because of the last quarter, Jio numbers were not known. So if we look at Telenor consolidation and some bit coming even from Tata Teleservices and the market opening up big time for the value players, where do you see the revenue market share settling, let us say, exit this year or probably 12 months from now? So that is my first question. My second question is, with the kind of data growth that we are seeing of more than 300% on a year-on-year basis and this trend is likely to continue, so what do you see in terms of the spectrum requirements? So do we need more of capacity spectrum or do you have adequate coverage spectrum? So where do you see that need coming and will we have to participate in auctions at some point in time? So those are my two questions.

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

So let me pick it up, on the first question I think it will be difficult to comment where it will be as we exit the year. The revenue market share numbers that we are actually beginning to see that has come in from the new entrant. We are not able to fully understand, but be that as it may. I think we will wait and see how that plays out over the next few quarters. On data growth, the advantage we have is that, like I mentioned on spectrum, we have loads of spectrum, and we still have not rolled out our 4G networks across. If you take a long period of time, there will always be more spectrum needs. I mean, that's the reality of the data market. I think if you take a 10-year view, you would need more spectrum. But in the shorter term, I think the need for spectrum will be lower, because we still have not deployed TDD LTE across the country. We are rolling out FDD right now. There are also new technologies like Massive MIMO, which give you massive capacities on the same spectrum. So there is a lot more that you can do in spectrum as the utilization of the network on the 4G side is still very low, which gives you a lot of headroom to rollout more sites in order to leverage and use the spectrum.

**Naveen Kulkarni - PhillipCapital - Mumbai**

Okay. So just one bit on the market share. Do you believe that now, we are also changing our reporting norms where the per unit transaction or per unit metrics to, let us say, a bundled ARPU is more relevant. So now do you believe the subscriber market share

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and the subscriber additions, they are a reasonably good metric to look at the operating performance going ahead? Are they decent indicators is what I am asking. And second bit again on spectrum, will there be any spectrum which will be freed up if we have a pan-India VoLTE network?

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

So Naveen, just to talk about the spectrum, I do not think so any spectrum will be freed up. And just to add on what Gopal said, with the two acquisitions which we have announced, I think, we will be good as far as spectrum is concerned for at least a couple of years. And as far as RMS is concerned, will the subscriber market share be a relevant indicator? At some point of time when the entire SIM consolidates, maybe four quarters down the line and that should be a reasonable indicator.

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**Naveen Kulkarni - PhillipCapital - Mumbai**

Thanks a lot and best of luck.

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**Kamaldeep - Moderator**

Thank you very much Mr. Kulkarni. The next question comes from Mr. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman, you may ask your question now.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Thanks for the opportunity. A couple of questions from my end. One, is there any interplay between the increased mobile capex and reduction in your fixed operating costs? Why I am asking is that on the one hand, the mobility business seems to have surged, but the fixed cost has dropped notwithstanding the increased network footprint and higher data throughput. That is question number one. And question number two pertains to the ARPU trajectory and competitive trends. I understand that the down trading and up trading are the two factors in play with respect to the data bundles where higher ARPU postpaid customers and higher ARPU prepaid customers adopted bundles and ARPU came under pressure in a big way. Is that down-trading now behind us? And how should we look at the ARPU trends adjusting for the reductions in interconnect usage charges?

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

Yes. So to answer the first question, is there interplay between our fixed cost reduction and the capex in the first half of the year? No. We have chosen to accelerate investment in both from coverage and capacity perspective in the first half of this FY. Just to say that a lot of that is yet to be deployed and it is going to get deployed in the coming quarters starting this quarter. The fixed cost reduction in terms of network purely, as Nilanjan alluded to in his opening remarks, is driven by War on Waste. There are several initiatives, which are ongoing initiatives, and we have seen a significant amount of savings coming through in the current quarter. ARPU, we discussed in the call a bit earlier, it is difficult to give a projection on what the ARPU trajectory is going to look like. The next quarter, you will see an impact coming on account of IUC, which is well known. Apart from that, there may be some headwinds in the coming one or two quarters as far as mobile ARPU is concerned in India.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Thanks and all the best.

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**Kamaldeep - Moderator**

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

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**Sanjay Chawla - JM Financial - Mumbai**

Good afternoon. Thank you for the opportunity. My first question is, can you comment on the 2G capacity status, because you will be taking on a lot of new customers from RCOM, Telenor and ultimately from Tata. How much of your capex is now going in for your 2G capacity enhancement? That is my first question. Secondly, what are your thoughts on the 3G networks in terms of what is the

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incremental rollout going to be in terms of 2100 spectrum refarming to 4G? And how many of your BTS would require the software upgrade only for running LTE on 2100?

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

So on the 2G capacity, in majority part of our circles, I think we are okay and we can take over the additional minutes coming through from customers coming from RCOM, Telenor, Tata, etc. In the current year, a very miniscule amount of capex has gone into 2G or 3G for that matter. 3G spectrum as we foresee in the next 6 to 8 quarters, will continue to get used for 3G purposes and we are not seeing any change in that plan, at least in this particular point in time.

**Sanjay Chawla - JM Financial - Mumbai**

I am sorry, on the 3G side, you are still spending on 3G in what proportion? Is it a declining percentage of you capex?

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

There is almost no spend that we are doing on 3G. It is really negligible. And our view is that over the next three years to four years, we are likely to see 3G networks actually shut down probably faster than 2G networks, because 2G networks will continue to exist simply because there are still 50% of phones being shipped out in India which are feature phones. So 3G network investments have slowed dramatically. But having said that, where we have a second carrier of 3G or a third carrier of 3G then through flick of software very marginal cost, you are getting incremental capacity on 3G. But most of that spectrum will finally go towards 4G, for which we will need to have radio units ordered.

**Sanjay Chawla - JM Financial - Mumbai**

When do you plan to switch on 2100 4G?

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

That question will vary depending on each circle. In some circles, where we have more 3G spectrum, the more recent radios are 4G compatible, so they can just also switch on 4G, but some of the older radios are pure 3G radios for which we will need to replace. So that will take its time. I think that answer will be a function of how fast pick up on voice happens on VoLTE, because the moment that happens, that will get released on 3G and the voice will not be required to be carried on 3G which can help us refarm 2100 band from 3G to 4G.

**Sanjay Chawla - JM Financial - Mumbai**

So just coming back to the question on 2G capacity, why I am asking this is because there is a lot of adoption of this unlimited plans and these bundles; and of course, you are going to be getting a lot of your new customers coming in from these existing operators. So if you are not spending on 3G, which is where I guess a lot of the capacity gets created, most of these guys do not have 4G or VoLTE enabled handsets, so are you saying that there is no chance of stepping up 2G capacity at all?

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

So, Sanjay, as I have said, we have enough capacity right now and we have to look at it from a circle to circle basis. There could be a few circles we may have to augment but those capacity augmentation will be fairly miniscule in the larger scheme of things.

**Sanjay Chawla - JM Financial - Mumbai**

Thank you and all the best.

**Kamaldeep - Moderator**

Thank you very much Mr. Chawla. The next question comes from Mr. Akshen Thakkar from Fidelity, Mumbai. Mr. Thakkar, you may ask your question now

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**Akshen Thakkar - Fidelity - Mumbai**

Thanks, congratulations to the management team on a steady quarter. I had two questions, one was slightly strategic in nature and one was slightly forward looking in nature. So the strategic question first. You have got Vodafone and Idea merging now, which together should have revenue market leadership. You are currently #1 and Jio clearly has aspirations to be #1. Irrespective of who becomes #1 and what that share is, from your planning point of view, is remaining #1 or a close # 2 to a strategic priority or your management's KRAs right now are slightly different. That is question 1. Question 2 is that we've seen ARPU compression over the last one year, and maybe they go down a little bit to Rs.140 odd levels through the year. But if you are talking of three to five year view as investors your ARPU started compressing from Rs. 200, right? Do you think ARPU goes back to Rs.200? Or given that we are using more data and more consumers are going to be data, three to five years out, we should be looking at a higher ARPU targets? Those are 2 questions from me.

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

I think, firstly, to your first question, I mean our strategy is not defined by whether we are #1 or #2. Our strategy is defined by what is our agenda in terms of how do we actually build a solid sustainable business. And we know in any market, the #1 player makes the bulk of the significantly disproportionately higher EBITDA margin compared to the #2. So to that extent, it is an important metric, but it is not a strategic priority. The only thing I would say is that you should look at our history over the last 20 years. I think that in itself will signal something about what we have done. Having said that, our agenda is focused around how do we get a disproportionate share of high ARPU customers, how can we make sure that we drive more products into existing customers and how do we drive our non-wireless portfolio, forth, how do we dramatically improve our customer experience, particularly on the network, and fifthly how can we strip out the waste from our business. That is really our 5-point agenda and our focus has always been about solid revenue growth coming either on account of ARPU or customer growth and balancing the two, and I think that is something that we will continue to do. As far as ARPU compression is concerned as you know, pricing is at an unsustainably low level. The good news about the way the bundles work is that if bundle pricing moves up, which means the value that you are delivering on a bundle is compressed, then you straight away get an ARPU lift. At this point, that has not yet materialized because the ARPUs have been at an unsustainable level. But over time, that should lift because finally in this industry you need a healthy business in order to continue to make large-scale investments that are required to build out broadband networks. And for that, you need finally a healthy business, which is returning a reasonable return for its investments. And therefore, pricing becomes an important determinant to yield that return.

**Akshen Thakkar - Fidelity - Mumbai**

Thank you.

**Kamaldeep - Moderator**

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

**Ravi Menon - Elara Securities - Mumbai**

Thank you for the opportunity and congratulations on a good set of numbers. It was a third successive quarter, you managed to reduce network operating costs per site. What are the sorts of initiatives that have helped so far? And do you think you are fairly close to optimal, or do you still see some headroom?

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

So there are several initiatives, which keep on running throughout the year, Ravi. For example, indoor-outdoor FCU, higher rentals site exits. So there are several of them, and there is just not one mantra to kind of reduce network cost. And we continue to look out for opportunities where we can kind of maximize and reduce our operating expenses. As Gopal just said, one of the key themes is to eliminate waste and improve efficiency and productivity across just not network, across all lines of expenses, which we have. So we will continue to look for more. Hopefully, we will find some.

**Ravi Menon - Elara Securities - Mumbai**

Second follow-up on the site additions. That seems slightly muted. Is this just seasonality, or is the focus now on upgrading sites to 4G and wait for spectrum synergy and look into spectrum refarming, and then see whether we need to add sites?

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

So Ravi, it is pure timing. If you see, we have already ordered and that is the reason that our capex is at extremely high levels. Q2 is a difficult month too because of monsoons. But now that it is over, you should see accelerated deployment in the coming months.

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**Ravi Menon - Elara Securities - Mumbai**

Thank you and best of luck.

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**Kamaldeep - Moderator**

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

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

Thank you all for participating in the call. We look forward to seeing you next quarter and probably meeting some of you face to face in our investor conferences. Thank you.

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**Kamaldeep - 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.