

Conference Call Transcript

Event: Bharti Airtel Limited Third Quarter Ended December 31, 2016 Earnings Call

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Bharti Airtel Limited Second Quarter Ended December 31, 2016 Earnings Conference Call**CORPORATE PARTICIPANTS****Nilanjan Roy**

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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 Third Quarter-Ended December 31, 2016 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. 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 third quarter ended 31st December 2016, which we announced yesterday.

Let me introduce you to the senior leadership team who are present with me on the call today – Gopal Vittal, Raghu Mandava, Jaideep Paul and Harjeet Kohli. I would also like to welcome the new India South Asia CFO Badal Bagri who is no stranger to telecom and Airtel.

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

We are pleased to share that the Department of Telecommunications has released “Right of Way Rules” for regulating underground infrastructure (i.e. optical fiber) and over ground infrastructure (i.e. mobile towers). The appropriate authority will grant or reject the application within 60 days with reasons recorded in writing. Earlier, there were no such provisions. These regulations are welcome and will go a long way in streamlining and fast tracking roll outs to achieve the Digital India Vision.

Now, shifting focus to the company and the industry

As India progresses towards becoming a leading cashless economy, we are happy that as Airtel we are playing a part in this national transformation. Airtel Payments Bank has become the first payments bank in the country to go LIVE as it rolled out services nationally. In line with Government of India's financial inclusion and digitization drive, customers in towns and villages will now be able to open bank accounts at Airtel retail outlets, which will also act as Airtel banking points and offer a range of basic, and convenient banking services. We will develop a nation-wide digital payments ecosystem with over five million merchants, allowing customers to make secure and convenient cashless payments for goods and services. This is another important chapter in Airtel's journey, with the potential to truly transform lives and contribute to financial inclusion in the country.

In line with our overarching philosophy to be a scale #1 or #2 operator in all our geographies, Airtel announced completion of the merger of its subsidiary Airtel Bangladesh Limited with Robi Axiata Limited. The joint strengths of Robi and Airtel sets the stage for the company to deliver the widest mobile network coverage across Bangladesh, enhancing its stronghold in the mobile internet segment as well as consolidating its position as the second largest operator in the country. Airtel will hold 25% of this combined entity.

With an aim to strengthen our global network, Airtel entered into a definitive agreement with Orascom to acquire its entire equity stake in MENA Submarine Cable Systems, subject to requisite regulatory approvals. It is a state-of-the-art submarine optic network capable of carrying Multi Tera bits per second of data speeds from India to Europe via the Middle East. The additional capacity will enable Airtel to serve the growing demand for data services and enterprise services to our global customers.

We are delighted to announce that Airtel received the 'Best Governed Company Award' at the 4th Asia Business Responsibility Summit organized by the Asian Centre for Corporate Governance & Sustainability and has also been conferred with Certificate of Recognition for Excellence in Corporate Governance 2016 by the Institute of Company Secretaries of India.

To say that that we live in interesting times would clearly be an understatement. In India, the continuation of 'free pricing' by a new operator has led to a tsunami of traffic to the network impacting overall data revenues and voice realizations. This dramatic traffic skew towards incoming minutes has been enabled by the MTC anomaly wherein MTC rates are well below cost of producing and hosting such minutes. This, coupled with predatory pricing has led to an unprecedented drop in the industry revenue table for the first time since its inception jeopardizing the financial health of the 'poster child' telecom industry. There has also been a temporary impact due to demonetization in the quarter, along with this larger impact of 'free offers'. In the short to medium term these free offers, will impact all stakeholders including government levies and taxes, lenders with a debt exposure of Rs 400,000 cr to the industry and finally customers as operators struggle to invest on networks.

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However, from an Airtel perspective we believe this will only accelerate industry consolidation and strengthen our existing 33% market share when this is done and dusted. Our large comparable spectrum bank, wide broadband data network, rich portfolio of non-wireless businesses and all backed by robust operational cash flows will enable us to weather this storm. During the quarter we invested Rs 53.7 Bn in India adding 22,766 Mobile broadband base stations as we continue to focus on quality and industry leading speeds of our data network.

Even though total minutes on our network increased 13.7% YoY, there is a clear shift of minutes towards incoming calls due to the asymmetry created by the new operator's free offers. Owing to this, voice realization per minute in the quarter dropped by 3 paise to 29.42 paise per minute. The drop in market pricing as operators react with unlimited voice bundled offers will defeat the multi simming trend in India and particularly those of the smaller operators.

We are also seeing a slowdown in data indicators sequentially more or less entirely due to the free services offered by the new operator. For the first time, this has led to an absolute decline in data customer base, by 7.7 Mn with data usage down 3.5% QoQ and ARPU down 13%. To combat this temporary headwind, we continue to curate usage among customers with our innovative packs offering bundled voice calling and substantial data benefits. As part of the industry customer base migrates towards ARPU bucket plans we believe there exist opportunities to upgrade customers ARPUs by giving more value through bundled data at price points.

Revenue in Mobile India consequently declined 6.1% sequentially and consequently EBITDA has declined by 15.9% QoQ leading to a 92 bps reduction in EBITDA margins YoY to 38%.

However, our rich product portfolio beyond Mobile is serving us well now. Home Broadband grew 10.8%, Airtel India and Global business grew 12.5% and DTH grew 17.7% on a YoY basis. We believe our diverse yet complimentary product suite gives us a unique proposition to own the home market in India across the three screens (mobile, TV and broadband).

Africa continues to build on a potential turnaround. Underlying Africa revenue growth for the quarter was 6% Y-o-Y, backed by our focus on profitable top line growth, led via localized distribution, stronger data networks and our war on waste program. Our high focus on costs have led to a significant EBITDA margin expansion of 4.5% Y-o-Y. Our Africa EBITDA margin now stands at 24.5%. Constant currency PBT is now \$15 mn for the quarter which was our stated first milestone of PBT neutrality in that geography. We have now seen a steady improvement in the momentum of Africa performance over the last 4 quarters across top and bottom lines and would like to commend Raghu and his team.

Customer growth with focus on quality helped garner quality customer acquisition with churn reducing from 5.3% to 4.9%. The twin engines of data and mobile money continue to drive Africa's growth story. Data is unfolding well. Data traffic has increased 91.0% YoY. Data usage per customer during the quarter was at 684 MBs as compared to 454 MBs in the corresponding quarter last year, an increase of 50.6%. Total value of transactions on the Airtel money platform has witnessed a strong growth of 32.8% to \$4.0 Bn in the current quarter as compared to \$3.0 Bn in the corresponding quarter last year.

This continuing trend of growth in customer base, volumes of data and correction of prices in voice, as well as the adoption of mobile money is a re-affirmation of the potential growth opportunity in Africa. Coupled with the demographic dividend, there is no doubt that Africa should see the benefits of scale in the future.

Now moving onto the quarter's financial results

Consolidated INR revenues decreased 3% YoY due to disposals of 2 Africa operating units and Bangladesh and currency devaluations in some African opcos namely Nigeria. Adjusting for these, our revenue growth on underlying basis would be over 3% YoY. Our focus on controlling operating costs through a deeply entrenched War on Waste program has enabled us to decrease underlying opex by 2.5% YoY despite the inflationary trends across. Thus, despite a decline in top line, EBITDA margins increased by 151 bps YoY to 36.7% from 35.2% in the corresponding quarter last year, contributed by both India non-mobile business & Africa.

Depreciation and Amortization costs have further stepped up YoY primarily due to higher depreciation and spectrum expenses in India during the year. Net finance costs at Rs 19.4 bn increased as compared to corresponding quarter last year due to higher interest on borrowing due to spectrum borrowing cost.

The underlying effective tax rate in India for this period has increased by 2.6% on account of profit mix and reduction of tax holidays benefits. Reported effective tax rate in India for the period of nine months came in at 32.7%. The tax charge in Africa for the period of nine months ending December 31, 2016 came at \$ 119 Mn which is in line with the previous year adjusting for impact for disposals.

The consolidated net income before exceptional items for the quarter was Rs 6.2 Bn and after exceptional items came in Rs 5.0 Bn, compared to Rs 11.1 Bn in the corresponding quarter last year.

Net debt for the Company increased to \$ 14.4 Bn as compared to \$ 12.2 Bn for the previous quarter, primarily on account of incremental debt from spectrum acquired during Oct'16 auction. The net debt excluding DOT obligations at \$ 7.7 Mn as compared to

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\$ 6.5 Mn previous quarter. High spectrum costs and consequent increase in associated amortization costs has resulted in decline of Return on Capital Employed to 7.1% from 8.6% in the corresponding quarter last year.

In conclusion, free pricing by a new telecom operator in India is clearly affecting industry dynamics. We firmly believe that with our scale and efficiencies backed by our rich spectrum and network footprint, we will only emerge stronger with a superior market share position. Our focus on profitable topline growth along with capital reallocation is helping stabilize and turn around our African operations. On this note, I would now like to hand over back to the Moderator, for conducting the Q&A part of this earnings call.

Kamaldeep – Moderator

Thank you very much, Sir! We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence management will take only two questions per participant to ensure maximum participation. Participants who wish to ask questions may please press '*' '1' on their touchtone enabled telephone keypad. On pressing '**' '1' participants will get a chance to present their questions on a first in line basis. To ask a question participants may please press '*1' now. The first question comes from Mr. Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar - Bank of America – Mumbai

Thank you for the opportunity. I have two questions. First question is on your number of data subscriber reductions. I thought in a dual-SIM market, consumers do keep a SIM and do not throw it. I just wanted to understand what could have led to that churning out, or is it some kind of an accounting recognition that is if usage is low you do not count consumers as data consumers?

Second question is on VoLTE. Just wanted to understand your thoughts on how you look at VoLTE for delivering voice, and general difference between rolling out VoLTE on 1800 megahertz versus VoLTE on 850 megahertz, and if Bharti has any thoughts on launching voice on VoLTE? Thanks.

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

So, Sachin let me take both those questions. This is Gopal. As far as data customers is concerned, we have a definition, it is 1 MB. And, therefore, what happens in a situation where you have free services being offered, the SIM is still retained, but the way that we would measure it in that period is that data has not been used, so they fall off. That does not mean that they will not come back when pricing commences from the other operator. So that is the first part.

On the second part, as far as VoLTE is concerned, I think VoLTE; our belief is that, of course, the sub-gigahertz band is a really good spectrum for delivering any kind of voice indoor. We believe that VoLTE will be very relevant in the key cities, let us say in the next 12 months to 18 months. And mid-band, given the site density that we have in most of these large cities, is a very good spectrum to deliver solid VoLTE experience. That said, we also have sub-gigahertz spectrum in many circles and we will look at deploying equipment -- radio equipment, which has the capability to move to LTE on the basis of a software switch.

So we are future-proofing our network in all our key cities. That said, we believe that the mid-band in the key cities will be very, very good for delivering VoLTE as well.

Sachin Salgaonkar - Bank of America – Mumbai

Just small follow-up, perhaps more to Nilanjan here. Nilanjan, you did mention about the fact that given the free services going on, the investments in the sector are getting impacted. In light of that, how should we look at your CapEx guidance for, let's say, the next fiscal year?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

So, for next fiscal year, we will probably come back to you in quarter four. But for this year, we had given you about \$3 billion to \$3.2 billion. I think we will be a shade below \$3 billion for this year, consolidated across India and Africa.

Sachin Salgaonkar - Bank of America – Mumbai

Okay, got it. Thank you!

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Thank you very much Mr. Salgaonkar. The next question comes from Mr. GV Giri from IIFL Capital, Mumbai. Mr. Giri you may ask your question now.

GV Giri - IIFL Capital – Mumbai

I have two questions. One on your India costs. Although your revenues fell, your SG&A seem to go up quite a bit. What explains that? And similarly, a question on your license fee and spectrum charge also. As a percentage of revenue, it seems to have compressed quite a bit. And thirdly, your staff cost also sequentially fell quite sharply. So all these three numbers I am talking about are sequential. So, can you explain each one, please?

And second question is, Gopal, what are your thoughts on the 4G feature phone? You think that has a good chance of coming in, what impact can it have on the market, especially the voice market and how well are you prepared to tackle that?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

From the India perspective, the license fee, firstly, we are getting the benefit of the SUC, partly because, as you know, the SUC order came on August 15. So this is the full impact of our SUC, which now take the benefit of the impact of the spectrum bought in the auction at 3%, plus the benefit of our 2300 megahertz legacy spectrum, which is at weighted average at 1%. So that is an impact, which we are seeing during the quarter.

As regards the increasing costs from the SG&A side and HR side, I think these are more one-off costs, nothing underlying which we are seeing increasing. But on the OpEx side, overall, as you know, our OpEx for India continues to be around 4% and that is a line you should continuously see on a quarter-on-quarter basis. And our war on waste program this year will probably deliver us close to over Rs.2000 crores of OpEx savings in India. So, I think, rather seeing the overall OpEx line, you will have these pluses and minuses between quarters.

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

So, Giri, to answer your second question on the 4G feature phone, our understanding is that something is in the works and could potentially get launched sometime between April and June. We believe that the cost of this device, landed cost of this device into India post duties and so on and so forth would be in the ballpark of Rs.2000 to Rs.2200, which will therefore make it a very, very affordable phone, as an up-gradation from a basic feature phone.

Now, you must remember that feature phones are sold at Rs.1000 to Rs.1200. And there is a big difference between an Rs.1000, Rs.1200 and a Rs.2200 phone even in a market like India. So there will be feature phones that will continue to get sold, unless there is some form of subsidy on those devices, which we believe will not make for economic sense, because of the nature of the dual-simming and the nature of the flirting that customers have with the best deals at that end of the market.

That said, I think the other factor to remember is that as you strip the cost of this device down, the screen of the device and the overall experience is a very basic experience and so this is not likely to appeal to serious customers who would use data. This is only likely to appeal to somebody who would like voice on the cheap. And, therefore, this is an issue then of what the pricing is on voice and what the package is on voice that is delivered on that device.

Suffice it to say that we are watching this development closely. You have seen some of the moves that we have made in the recent few months, as this predatory pricing from our competition. Our focus is how do we continue to hold on to our customer base, how do we use the utilization of our network, which is sitting today at a low level on the data side in order to drive consumption and to remain competitive in the marketplace.

As we go through some of the turbulence over the immediate term, I think our ambition is very clear. We have got to come out of this with a much stronger market share position, because we do know that when the dust settles, all of this pricing will finally lift and our financial performance will be improved. But in the short term, I think, the real challenge for us is the predatory price that Nilanjan has referred to which in a way is pumping in minutes into our network at a price that is substantially lower than actually manufacturing that minutes.

GV Giri - IIFL Capital – Mumbai

Thanks very much Gopal. All the best.

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

Manish Adukia - Goldman Sachs - Mumbai

Good afternoon. Thank you for taking my question. My first question is again on the trends that you are seeing in the India wireless business. In your view, how long is the price war in the industry likely to continue, and in the medium-term what do you expect to happen to industry dynamics once free pricing period by your new competitor ends? I mean, is pricing or pricing plans likely to go up once that ends for the incumbents? And maybe if you can give us a sense as to what proportion of the impact that you saw this quarter could be attributed to Jio versus that that could be attributed to demonetization?

And my second question is on the recent comments made by Mr. Mittal in some of the recent interviews, where he talked about roughly \$1 billion worth of asset sales in Africa in the next 12 months and possible acquisition of Telenor. So if you can just comment on that and if Airtel were to do any acquisitions in India, what would be the rationale for that? Those are my questions. Thank you.

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

I am not at liberty to tell you how long or how short the price war will continue. All I will say is that every investor, every company that enters this high CapEx industry of telecommunications, finally wants to make a return for the capital that they have deployed. And so, there will be financial prudence at some stage once there is equilibrium. I think in the short to medium term, you are going to see rapid consolidation in this market. You are currently confronted with about nine operators. Our sense is that this will rapidly consolidate in the next 12 months to 15 months, and many of the operators, the smaller operators, are really going to struggle to have the financial wherewithal to invest in the capacity that is needed to actually roll out broadband networks. And as pricing has fallen, they are under tremendous pressure and their performance will be even more challenged financially.

From a demonetization perspective, there was some immediate impact in the few days post demonetization, but I would say, a large part of the impact that we've seen in this quarter in terms of the revenue softness is fundamentally on account of the ARPU that has been sliced by customers at the bottom-end, as they have adopted the free services being offered by our competitor.

And, finally, to your last question on asset sale and acquisition, this is speculative at this point. I mean, our Chairman has already said that conversations keep happening that does not mean that there is anything that is right now on the table.

Manish Adukia - Goldman Sachs - Mumbai

Gopal, I just wanted to follow up on that. So, potentially if there was an acquisition in India, what will be the rationale for that? Airtel has enough spectrum and we have enough market share as well. So would it be for spectrum or market share or something else, if there was a potential acquisition available?

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

I think any acquisition that you make is finally done on the back of what the price is for that acquisition, what is the spectrum footprint that you gain, what is the incremental revenue that you gain, what kind of synergies that you have. And we have said in the past that any national kind of acquisition for us in this market does not make very much sense, because of the strong presence that we have. So it has got to be a very compelling rationale from all of these criteria.

Manish Adukia - Goldman Sachs - Mumbai

That makes sense. Thank you and all the best.

Kamaldeep – Moderator

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

Kunal Vora – BNP Paribas - Mumbai

Thanks for the opportunity Sir. Two questions. First is, you added a large number of high-speed broadband sites over the last year, almost 70% increase, while there is at least a temporary pressure on volumes. So how is the data capacity utilization right now? And

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your thoughts on advantages and disadvantages of running multiple networks, compared to running a 4G-only network. That is question number one. And second one is, the rationale behind the unlimited plans, especially the Rs.350 unlimited voice, and 4GB plan to attract customers from other operators and what's the ARPU implication of these unlimited calling plans? Thanks.

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

I would say that on broadband, our rollouts have happened in the recent last 12 months to 18 months and given the amount of consumption that we are seeing on our networks, there is a lot of headroom for driving up capacity utilization.

Remember that in this business once the large investment you make in spectrum, it is a smaller investment on the CapEx and once you have put in that CapEx, then the marginal cost of producing an extra megabyte of data is actually almost nothing. And so, given the utilization being low, we believe that this market is moving decisively and it will move decisively in the next 12 months to 24 months towards an ARPU game.

In the context of playing an ARPU game, we believe that bundled packs make a lot of sense to lock in ARPU, deliver value. The challenge of course is for a player like us, where we have a stratified ARPU table across the market with different customers at different levels of ARPU, there could be some potential for downgrades. But that is unfortunately the competitive dynamic that we are living in today, and that is something that we believe makes a lot of sense for us, because that will drive more high ARPU customers into our network.

Kunal Vora – BNP Paribas - Mumbai

So on data capacity, how many times can you go up, let us say, 10 times, 15 times based on whatever spectrum holding you have. Is it possible to quantify like that let's say, current utilization index in the next one or two years whatever the plans are. Based on that, what kind of volume could you service?

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

We do not report out these numbers, but these are in multiples. I mean these are in - if today you are sitting at, X, you could go up to 7X, 8X, 10X today. With the network that we have, let alone the spectrum that we have because on the spectrum that we have, we put in some more, actually your capacity anyway goes up, because finally capacity is a function of the spectrum that you have and the number of sites that you have. We have already invested in spectrum that is done.

Now the question is of the sites. We have rolled out a large number of sites, so over two years, we rolled out almost 160000 base stations on our 3G and 4G networks and that gives us incredible headroom to actually drive capacity up. And then of course, if you put in more sites that gives you even more capacity.

Kunal Vora – BNP Paribas – Mumbai

And your thoughts on running multiple networks versus running a 4G only network?

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

World-over if you look at it, every single operator around the world runs multiple networks. So this is not something that is new in India. At the end of the day, if you look at the device mix in India, there are about 250 odd million smartphones, almost 750 million feature phones and if you don't have a network that serves a feature phone customer, who is largely operating on a GSM network, which is a 2G network, then you are actually walking away from maybe 65% to 70% of revenues. So it is impractical to think of running one network.

In the long-term, as this market upgrades from feature phones to smartphones, you will start seeing more and more spectrum being deployed for high-speed broadband. And a day may come where some networks may shut down. For example, in Singapore, you are seeing a shutdown of the GSM network. In Japan, they have shut down the 2G network. In Europe some operators are talking about shutting down 3G networks.

Now, the good news for us is that whatever spectrum we have, we could use across technologies and all the radio that we are investing in is technology-agnostic. So all the new radios that are coming in can run 3G or 4G, and so at the flick of a button, with software upgrades, we can actually move from one technology to the other.

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Understood. This is really helpful. Thank you so much Gopal.

Kamaldeep – Moderator

Thank you very much Mr. Vora. The next question comes from the line of Mr. Srinivas Rao from Deutsche Bank, Singapore. Mr. Rao, you may please ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

I have two questions to ask. First, in your India business, we did see a deceleration in the enterprise business. Could you let us know what the reason was for that? That is number one.

Second on the Africa business, we have seen some improving trends in both margins and cash flows. Is that sustainable? Should we expect the current level of margins to continue in Africa over the next, say, six to nine months? Thanks.

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

So, let me take the first question and then hand over to Raghu. Srinivas, on the first question, the way that we report our enterprise business is a combination of our domestic enterprise business, as well as our global business, which is our wholesale business, which supplies bandwidths to carriers and voice minutes terminating into India across multiple carriers around the world. The domestic enterprise business has performed very, very well and continues to do exceedingly well.

Our global business is a wholesale business and sometimes sees some ups and downs where we try and optimize, based on the pricing that is there, So on the global business, there has been some wholesale implications, where it has been a little soft in the quarter, but we are not concerned about that, because that's a trade-off between margin and price. Our domestic enterprise business continues to do well.

Srinivas Rao - Deutsche Bank - Singapore

This is helpful. Thank you.

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

Hi, Raghu here. Basically, what we have been doing in the last couple of quarters has been trying to grow our quality customer base at a much faster rate than before. We have been very careful and smart on our pricing without losing too much, but still continue to get a better customer perception of the price, by cutting off some discounting and getting a better mix of our revenues, both data and money growing. And we have also been able to have a very tight control on our OpEx. And, basically, while investing a lot on our networks, we have been able to keep a lot of discretionary spends and others down, and that has really helped our EBITDA. While I cannot talk about the future, but I should say that we are continuing on this journey of doing the right basic stuff in the market.

Srinivas Rao - Deutsche Bank – Singapore

Thanks Raghu. This is helpful. Thank you.

Kamaldeep – Moderator

Thank you very much Mr. Rao. The next question comes from the line of Ms. Amruta Pabalkar from Morgan Stanley, Mumbai. Ms. Pabalkar, you may please ask your question now.

Amruta Pabalkar - Morgan Stanley - Mumbai

Hi, thanks for the opportunity. I have two questions. Firstly, if you could give us some sense on the customer response to your Rs.145 and Rs.345 plan, as in, are we seeing any interest here, and are lower bucket ARPU customers adapting to this plan? And do you see any need for getting even lower price bucket plans on your cards?

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Secondly, over the medium-term to slightly longer-term perspective, with smaller operators struggling and their share likely to get transferred to the top four operators, do you see this more as a flattish ARPU and more of a subscriber market share plan to get more of subscribers and eventually your revenue market share and the subscriber market share converges? Would like to hear your thoughts on this.

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

So, I will just briefly headline this and I will request Ajai to come in on this. We do not normally give these kinds of details on our earnings call, but Amruta just to give you a sense, the immediate impact of bundled plans is normally a downgrade, because of the point that I made earlier on the stratified nature of the ARPUs that you have. But the medium-term to longer-term impact of this is certainly on upgrades. We believe there will be significant SIM consolidation that will happen in this market. Many of the value players, the customers using the value players do not use them as their primary SIM, they always use them as a secondary SIM, and with these bundles we believe there will be more rapid consolidation of SIMs.

Ajai maybe you just want to add anything that -- in addition to what I said.

Ajai Puri – Director, Market Operations - Bharti Airtel Limited

AsGopal said, largely, the benefit accrues, because of the SIM consolidation and we are already seeing that in our new acquisition and both also through the dual SIMs which are the low value SIMs. Consolidation sign is coming because of these two packs that we have initiated.

Amruta Pabalkar - Morgan Stanley - Mumbai

Do you see the need to even introduce even a lower value plan like sub-Rs.145?

Ajai Puri – Director, Market Operations - Bharti Airtel Limited

No, we ideally would not want to do that.

Amruta Pabalkar - Morgan Stanley – Mumbai

Got it and in terms of your revenue market share and subscriber market share converging at some point, do you see that scenario kind of play out?

Ajai Puri – Director, Market Operations - Bharti Airtel Limited

I think our focus is always revenue market share, because sometimes you can gain customer market share, but if you do not get revenue market share it is of no consequence. Ultimately, it is revenue that matters. And in this market, if you take the bottom, let us say, 30%, 40% of the customer base today across operators, you will typically find that they account for less than maybe 3% to 5% of the overall revenues.

So, I think the most important metric to actually track is revenue market share, the right kind of customers on your network, the right ARPU customers and how you lock them into the network.

Amruta Pabalkar - Morgan Stanley – Mumbai

Thank you.

Kamaldeep – Moderator

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

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Sharon Chen – MetLife - Hong Kong

I am wondering whether you can comment at all about the potential Infratel's stake and I also read some press reports that the Company might consider further monetizing assets in Africa.

Harjeet Kohli – Group Treasurer and Chief Investor Relations Officer – Bharti Airtel Limited

Sharon, hi, this is Harjeet. On the Infratel stake, first, I think you are aware last Board Meeting, we did announce a setting up a Committee of Directors, along with the objective of assessing all the possibility that exist on handling the Infratel's stake, which could include monetization, like the way they were done earlier in the market, or away from the market in a large block, and with or without any controlling situations, but we look at all possibilities that exist. While it has been about 60, 70 days since then, it is still work in progress. As we speak, a few possibilities do arise and we are evaluating all of them. There is some bit of iteration. So nothing to specifically report as of today, but that is exactly what the intent has been. As you very well know, there is no large or a huge necessity to do something immediately, but the idea was to assess the overall way in which this asset should be held, curated or partially monetized now or a little later. So, as something is there to report, we will come back on that, but the intent stays to closely evaluate that and finally communicate to you the final outcome. On further monetization, I think earlier Gopal also mentioned. Look, in Africa, there have been some towers which have been monetized, but that is only about 10 countries and we are present in 15 countries. So there are four or five countries and towers left. They are not very small numbers, but they are not necessarily billions of dollars either, but you could see from the balance four or five countries, at least \$300 million to \$500 million, \$600 million kind of a payout. As and when that happens, that is the stated strategy of ours that we will let the independent tower Cos own the towers and have a strategic alliance with them in terms of sourcing those services. Beyond that, frankly, there is nothing much on the table. Gopal earlier talked about Indian Telenor or any other acquisitive situations in terms of the response to you.

Sharon Chen – MetLife - Hong Kong

Can I ask a follow-up question? What is Airtel's current 4G coverage in India and how does that compare to Jio's?

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

Yes. The way we look at it is as follows. Firstly, there are about 5,200 towns in India. There are over 650,000 villages in India. We have coverage of our broadband networks, which is 3G in over 300,000 villages and every single town. That is the first thing. And remember that as you go down beyond the top 100 cities, which account for let us say, 70% of data, the bottom is still very low in terms of penetration and delivered speeds on the device are very strong, ranging between 4 Mbps and 6 Mbps even on a 3G network. So that is point number one. Point number two is that as far as our 4G networks are concerned, we have FD, which is 1800 megahertz on the mid-band across this country and we have deployed FD on an ubiquitous basis in the top 100 towns and gone deeper on a case-by-case basis where we see opportunity, because we know who is consuming data and who is not, I mean, which towns are consuming data and which are not. Secondly, we have plenty of spectrum on TD, between 20 megahertz and 30 megahertz in many circles. This is strong capacity spectrum. And again, this is getting deployed in those places where we believe that data consumption is much higher. So, the asset test finally is what the utilization on your network is, what is the delivered speeds on the device. And the last point I would like to make is that, to add more sites or to deploy the network more aggressively is a matter of literally months, because we already have our sites there in the form of our 2G and 3G networks and the incremental cost of loading an additional technology on a site is very, very marginal, both in terms of energy and rent.

Sharon Chen – MetLife - Hong Kong

Thank you.

Kamaldeep - Moderator

The next question comes from Mr. Sanjesh Jain from ICICI Securities, Mumbai. Mr. Jain you may ask your question now.

Sanjesh Jain - ICICI Securities - Mumbai

Thanks for the opportunity. I got two questions. One from the recharge side, if you can give some color on how the validities are sold, as in what percentage of your revenues sold on 28 days validities, 15 days, 7 days and 1 day, that would be helpful? And second is on fiber rollout, if you can give some color on what percentage of our tower is fiberized. And in the backdrop that government is releasing more spectrum for backhaul, how are you planning to use that between fiber rollout and using the spectrum for backhaul? That is it from my side. Thank you.

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Bulk of our packs that we sell are largely monthly packs. The short validity packs, especially daily validity and so on and so forth have not become an industry standard in this market, and we believe it is a good thing for it to be longer term validity, monthly validity as far as the market is concerned. On the spectrum backhaul, both E-band and V-band are important spectrum bands for our backhaul and we are awaiting the final method of actual allocation of this spectrum to us. This will be good spectrum for backhaul, especially in the cities. I would say that as far as fiber is concerned, again, we look at it as Top 7 cities, the next 100 cities, the next 2,000 cities and then villages. And so, from a fiber and backhaul perspective, we are in very good shape where it really matters, which is in the Top 100 cities, and we are looking at expanding through a whole bunch of ingenious methods expanding fiber across the country through a combination of sharing and other things.

Sanjesh Jain - ICICI Securities - Mumbai

That is helpful. One follow-up question on the validity. Can you give us the same breakup on the denomination, how much we do below, say, Rs.20 and how much is above Rs.20, the breakup of revenue?

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

I do not think we are in a position to share that data.

Sanjesh Jain - ICICI Securities - Mumbai

Thank you.

Kamaldeep - Moderator

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

Sunil Tirumalai - Credit Suisse - Mumbai

Hi, this is Sunil from Credit Suisse. My questions have been answered. Thank you for the opportunity. Thank you.

Kamaldeep - Moderator

Thank you very much Sir. The next question comes from Mr. Simon Cooke from Insight, London. Mr. Cooke you may ask your question now.

Simon Cooke – Insight - London

Thank you for giving me the opportunity. Firstly, can I get your perspective on your balance sheet? Obviously, it is still very strong versus your competitors, but it is becoming more leveraged and therefore weak for your ratings. Are you willing to fall to high yield temporarily while investing heavily, or do you intend to try and fight to retain investment grade? And then the second one is just to follow up on the previous questions about your 4G network versus Jio, have they gone deeper with their 4G and fiber network into the smaller towns than you to-date, and is that something you are concerned about?

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer – Bharti Airtel Limited

I will take the first question, and ask Gopal and Nilanjan take the coverage question. So you are right, I think financial flexibility wise, the overall EBITDA, the leverage, I think this is fairly comfortable if you compare with most of the - obviously local OpCos, as well as regional and global OpCos who are operating. You are right, it does mean in the shorter term, given how the market landscape is evolving and the bend towards increasing weight on 4G, this could mean more investments. But if you see over the last two, three years, we have been investing reasonably disproportionately higher than both the competitors and from our perspective of getting the right coverage in India. Overall, the CapEx for this year, Nilanjan mentioned is about \$3 billion, last year was also roughly the same. So a significant amount of investment and also a significant amount of spectrum footprint that is necessary to drive all of this has already been taken care of. Having said which, there will be investments to be done to try and take care of future positions. That said, I do not see much of an issue in terms of managing the leverage. The question around investment grade and sensitivity around ratings, yes, we will need to work with the agencies. I think they see clearly the free cash flow profile that the businesses generate, primarily in India. They also see our strategic intent around managing the business and in a way also as a corollary, monetize and

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create further cash pools, whether it be towers in Africa, which had been done, some bit is left, whether be it Infratel stake. And I think in a combination of both these aspects, our intention and I think our belief is that we should be able to cater to both the objectives. Managing what is necessary for the business and also ensuring what is necessary to try and keep an investment grade rating.

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

On the second one, the way we think about it is finally in terms of where the device distribution is. I think your comparison of trying to compare us with another operator is probably not as appropriate, because a large part of this market is still very underpenetrated, it is still a feature phone market. While this is changing, it is changing slowly. There still are a large number of 3G smartphones and over time they will all move to 4G smartphones. So I think our work is cut out, which is we need to keep chasing the demand well ahead of when it originates. So our supply needs to be ahead of the demand, but not so far ahead that it becomes absolutely unmanageable. Today, like I said, in terms of where we have deployed our 4G networks, with the capacity that we have created, we could do up to 7 times, 8 times, 10 times of what we are actually doing. And we need to do more over the next 12 to 24 months and we will do that.

Simon Cooke – Insight - London

Can I just follow up on the first question? If you are unable to monetize assets sufficiently to keep investment grade, would you pull down to high yield attribute or would you do something like you did a couple - a few years ago and get something out of Qatari to try and give you some more equity? Thanks.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer – Bharti Airtel Limited

Simon, that is little hypothetical. As I said, given the options available at hand right now and the work already undergoing on some of these options, which probably you have reasonable visibility of, I think we do not need to tread that path. Having said which, if your question is between the ratings and business, obviously business comes first, but we do see currently whatever needs to be done is getting done to handle both the objectives.

Simon Cooke – Insight - London

Thank you.

Kamaldeep - Moderator

Thank you very much Mr. Cooke. The next question comes from Ms. Angela Quin from Mizuho Securities, Hong Kong. Ms. Quinn you may ask your question now.

Angela Quin - Mizuho Securities - Hong Kong

Thanks for the opportunity. It is reported that you are thinking about raising funds to counter the business of Reliance Jio. Would you mind giving us some color on that? Thanks.

Harjeet Kohli - Group Treasurer and Chief Investor Relations Officer– Bharti Airtel Limited

Yes. what the Company did, is a release Angela yesterday, that the Board needs to approve any listed security on the domestic Board shares if you are doing a debt raise, and that also needs shareholders' approval. They have approved a limit, which the shareholders will need to approve it. The media reports may have conjured it up to add any suffix to that objective of ours. But from our perspective is very simple that Indian interest rates have been coming down. Over the last one year they have come down significantly. There may be some room for that to come down more. We have to see how the Central Bank reacts in the February meeting. And in the context of that, borrowing in the capital market domestically in India is reasonably cheaper than borrowing from the banks that we have, even if smaller amounts in India. And with that intent, our idea is to secure the authorizations and as and when we deem fit that the rates are at right opportunity to borrow domestically to a Rupee Bond, we issue that and refinance some of the bank debt. So it is more economic, both diversification-cum-economic exercise that we are doing on the debt side and the business continues to try and drive their objectives, including dealing with any new operators or competition.

Angela Quin - Mizuho Securities - Hong Kong

Yes, understood. Thank you so much.

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Bharti Airtel Limited Second Quarter Ended December 31, 2016 Earnings Conference Call**Kamaldeep - Moderator**

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

Pranav Kshatriya – Edelweiss - Mumbai

Thanks for the opportunity. I have a couple of questions. Firstly, if we look at how the revenue has declined for Bharti in this quarter, I am reasonably sure that for industry, the decline will be even sharper. Do you see the possibility of a sharp revenue decline for the industry, and thus, basically below-inflation rate industry revenue growth for next two-three years a possibility? And is it possible that this revenue lost may not come back after a while? That is my first question. Secondly on homes and enterprise business, there was quarter-on-quarter reasonable margin expansion, despite decline in the revenue. So what exactly is driving that, and how sustainable is this? And lastly on India business, there is a decline in depreciation on a quarter-on-quarter basis and what exactly is this due to? Thank you.

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

I will take the first part and then maybe hand over to Nilanjan to take the second and the third one. I think, yes, you are right, we have seen revenue softening in this quarter on account of the predatory pricing that is being offered by one of our competitors. This is likely to the pricing is not likely to change till March 31. So some impact of that is going to continue. I think the good news is that these customers are still on our network, we know who they are. And I think once pricing commences, we will see how they will make choices of where the traffic has got to go. We have been through this game in the past. This market is a very competitive market. And at the end of the day, if I take a longer-term view, there is no reason why the telecom industry in India should not grow at 8% to 9% every year for the next 10 to 12 years. I think in the short-term, you are likely to see some headwinds as the market adjusts itself to some deep discounted pricing in order to get a certain minimum number of customers. I think that is something that we will have to weather as a storm. Like I said, I think we are best placed to weather the storm given our financial scale, our spectrum position, the presence that we have, the customer base that we have and finally, the quality of our execution on the ground. The smaller players are going to get more hurt, and yes, you will see some industry decline in the short-term.

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

In the margin improvement in the businesses, the homes business, both on a year-on-year and a sequential business, we have seen a steady improvement. We genuinely believe that there is enough opportunity in India, we only have 2 million DSL customers at this stage. So I think paramount is about increasing our revenue growth sequentially and year-on-year. And EBITDA margins from a sequential perspective have gone up by about 1.2% consequently. On the Airtel business side, Gopal briefly mentioned this, this is largely the margin expansion of about 2% to 3% is largely coming from our global wholesale business, where we - although have knocked down some of the topline revenues on the wholesale minutes, this really does not have much of an impact on EBITDA, because the net revenue realization is quite low. So, if you see the steady state business, around 30% is what you see across the last five, six quarters. So that is something on the Airtel business as well. On the depreciation line, it is actually a large chunk of money now in a cumulative capitalization for the last 8, 10 years. So there are always some pluses and minuses which we keep on seeing between quarters, nothing unusual to talk about.

Pranav Kshatriya – Edelweiss - Mumbai

If I can just squeeze in one more on the margin side. So, do you believe that the homes margin, especially at 48%-odd is sustainable, especially if you are upgrading your capacity with higher speed fiber etc., or there can be some downward risk to this margin?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

So, no guidance actually on the homes, but reality, all the investments like you mentioned is hitting our CapEx . And if you see, we have really stepped up our CapEx and that is hitting the depreciation side. So this quarter we have put Rs.1.8 billion, and I think cumulatively, we have already spent about Rs.6 billion to Rs.7 billion and this was a business we were earlier just investing Rs.5 billion, Rs.6 billion in the whole year. So that hit is coming below the line. So we watch both the EBITDA margin and the absolute EBIT in the business.

Pranav Kshatriya – Edelweiss - Mumbai

Thank you so much.

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Bharti Airtel Limited Second Quarter Ended December 31, 2016 Earnings Conference Call**Kamaldeep - Moderator**

Thank you very much Mr. Kshatriya. The last question comes from Mr. Sanjay Chawla from JM Financials, Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financials - Mumbai

Good afternoon. Thank you for the opportunity. My first question is, Gopal, if you could provide a broad sense, or color, on how has demonetization impacted your third quarter voice and data revenues, in terms of whether there has been any disproportionate impact on voice versus data, in that sense? And how is January looking? We are now at 25th day of January. Are we seeing any stability in revenues on a month-on-month basis, any comments on the month-on-month trend or the rate of change of de-growth would be very useful? That is one. Secondly, just from a longer-term point of view, you have introduced a pricing of Rs.350 with unlimited calling and 4GB of data for 4G handset users, which kind of implies a Rs.50 per GB kind of rate. I know this is promotional and you would like to see better pricing obviously. But should this pricing get stuck in this kind of a range, Rs.50 per GB, is the data business going to be profitable from an industry point of view, even if you assume 90%, 100% utilization of the network just your thoughts on that?

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

Yes, like I said, the impact of demonetization was there for a few weeks, but like we saw in some of our other businesses, like DTH, that recovery was reasonably quick. There were some postponement of purchases, but it was quite quick. So I would say that the bulk of the impact that we have seen in this quarter is on account of predatory pricing and the incoming calls operating at 90%, 93% versus 7% going out of our networks at a price that is substantially lower than the cost. And that is the bulk of the impact. Having said that, that is not changing in January, February, March, because those free offers continue. So there is going to be some impact of that. I would say that longer-term, I see this as two opportunities. Number one, the first opportunity is that there is elasticity for data and as people get used to consuming more data, as technology is changing, you will be able to pump out a lot more data for the same amount of spectrum and the same electronics. So the cost of producing a megabyte will keep falling and therefore it will become a game about putting in the right CapEx and getting the right utilization. And as applications and content and innovation happen on the demand side, people will tend to use more, which is why you will then earn a lot more data revenue. The second part of it is, there could be, in future, some pricing adjustment as well, because some of the pricing that we are operating at, especially on the voice front, is perhaps at a very, very low level. But I would say this is in the future, because at this point in time, we are in the midst of a competitive battle and we are seeing that continue for the next few months as well.

Sanjay Chawla - JM Financials - Mumbai

Gopal, I was asking more from a worst case point of view. I mean if you get stuck with this kind of a pricing and the yield, Rs.50 per GB.

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

I am not concerned about the Rs.50 per GB in as much as I am concerned about ARPU, because remember, like I said, the cost of producing a megabyte is almost nothing, once you have sunk your money into the spectrum and put in the CapEx. I think you might as well get a lot more revenue. So if people are using a lot more data and you are actually getting - well, let me give you an example. If two years ago, our consumption was 500 megabytes a month with a pricing, or a realization at Rs.270 a gigabyte. Today, it is about 1 GB a month with a realization, which is around Rs.170 a gigabyte. This still gives us about Rs.160 to Rs.170 ARPU. And tomorrow, if it is Rs.50 and you are getting 4 gigabytes a month on an average, you should get Rs.200 ARPU. So I think it is an ARPU game and that is a function of how demand shapes up. And we have seen that when you get the right pricing, we do see elasticity on data. So I think this is an adjustment phase that we will go through, but over time, people will tend to use more.

Sanjay Chawla - JM Financials - Mumbai

So, assuming a benefit of utilization and elasticity, this is still going to be a profitable business at Rs.50 per GB longer term?

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

If you just look at it as one element of pricing, I mean, it is one issue, but I think if you look at the overall ARPU, today the ARPU of our business is about Rs.180, Rs.175, which has dropped because of the action that we have taken. I think in the medium-term to long-term, we will get that ARPU back. So the ARPU is what you need to look at. I would not split it out like what is it exactly the rate per GB versus the rate per minute and so on, it is going to be an ARPU game going forward.

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Sanjay Chawla - JM Financials - Mumbai

Just a quick question. You have been sharing your data in terms of the number of mobile broadband BTS. I was just wondering whether you can share the number of carriers deployed across FDD and TDD, maybe that is going to be more useful than the number of BTS that you share. Any thoughts on that?

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

I think that is a good input. We will pick that up and discuss that within the team.

Sanjay Chawla - JM Financials - Mumbai

Thank you and all the best.

Kamaldeep - Moderator

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

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

Thank you all for an interesting round of Q&A, which covered a gamut of subjects, including pricing, margins, Africa and the balance sheet. We look forward to talking to you once again next quarter and probably meeting some of you face-to-face during the quarter ahead and investor conferences and meetings. Thank you.

Kamaldeep - Moderator

Thank you sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening ahead.