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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 31st, 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 an announcement. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I handover the call, I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risk that we face. I now hand over the call to our first speaker of the day Mr. Nilanjan Roy, Global CFO. Thank you and over to you Mr. Roy!

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the third quarter ended December 31st, 2017, which we announced yesterday. Present with me on the call today are Gopal, Raghu, Jaideep, Badal and Parag.

Let us start with the overarching trends in India’s telecom industry. During the last year, we have witnessed dramatic value erosion in the telecom industry, which led to a heightened pace of consolidation. Smaller operators have either scaled down the operations or merged with larger players. The proliferation of unlimited voice bundles has further reduced multi-simming behaviour.

As a result wireless subscribers in the industry declined by over 24 million between July and November 2017 largely coming from the smaller operators who have cumulatively lost over 58 million subscribers during the same period. Data demand continues to explode led by smartphone penetration and aggressive offers in the marketplace. Increased data demand is calling for higher investment, which cash-strapped operators can ill afford. While market pricing may not follow a linear path upwards, we continue to believe that ARPUs need to move up in the long run.

Operators are currently reporting negative return on capital, which is unsustainable given the significant investments in network already undertaken and required to cater to the huge surge in traffic. Macroeconomic factors are turning favourable in Africa with stabilization in prices of crude and commodities. Further in-country consolidation is resulting in a better industry structure, which is a welcome step given the relatively smaller scale of individual countries. Against this backdrop let me reiterate our five-pronged strategy.

Firstly grab and retain high ARPU customers, second provide more services per customer, third create a brilliant customer experience, fourth accelerate non-mobile business and fifth a war on waste to hold costs. At Airtel, customers are at the heart of everything we do. We continue to take several industry leading initiatives to transform our network to create a world class experience for our customers. While Airtel has the highest spectrum market share of over 30% and the largest number of towers and base stations, we have further augmented our network capacity to meet the exponential growth in traffic expected.

We are the first Indian operator to deploy Massive MIMO - 5G plug-in technology to evolve our existing 4G networks to 5G. Massive MIMO provides better user experience in high-rise buildings where providing coverage has been a big challenge. These enhancements also help in improving spectrum efficiency thereby enabling us to serve over 4X to 5X more capacity from the available spectrum resources. These technology interventions are critical especially in a market which is experiencing exponential and unprecedented data growth. We have launched VoLTE service in seven circles to date and plan to have Pan India VoLTE services within this financial year. VoLTE provides better user experience through faster call set up and HD voice quality to our customers. Currently more than 80 popular smartphones support our VoLTE services. Our VoLTE network is unique in India as it can seamlessly handover VoLTE calls on 4G layer to both 3G and 2G networks when users move out of 4G coverage. With this we are able to serve voice traffic on 4G networks, thereby offloading voice traffic from traditional circuit switch 3G and 2G network.

We have additionally deployed LTE advanced services with carrier aggregation using two and three carrier components in our networks using TD and FD spectrum for enhanced capacities and improved user experience. With these capacities we have been able to offer peak user throughput of 280 Mbps on our network on commercial handsets supporting these carrier aggregation capabilities. Due to spectrum scarcity in the past we were forced to build a dense coverage layer of our network towers. To illustrate this, consider that in India which is about 1.5 times the size of DRC, Airtel has deployed more than 160,000 towers, which is over 110 times the number of towers as compared to DRC. We have deployed over 88,000 mobile broadband base stations over the last 12 months, the highest number of new LTE sites in the Indian market by an operator in a single year.

This was done with the aim to have a ubiquitous 4G-layer pan India and deploy TD based on demand in sites with high data consumption. We will continue to expand our footprint to ensure 4G coverage across all census towns and villages with good 4G-handset penetration. While our network leadership will help us organically achieve our mission of growing market share, we led the consolidation in the industry inorganically as well. We are pleased to announce that Bharti Airtel has received approval from the Competition Commission of India for its merger of the wireless business of Tata Teleservices thereby receiving the first set of clearances that the merger needs.
Approvals for the Telenor merger are progressing and we expect the transaction to be completed by this quarter. We are currently awaiting NCLT and DoT approvals. We are happy to inform that Warburg Pincus will acquire up to a 20% equity stake in Bharti Telemedia, the DTH arm of Airtel. Airtel DTH, which was launched in 2008, has grown to become a top three in home entertainment industry leading profitability. The company has a strong distribution infrastructure with over 1,500 partners and over 150,000 recharge outlets. The Indian digital TV market is expanding rapidly and we believe that Airtel DTH is well positioned to capitalize on incremental growth in digitization and new TV penetration in tier 3 and tier 4 towns. We look forward to working with Warburg Pincus towards achieving our vision of making Airtel TV India’s leading DTH platform.

Moving on to Africa, Airtel Africa continues to witness steady improvement across top and bottom lines on the back of twin engines of data and mobile money. 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, simplification and optimal bundling of products leading to 5.4 mmn net additions on our network during the quarter. Expansion of Airtel Money’s reach in rural areas has led to 37.9 % growth in transaction values on our network YoY. With U900 and LTE launches in few countries along with radio frequency planning and optimization, data volumes grew 95.3%.

Airtel Africa’s revenues grew 5.3% Y-o-Y. Coupled with our efforts to create a profitable business model for Africa, margins expanded by 10.8 % Y-o-Y resulting in our highest ever EBITDA margin of 35.5%. 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.

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 during the quarter, we announced acquisition of 100% equity interest in Tigo Rwanda Limited. The acquisition will consolidate the Rwandan telecom market and position Airtel as a strong number 2 operator. During Oct’17, Ghana’s communication regulator approved the merger of Bharti Ghana with Millicom Ghana. Ghana is now deconsolidated from Africa reporting and underlying metrics are reported across the remaining 14 operating countries.

On the Regulatory front, TRAI slashed International Termination Charge to 30 paisa from 53 paisa effective from 1st Feb 2018. The cut in the International IUC will impact the telecom industry and will also lead to a loss in revenue to the exchequer, from both license fees and goods and services tax. The reduction in IUC will create further imbalance between incoming and outgoing international calls at the benefit of foreign telecom companies and create an additional loss of foreign exchange for the country.

Moving onto our financials. TRAI mandated reduction in Interconnect Usage Charges by 57% to 6p from 14p, effective 1st Oct 2017, which has led to a significant loss in revenues during the quarter. Reduction in IUC coupled with continued down trading of high ARPU customers due to industry-benchmarked price offerings, has led to a 22% decline in our India wireless business.

Consolidated revenues for the quarter dropped 13% YoY due to decline in mobile revenues in India. Consequently, consolidated EBITDA of Rs 75.9 Bln during the quarter decreased 11% YoY. EBITDA margin however increased by 60bps to 37.3% due to effective cost management supplemented with the growth in Africa.

We continue to show strong performance in our non-mobile portfolio in India except Homes where we refreshed our broadband plans. DTH grew 10%, and Airtel Business grew 7% YoY. We continue to focus on our non-mobile segments as we believe our diverse yet complimentary product suite gives us a unique proposition to own the home market in India across multiple screens (mobile, TV and broadband). Depreciation and amortization expenses were at Rs 48,375 Mn vis à-vis Rs 48,350 Mn in the corresponding quarter last year, primarily due to divestment of operations in Bangladesh and Ghana. Net finance costs for the quarter were at Rs 20,880 Mn, higher by Rs 1,523 Mn as compared to corresponding quarter last year mainly due to lower investment income, and higher interest & finance charges.

We remain committed to our accelerated capex plans, considering the explosion in data traffic in India. We have expediently spent over 20,500 cr over the last 3 quarters to accelerate our 4G rollout in terms of coverage and also build additional capacity in existing geographies along with fibre connectivity and backhaul. 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 enable our spend, strengthening our Balance Sheet and focus on debt reduction remain key priorities. Due to our efforts, net debt during the quarter was flatterish despite an increase in capex. In November, we raised over Rs 3,325 cr by monetizing c. 4.5% of our stake in Bharti Infratel – a deal that was upsized by over 25% led by healthy investor appetite. A month later, we announced the sale of 20% stake in our DTH arm to Warburg Pincus, which could lead to additional deleveraging of over Rs 1,700 cr. Further, while there is no certainty of any transaction, we will duly consider proposals received from global investors for a significant stake in Bharti Infratel, which could result in Airtel ceding control and commensurate significant deleveraging.

To sum up, while IUC reduction led to a sharp decline in top line during the quarter, India’s telecom industry is fast consolidating and witnessing a huge expansion in data and voice usage with the move towards bundled offerings. With our scale and efficiencies
backed by our superior spectrum and network footprint, we continue to hold and drive market share leadership. Finally, our focus on strengthening our distribution model and enhancing consumer experience in Africa is leading to profitable top line growth.

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 “*” and “1” on their touchtone enabled telephone keypad. On pressing “*” and “1” participants will get a chance to present their questions on a first in line basis. To ask a question, participant may press “*” and “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. Both the questions are to Gopal. First is on data traffic on your network. Clearly it has increased massively from roughly 0.7 GB per month a few quarters back to now 5GB per month. I understand your Capex guidance is a bit more elevated now, but want to understand how are you optimizing your network to address this surge of data? And related question is let us say few years down the line we have may be 300, 400 million data users each consuming 10GB per month, what changes your network needs to handle that kind of traffic and how much more Capex would we need? And second question is, looks like in this quarter we had some big impact from down trading of your high end consumers, is the peak of this behind us or we may continue to see continued pressure from this in future also?

Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited
Thank you Sachin. We are looking at several ways to optimize Capex, but first and foremost let me say that at this point in time, we are trying to conclude our overall broadband footprint with a layer of FD, which is our 1800 band across the country in terms of 4G. Almost all of our investments are going behind 4G. Wherever there are capacity requirements we are using TD, we have deployed spectrum almost between 20 and 30 megahertz in most of the parts of the country barring the Tikona circles awaiting the spectrum. So that is the second layer, but that is chasing the capacity. If you look at data consumption, typically it goes through a tail, so there is a big head followed by tail, so 10% of sites account for about 30% of traffic and the bottom may be 30% of sites account for 5% - 10% of traffic, so one part is actually planning it at a very granular level to be smart about Capex and that is something that we do for a living. The second is that the requirements on transmission, the core network and the transport network are actually rising. This is true for all operators as they experience data growths, so that is something that we are also seeing and the third area of investment is very unique, fiber. We look at the country in three parts, the top 200 cities, the next 2000 cities and the rest of the India to try and make sure that the transport and the backhaul capabilities at site level are well engineered. When it comes to your question on the capacity, currently we are doing about 12 to 13 petabytes of data a day, which is the kind of ballpark number. Our capacity utilization on 4G is still low, but like I said we are concluding the footprint, there are also requirements on the core and transport side and there are requirements wherever there are capacities that fill up particularly in congested areas. We think that the pricing being the way it is, data growths will continue and so the big battle for market share is really around the network experience and that is the reason our Capex has been elevated because at the end of the day the network is our product and we have to make sure that the product works. So that is as far as Capex is concerned. On the down trading, our challenge really is that there still are fairly substantive amount of revenues above the capped pricing plans that we offer today in the market. Effectively in India for about Rs.130 a month you can pretty much buy a data plan and a voice plan and you do not need to buy anything else because voice is free, data is at a GB a day and SMSs are also included, roaming is included so effectively it is a capped out plan at Rs.130, even though the customer may be willing to pay Rs.300 or Rs.400 or Rs.500 for such a plan. We still have revenues sitting above this level and that has resulted in the ARPU erosion, which is resulting in some of the down trading. We think that if you look back over the last three to four quarters, the kind of ARPU erosion that you have seen, we are unlikely to see this kind of ARPU erosion going forward, so that is all I would say.

Sachin Salgaonkar - Bank of America - Mumbai
Okay. Thanks for this Gopal. So one follow-up question is on Capex. I understand it is let us say 3.5 billion per this year and perhaps on similar level for next year, is that enough or do we see upside risk to those kinds of numbers also?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited
We have told you about Rs.25,000 Crores consolidated across Africa and India. We may be slightly higher than this depending on how much in actual because there is so much of equipment coming in, so it probably could be a Rs.1000 or Rs.1500. Crores higher than this as the year ends just because of the sheer quantities of equipment coming every month and for next year definitely we will
say ballpark, I do not see any marked reduction for another year, then of course we will have to see as much as Gopal said how do capacities build up, but at least for next year it will be in the same ballpark.

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

While the next year we will also see an elevated level of Capex as Nilanjan is mentioning, given the Telenor acquisition and the spectrum that we are getting from there, given Tata acquisition the extra spectrum that is available on the 2100 band, and the 1800 band in that asset will mean that we would be able to deploy spectrum without necessarily putting as much Capex, so there will be a lot more software that we could see to actually do that. Suffice it to say that these are probably the most elevated levels of Capex this year and probably next year.

Sachin Salgaonkar - Bank of America - Mumbai

This is helpful and finally some great cost control by you. The war on waste is clearly showing its efforts on your numbers. Thank you.

Kamaldeep - Moderator

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

Manish Adhukia - Goldman Sachs - Mumbai

Good afternoon and thank you for taking my question. First on the pricing environment while Nilanjan mentioned that prices over the long term need to go up, do you think from Bharti’s point of view if prices actually stay depressed, you would actually gain customers of some of the weaker balance sheet players because your own balance sheet is in a pretty good shape and you would not in that sense actually mind, pricing staying depressed for the next couple of quarters. So just wanted to get your thoughts on that? And the second question is on the balance sheet, now again while your balance sheet currently is comfortable at around three times net debt to EBITDA are you thinking about more potential de-leveraging initiatives and particularly I am trying to get an update on the whole Infratel transaction you talked about in the last quarter? Thank you.

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

There are actually two battles being fought in telecom today and my own view is that by let us say March 2019 you are going to have a completely revised industry structure with three operators and the question is what comes out in that stage, it is likely to be more or less in the ballpark of how the industry structure will play out in the subsequent years. The two battles that are currently being fought one on the 2G, 3G side, which is let us say largely the feature phone, 2G customers where this is the traditional game, but there is an upgradation that is happening from 2G to 4G and the first question is are we getting a disproportionate share of those upgrades, customer switching from a 2G to 4G phone in our own network and I think that is one very important metric that we need to look at. The two other metrics that really we need to look at which is really where the battle is being fought is on 4G where number one we need to get our fair share or more than our fair share of 4G devices on our network and there we are doing quite a decent job, we are getting our fair share of 4G devices. The second real battle is are we getting that device with a SIM in the data slot, which is a primary slot, because most devices are configured such that you have a primary slot, which is a 4G or a 3G SIM slot, data slot and second slot is a 2G slot and that is where we need to step up again to make sure that we get a fair share, disproportionate share of the 4G SIM slot and that is a function of where you put your Capex, which towns are you there, which villages are you there, which districts are you there because once you have got your network in with the brand being strong and being aspirational with our go to market and sales and marketing efforts being competitive and well run, we have no reason to believe that we will not get our fair share of 4G and in fact disproportionate share of 4G, so that is really the battle. I would say that pricing today is at a deeply compressed level and that is why you are seeing the kind of consolidation that has happened in the last 12 months. Tata, Telenor, Aircel down in its knees and effectively now it is a four player market and soon to be a three player; three plus one, BSNL. We do not really know how it will play out for Aircel. So you are going to have over a period of time, three reasonably large operators and these levels of pricing clearly are unsustainable, so pricing will have to lift, but at this point in time there is a fight for market share and that is being driven by the new entrant and therefore pricing continues to remain compressed.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

On the question of the balance sheet leveraging, of course this always remain the priority for us and actually what we are doing every quarter, we are just trying to get inorganic cash into the company, so whether it is through the stake of our - Infratel stake, outside the majority amount or even getting Warburg’s Pincus in, these all point to us trying to keep our debt levels in a manageable level. We have 3.01, while this is not over the top in a telecom company, but definitely from a company like ours we would like to see this at lower levels. Regarding the overall Infratel deal, it is all what you read in the press, there are multiple conversations...
Manish Adhukia - Goldman Sachs - Mumbai

Thank you. I just had a quick follow up on Gopal’s response earlier, so just wanted to ask this whole battle around feature phones, when Jio rolled out a feature phone, you rolled out your own smart phone bundle with a lower price point, etc., how is the traction on the customer on that side of the market, is there any meaningful traction, anything to talk about, any competition from Jio that you can share your reviews, it would be helpful.

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

Yes, I think the feature phone is still in its early days because the initial response to the feature phone that was launched was kind of tepid. We have done our bundles with our smartphones, with the low end smartphones and one of the things that we do see is that where we have tied up with the bundle and we have taken it to market well we see a very, very disproportionate increase in the share of those devices on our network. So that is something that we are seeing some traction on.

Manish Adhukia - Goldman Sachs - Mumbai

Thank you so much and all the best.

Kamaldeep - Moderator

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

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much. First question is to Gopal, on your fixed line side, what is your outlook? You have protected your customers may be over the last six to eight quarters, but the subscriber numbers have not grown, given that Jio obviously has quite aggressive plans there, what are your thoughts around that or for that business? That is the first question. Second on Africa we have seen significant improvement in margins, if I look at over eight quarters a large part of that has come via SG&A, we did get a fair amount of insights into that in your analyst day, but if Raghu can throw some light as to what can happen further it will be helpful? On Africa, if I can just ask any update on the fourth operator bankruptcy proceedings that will be helpful. Thanks.

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

Let me take the first question Srinivas, what we have seen in the home broadband side is that people are postponing their purchases of new broadband connection. At the same time, we see very sharp deterioration in churn, so we are not seeing as much churn in that business but we are seeing a postponement of purchases because at the bottom end what people are doing is actually using MiFi devices or tethering of smartphones, given the low prices of the current plans that are operating in the market and making do with a network that is decent enough, so that is really what is going on which is why we have had to compress some of our pricing and make that come in line with what is going on in mobile while the data allowances in this side of the business is substantially higher, the cost per GB is actually very low and therefore the issue that they had in the business is erosion in ARPU over the last two quarters. My sense is that this correction is continuing, going forward I think our objective has to be to actually drive and pick up and acquire more customers and try and see what we can do. Once this dust settles, ARPUs will actually start lifting back. The point you are making is right which is, if there is competitive attack where the pricing comes down, and that is something that we will need to deal with. We have had experience on the mobile side of how to deal with that situation, but we will find ways to deal with it. Equally, I do believe there is an opportunity in home broadband to expand the presence of home broadband. If you look at this year, we have put up about 700,000 odd home passes; we have plans next year to accelerate that. The fact is that this country has a very low penetration of home broadband and the opportunity to expand is high even in the cities that we are currently operating in let alone the cities that we are not operating in.

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

As we have discussed before also if you look at our GR growth while it is at about 5.5%, there has been a sharp drop in the access charges, because a lot more NR/GR ratio has improved, data and mobile money contribute to much more positive revenue or profitable revenues. We have also cut down as I had explained before some of the non-profitable revenue line so while the GR looks a little muted, our net revenues are in about 8.7-8.8%. Second drop you will see is we have restructured our entire operating model

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so there have been drops in both network and SG&A. Network, unfortunately got hit by network capacity addition that we have done and also some contractual cost going up. If you really look back, our first two years of work has been around getting our P&L right and our business model right in Africa and that we are more or less coming to the end. You would see a lower Capex but starting Q4 you should start seeing that coming back in. So what we will now see is our focus now in future on much faster revenue growth with twin focus of mobile money and data. Some of you would have seen this in our investor meet on the potential of mobile money in Africa and these are two big bets that we will continue to drive. There has been a lot of learning on data growth from India and I am sure we will use some of that while we grow the data business in Africa.

Srinivas Rao - Bharti Airtel Limited

Thanks. This is helpful. Thank you so much.

Kamaldeep - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Bharat Shettigar from Standard Chartered, Singapore. Mr. Shettigar you may ask your question now.

Bharat Shettigar - Standard Chartered - Mumbai

Thanks for the call. Just one housekeeping question, can you let me know the outstanding balance of operating lease payables as of December, I think the number was about Rs. 41,300 Crores as of March, if you can share?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

You are talking about the deferred payment, you mean the spectrum?

Bharat Shettigar - Standard Chartered - Mumbai

No this is more the operating lease liabilities, the minimum operating lease rental?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

What we report in the balance sheet for the normal tower cos you mean?

Bharat Shettigar - Standard Chartered - Mumbai

Yes the reason I am asking this is rating agencies take the NPV of that number for their debt calculation purposes.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

I do not have that off hand, we can get back to you on that. I know we report it on an annual basis in our balance sheet, I don't have the quarter's figure, and we will get back to you.

Bharat Shettigar - Standard Chartered - Singapore

Thank you.

Kamaldeep - Moderator

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

Naveen Kulkarni - Philip Capital - Mumbai
Thanks for taking my questions. I have two questions. My first question is on the revenue market share, is there any indication that you can provide on where exactly are we moving on the revenue market share? My second question is with regards to Telenor and Tata Teleservices consolidation so what could be the timelines for that? My third question is on the network opex, is there any one off that in this quarter?

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

Hi Naveen Badal here. In terms of Telenor and Tata it is slightly difficult to predict a timeline around it, but we expect Telenor to come around in the next quarter or so and Tata could be couple of quarters away from now. As far as network opex is concerned there are not any one offs. This is a sustained war on waste program, which we have been running for the last three years of building in energy efficiency, upgrading our equipment and cutting down costs wherever possible so that has been resulting cumulatively in improved network opex for us. As far as RMS is concerned again as reported by one of the operators, it is difficult to kind of put a number around it because we do not understand this revenue completely as reported but we can say that excluding the new operator we have been getting market share continuously for the last three quarters in the market.

Naveen Kulkarni - Philip Capital - Mumbai

Thanks.

Kamaldeep - Moderator

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

Sunil Thirumalai - Credit Suisse - Mumbai

I have a couple of questions, thank you for the opportunity. You mentioned in the past you have sold stake in Infratel and you are also open to selling a much larger stake in future. I just wanted a clarification on how the bond covenants work if your stake at 53.5 right now goes down to below 50 and you deconsolidate EBITDA from your consolidated reporting, can I just ask on the bond covenants what is the impact of EBITDA, when we deconsolidate the numbers and the impact on the overall leverage so absolutely yes.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes absolutely right. Firstly the rating agencies, they work on the consolidated numbers as we report, so if you deconsolidate of course it will be a sizeable chunk, you know when we want to lose control we will want to look at strategic sale as well so I think just to go below 50 in dribs and drabs, probably it will be very unlikely so the 3%, which we are talking about is what we anyway hold in our infrastructure, in our investment company called Nettle so anything after that definitely we will have to take into account what is the impact of EBITDA, when we deconsolidate the numbers and the impact on the overall leverage so absolutely yes.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you. Secondly we understand the tower companies have received notices of exit even from operators like Tata and Telenor, we are wondering I mean is that something you guys are also engaged with and what are the risks of doing those exits before all approvals are in?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

The decisions are taken by tower cos or the operator by their own mind and if you are talking about Tata, we have also read that they have given the exits. We are giving ICR both to Telenor and Tata, because we believe that at some stage those customers who are going to come to us should avail much better networks on 3G, 4G and in their own understanding, the operator must have decided that there is no point keeping networks on and also paying an ICR and having a better network for the ICR so those decisions are taken by them on their own.

Sunil Tirumalai - Credit Suisse - Mumbai

So basically right now they have the spectrum, which will be unused and then the sites would have been shut and they would I mean all the existing customers would be on ICR on your network?
Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, so I do not know how many they have shut, actually I am not privy to how many towers they have shut or not shut, but we have offered them ICR and wherever they are seeing probably a reasonable amount of traffic going out they will probably shut but I am not sure how many they have actually shut down in reality today.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay got it. Thank you very much Sir.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. 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 gentlemen. Thank you very much. Most of my questions have been answered on Capex and even on Infratel but one thing, I want to understand, what is really the node point or, where is the discussion right now after the board approval, is it more on valuations or is it that you are revisiting the strategy whether you should be holding the towers and kind of part B of this question is if you are looking to sell stake in Infratel, is it going to be below 51% even though the share price of Infratel has corrected somewhat so some color on that would be helpful? Thank you.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

There's nothing much to add like I said, there were three permutation combinations when this whole issue of tower companies came up and you know Voda, Idea whether they were exiting directly through a process, whether they would merge, whether you know Airtel would sell so everything is up in the table as yet and we just cannot decide the structure of this market on its own but like we said we have approvals for the divestment of majority stake in Infratel and if we go towards that route whether it is through a merger or through direct sale or whichever way it is or even what we have done through strategic investors of Infratel by itself the next block definitely like I mentioned earlier will have to be a sizeable amount.

Varun Ahuja - JP Morgan - Hong Kong

Understand, I mean if I can just follow up with that. I am trying to understand, you have said in the past that you would ideally like to maintain ratings and do what is the best for the business. Given that as far as if I go by your metrics even in FY2019 given how the competition is and obviously you have now mentioned that your Capex is still going to be high next year. It seems like just from operations the metrics may stay out of at least one of the rating agencies triggers so whether that becomes one of the points that you would consider in order to go ahead with the stake sale or is it going to be mainly on valuation and what is good for shareholders and long-term for the business?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

So I do not think it is just black and white decision to say that we only will go by what rating agencies say because at the heart of what we are doing today is actually to build a strategic value in our underlying telecom business so the elevated Capex has been despite the leverage going up, we are clear that we need to spend what is required to be spent on the business and primary driver remain that we need to continue to focus on what is required to sustain our revenue market share and grow our data market. Now beyond that I think the steps of whether we need to look at the rating agency is absolutely we need to see that is what we have also been doing by selling our Infratel’s partial stake, by getting DTH in, so these are levers which we have, Africa performance has improved, the nonperforming countries we are selling so there is a lot of lever which we continue to exercise and one of them actually could be like we said sale of Infratel, now whether the valuation is right etc., those are all considerations we will take how much we need, whether we need it so I can just answer to say when you look at the price and not sell or will you look at rating agencies and decide to sell so I do not think it is that simple.

Varun Ahuja - JP Morgan - Hong Kong

Thank you very much.
Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Thank you for the opportunity. My first question is on the ARPU side. You mentioned there is downgrading happening when you started matching your tariffs to the prevailing tariffs in the market. Can you also talk about the potential of upgrading because we have a sizeable feature phone base, which is not yet availing of the unlimited calling plans so can you just comment on what proportion of feature phone customer base can be potentially upgraded to unlimited products at Rs.179 or Rs.199 and also a related question is this how these packs are now less relevant because there are cheaper options available at Rs.448 for 78 days or 82 days, that is the first question. And second question is how do you look at the competitiveness of ADSL V-fiber vis-à-vis fiber to the build and fiber to the curb, would you be open to FTTB kind of deployments from future proofing your network from customer base point of view or do you think it is simply not doable in India because of hurdles from LCOs in some markets in terms of wiring up the last mile of the building?

Sanjay Chawla - JM Financial - Mumbai

Can I just have a follow-up on this? You have roughly 60-70 million data customers, 60 million mobile broadband, 230 million features phones, so out of those 230 million future phones, some of them are already on some of these bundle plans but what is the total percentage which can be potentially upgraded to these kind of ARPU plans in future over the next one, two, three years out of the 230 million that you have right now?

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

Difficult to put a number to it but I would just say out of the 230 million around 50%-60% of them would be well below these bundle plan in terms of ARPU, you can do your research to see what proportion of them are likely to come up to a bundle plan. Another way to look at this is that let us say 40%-50% Indian market is customers with dual sims and so I would imagine that even for this set of customers, which is about 100-odd million you will have 40%-50% of them dual sims and so what we see as their ARPU may actually be higher on somebody else’s network or there may be a second sim on the Airtel network itself and so again you can do the math and say there will be some proportion of that who should be willing to upgrade. That is how I would see it. The second question is on fiber to the curb and fiber to the building. Currently we have several challenges - one of course is the fact that we need to fiber up our towers also, so some of those need to be done and as we move to the world where most of our fiber is at least one hop away from micro wave site, we are planning this in such a way that we can also connect our buildings and offices so that we have synergy in the way we roll-out a fiber, that fiber will obviously be taken to the curb or building and from there the last mile can be any medium but that is something that we are engaged in. Like I said the opportunity to drive home broadband expansion in India remains. It is a very heavily underpenetrated market and over the five to seven years you will see greater expansion of home broadband.

Sanjay Chawla - JM Financial - Mumbai

So do you think this kind of a wiring can be done on an underground basis so you think given the viability issues and ARPU limitations one will have to go on aerial at least in the last mile?

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

Last mile most of our wiring is done underground because the quality of the wiring that is done overhead is very poor, you see a lot of cuts and you still need approvals to actually get wiring done. There are today STD machines and machines that can trench.
without digging up streets. We use some of those machines. We believe that wherever we have tried overhead fibre the SLAs and
the quality of the customer experience has been very poor. One of our competitors in one of the southern cities uses a lot of
overhead fibre. They have fault rates of almost three times to four times that of Airtel.

Sanjay Chawla - JM Financial - Mumbai

Thank you and all the best.

Kamaaldeep - Moderator

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

Ravi Menon - Elara Securities - Mumbai

Thank you for the opportunity. To retain your postpaid subscribers, you offered unused data rollover plan. So, one of your
competitors have incentivized prepaid users for multi-simming to continue using their services through a discounted recharge
coupon. I wanted to understand how we are trying to, say, incentivize your prepaid users to recharge, allocating most of their spent
to you. Your threat being that, if what's now being considered a primary number, it can eventually become a secondary number and
phase out.

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

What we see is that when customers on our network, if the churn is, let's say X, the moment the customer adopts a bundle and
we're able to sell a bundle to that customer, which kind of is a way by which you're implicitly asking him to make a choice to
consolidate the spend behind one SIM, you see a halving of the churn, straightaway. The second thing that we see is that when you
get a second service on a product into the customers' hands, for example, if we have a music service or a TV service, you will see
again another halving of the churn. So, our lock in strategy is to actually get the bundle in and get an additional product sold.

Ravi Menon - Elara Securities - Mumbai

Great and should we read that reduction and churn this quarter as a positive sign towards that?

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

Yes, I think that is absolutely correct.

Ravi Menon - Elara Securities - Mumbai

Best of luck.

Kamaaldeep - Moderator

Thank you very much Mr. Menon. The next question comes from Mr. Rohit Chordia from Kotak Securities, Mumbai. Mr. Chordia you
may ask your question now.

Rohit Chordia - Kotak Securities - Mumbai

A quick couple of questions; first one is on the eKYC issue while you have extension till March 31, 2018, by when do you expect a
full resolution on this issue? The second one is little more strategic one - can one say that probably on initial response to Jio being
one that of a very reluctant market share defense, is your stance a lot more aggressive now purely because you now probably have
a network capacity to compete, you feel a lot more confident about carrying the sort of data that is required to be carried to compete
with someone like Jio?
Gopal Vittal - Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

On the first question on eKYC, we have an extension till March 31, 2018 but there have been several exchanges and we are working very closely with the authorities and there was an audit that was done, we are fully compliant with all the issues around the audit so we are very, very confident that this will get resolved with time. So I think that is the first part. On the second part, there was a time when basically the services were free in the market and to compete with anything that is free is almost impossible so we did not, you are absolutely right, we were in a reluctant layer in actually competing there but we have reached a situation today where the ARPU for the entire business has eroded to an extent where the pricing that you are currently seeing on the 4G side is in any case pretty similar or probably marginally better than the ARPUs that we have as an aggregate. So the game really is about making sure that you have network capacities, which is why our elevated level of Capex and the second thing is that ultimately the long-term value creation in this sector will be done through the market share that emerges out of this battle over the next nine to 12 months in the industry structure that ensues as a result of that. We think that the biggest battle to fight is actually the incremental share of 4G primary slim slots, which is what will determine the manner in which the whole game will play off and that is the context in which we do believe that being competitive and getting our fair share is an important priority.

Rohit Chordia - Kotak Securities - Mumbai

A quick follow-up on both the questions on eKYC thing. is that hurting your net adds right now, one saw a decline in net adds in December versus a very strong month of November, of course month of November would have been driven by some gains from RCOM shutting down, but your numbers in December were weaker than both idea and Vodafone, so is the eKYC issue hurting you to some extent or did it you hurt you in December and is it continuing to hurt you? And on the second one, you said that in the next nine to 12 months is going to be about aggressive market share fights, do you hope to come out of these nine to 12 months phase higher than where you are today?

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

In the first part in December, our telco KYC was shut for six days, so it did hurt in those six days, I mean, it would obviously hurt in those six days. Therefore December saw some pressure from that front, but there is no further hurt, because after that it was fully opened up and there is absolutely no issue. That is the first part. The second part is look there still is about 14% market share from the value players that will consolidate. We do believe that when you have a very big merger of two large assets with differing cultures, differing people for every job there will be two contenders, one of whom will get it, for every three sites one site will get shut down. There is going to be complexity in that merger of two very large companies when it comes to Vodafone and Idea. One of the things that we did see in Australia was that when Vodafone and Hutch went through a merger in a period of 12 to 15 months they lost almost 13 to 14 market share points, so we believe that this is tough to pull off for any merger let alone two large companies like this. That is on one side. The other side is the meltdown, the value players with 13% market share which will kind of disappear and get down to maybe 6% or 7% with BSNL and Aircel, so that is another opportunity and then there is a fight that is actually happening between us and the new entrant and in this structure the question is at the end of this 12 month period, what is the relative position of each of the players are, our hope would be to increase our market share. That is not our target, but that could be a hope as you would have if you were in my shoes. So that is really how we want to approach it, but like I said, let us take it one step at a time and the most important step is to get a disproportionate share of 4G devices, a disproportionate share of the 4G sim slots because if you are able to do that well, then the outcome will be exactly how we want it. So that is the input that we are really focused on.

Rohit Chordia - Kotak Securities - Mumbai

Thank you very much. All the best.

Kamaldeep -Moderator

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

Viju George - JP Morgan - Mumbai

Thank you for the opportunity. Gopal yes, we talked a lot about ARPUs are trending down. What are the indicators that we should look for in the market, besides you know may be the pricing intention of RJio for us to see whether the ARPUs are beginning to trend up or at least stabilize?
Gopal Vittal - Joint Managing Director and Chief Executive Officer - India & South Asia - Bharti Airtel Limited

Like I said, the worst in terms of the ARPU erosion, I would say is clearly behind us. The question that you are asking is will you see, well the pointed question you are asking is next quarter will you see an ARPU upside. We will have to just wait and watch. My sense is that the worst is behind us. There is still some pressure on down trading because of what I mentioned but equally we are also seeing some upgrading now happening and if we can keep adding good quality customers on the 4G sim slot this game will even out. So that is how I would sort of classify it.

Viju George - JP Morgan - Mumbai

Thanks. And one question on the margins on some of your other non-wireless businesses, Africa is 35.5, yes you have gotten yourself to structurally better margin profile but do you think it is sustainable at 35.5, likewise on homes despite a revenue decline we managed almost 50% we have seen that as well, so some of the margins in your non-wireless business is quite elevated, how sustainable are these? Are they one-offs in some of them?

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

So I will take the second one first, Badal here. On the margins for homes and even the enterprise business, there have been certain one-offs. But on a sustainable basis, you can take the last two quarters average as an indicative margin, which possibly we should be able to hold.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

As regards Africa, every quarter we continue to deliver. My continued question to Raghu is are these sustainable and he keeps on coming back and say I am as good as my last quarter, so we hope at least at this level, we are sustainable and we will come back in the next quarter to see what he delivers.

Viju George - JP Morgan - Mumbai

Sure thank you. The last question was you know the income tax expenses, it dived this quarter, has it got to do with the losses in India wireless unit?

Gaurav Khandelwal – Global Finance Controller

Yes, so the primary reason for that is because of the losses in India, so that led to income tax income going down. The other is that there was a one-off credit in the India business which we have disclosed.

Viju George - JP Morgan - Mumbai

Thank you and all the best for the year.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. I just had two questions. First is what proportion of your subscribers are on bundled plans today and where do you see it going in the next 12 months or so, and second is both in terms of the new telecom policy and we had this termination cut on international calls, is there any regulatory risk, which you anticipate and which direction is this initial discussion on new telecom policy going, some colour there?
Badal Bagri - Chief Financial Officer - India & South Asia - Bharti Airtel Limited

Answering the second one on the regulatory risk, with the international IUC rate cut, this is the last leg of regulatory changes, which can impact us negatively. There could be something on SMS but that will be extremely marginal. The number of customers who are already on bundles with us, you can say almost one-fifth of our customers are currently on bundles.

Rajiv Sharma - HSBC - Mumbai

And in terms of your network capacity, you would be provisioned for what proportion of customers today if they were to move on bundle?

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

So we are continuously working on augmenting our capacity as you could see from our Capex numbers. We are fairly comfortable that we will be able to kind of cater to more than half of our customers at even high levels of data consumptions over the next two to three quarters.

Rajiv Sharma - HSBC - Mumbai

Some colour on the telecom policy, which is being formulated?

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

It is too early to talk about it. We are still in the process of responding to the TRAI consultation that is on. We expect and hope to have a very forward-looking discussion to make sure that the interest of customers, financial health of the industry, adequate spectrum, making broadband, all of those objectives are met, we welcome this and we are engaging actively.

Rajiv Sharma - HSBC - Mumbai

Thank you. If I can chip one last question, that you have been on a cost cutting exercise for the last couple of years do you see provision for some cost cutting down, getting more scope there and secondly there is a lot of discussion on call drops again coming in, so how do you read them?

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

I think, war on waste is an ongoing programme. We are always surprised at how much opportunity there is to strip out waste when you start reengineering your processes, digitizing them or simplifying them and so on and that is the mantra that we are after. On call drops and generally network quality, in some of the cities, we have had challenges with the surge and growth of both voice traffic and data traffic, we have had our fair share of challenges, managing multiple layers of technology, managing the dramatic growth on the packet core and the transport side. We have divided the country into 1,250 clusters. We track the network quality across each of these clusters. We have toolkits that we have now developed to actually track network quality. We are investing in tools and state of the art tools to improve the quality of the network. We have an alliance with SK Telecom, one of the world’s best run broadband telcos to actually look at some of the digital tools to dramatically improve the experience of the networks so all of this is work underway. I think in the next couple of weeks, we should start seeing improvement. We are already beginning to see improvement in a few cities and we should see more improvement, but this has been a challenge because of the surge in growth that we have seen and the multiple layers of technology that we have had to deal with.

Rajiv Sharma - HSBC - Mumbai

That is very helpful. Thanks a lot.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. At this moment, I would like to hand over the call proceedings to Mr. Nilanjan Roy, Global CFO for the final remarks.
Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Thank you everyone for joining us on the call today and look forward to interacting with you personally in the investor meetings over the next quarter. 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.