

Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2016 Earnings Call

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2016 Earnings Call

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Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2016 Earnings Call

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Christian De Faria

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Harjeet Kohli

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PRESENTATION**Shareena - Moderator**

Good afternoon ladies and gentlemen. I am Shareena, the moderator for this conference. Welcome to the Bharti Airtel Limited Fourth Quarter and Full Year Ended March 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 - Global CFO. Thank you and over to you Mr. Roy!

Nilanjan Roy - Global CFO - Bharti Airtel Limited

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the fourth quarter ended 31st March 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, Christian de Faria, Raghu Mandava, Jaideep Paul and Harjeet Kohli.

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

The DoT issued guidelines for sharing of active infrastructure based on mutual agreements entered amongst service providers. This is a welcome move which will aid efficient capital deployment to enhance coverage across urban and rural India.

TRAI has recommended reserve pricing across bands for the upcoming auction. We welcome the move to put all 2100 MHz spectrum up for auction including carrier aggregation with existing blocks both of which will provide much needed relief to congested networks. Additional 1800/2300/2500 MHz spectrum is also a positive development.

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Starting Q1 of the new fiscal, we will transition to Indian Accounting Standards, or IndAS, for the preparation and presentation of our financial statements. While we do not expect meaningful variations from IFRS, we will provide a bridge between the two standards to aid in the assimilation of our results and eliminate any conceptual gaps. Now, let me turn to the key company developments.

The Company has entered into a definitive agreement with Videocon Telecommunications Limited to acquire 5 MHz contiguous spectrum in the 1800 MHz Band, at an aggregate consideration of Rs 44,280 Mn. This spectrum is across six circles, namely, Bihar; Haryana; Madhya Pradesh; UP (East); UP (West) and Gujarat.

We have also entered into a definitive agreement with Aircel to acquire 20 MHz of 2300 4G TD spectrum for eight circles namely, Tamil Nadu (including Chennai); Bihar, Jammu & Kashmir, West Bengal, Assam, North East, Andhra Pradesh and Orissa at an aggregate consideration of Rs. 35,000 mn. The transfer of the right to use for the circles of Andhra Pradesh and Orissa is subject to Airtel meeting the cap requirements.

These agreements have fortified Airtel's position as the only incumbent with pan India 4G capabilities, reinforcing our leadership position in key geographies and enabling us to effectively participate in and shape India's phenomenal data growth story. 2300 4G TD spectrum has massive capacity benefits enabling speeds of over 100 mbps. In addition carrier aggregation benefits with 1800 4G LTE spectrum are substantial. Airtel now has the ability to offer carrier aggregation across 12 circles covering more than two-thirds of our revenue base.

You are aware of the announcement in the previous quarters regarding divestment of 12,500 towers across 13 African countries. We are pleased to announce that the tower deals have consummated in eight of these countries for a total consideration of close to \$1.8 billion. The tower deal process is ongoing in Niger. During the quarter the Company's subsidiary in Tanzania and American Towers Corporation and its subsidiaries (ATC) have entered into an agreement for the sale of over 1,300 telecom towers in Tanzania.

In an industry first, Airtel became the first mobile operator in India to commercially deploy LTE-Advanced technology on a live 4G network in Kerala. LTE-Advanced carrier aggregation technology combines TD with FD LTE bandwidths to deliver mobile data speeds up to 135 Mbps. During the quarter, we continued to aggressively roll out our networks on 3G and 4G. Out of the total number of 154,000 towers, close to 70% are mobile broadband towers equipped with over 118,000 mobile broadband base stations.

Let me now turn to the Company's operating metrics

Airtel continued its trend of industry leading net additions. We added 7.9 mn customers this quarter, taking our total customer base to over 251 million. At the same time, we are focused on quality subscriber base and hence our churn levels continue to be the lowest in the industry, in a comfortable range of 2.5%-3.5%.

The quarter saw voice volumes bounce back strongly while our voice RPM declined marginally. Total minutes of usage have increased by over 30 bln minutes, up 10.8% YoY – the highest growth in the last 18 quarters. The input costs for telecom sector are increasing - including spectrum, capex, network running opex, etc. To sustain the health of this sector, we believe prices will need to increase in the medium to long term. However, as mentioned before, these

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rate adjustments may not follow a linear trajectory in the short term. Suffice to say that there is a need for a disciplined approach to pricing to fund the accelerated capex and spectrum that is getting deployed in the interest of the consumer.

We are happy to report that data volumes and revenues continue to march up. The Company's aggressive 3G and 4G rollout has resulted in impressive Mobile Broadband net adds of 4.6 Mn in the quarter. Total data customers on our network now stand at 58.2 Mn (23.2% of total customer base) and Mobile Broadband customers at 35.5 Mn. Data ARPU is up over 12% YoY, and at Rs 196 is over 42% higher than voice ARPUs – again bearing testimony to the demand for data. We firmly believe that we are still at a very nascent stage of data revenue pool development. Data now contributes 23.3% of mobile revenues as against 17.6% in the corresponding quarter last year. With additional 4G spectrum and a pan-India 4G presence, we would look to keep up our investments on data to drive growth going forward.

Our aggressive focus on our network and customers has translated into India mobile revenue growth of 11.9% on an underlying basis. Our continued efforts to keep costs down has in turn resulted in an EBITDA margin expansion in Mobile India of 130 basis points YoY to 39.9%.

We continue to show strong performance in our non-mobile portfolio in India. Telemedia grew 11.9% on an underlying basis, and DTH grew 23.5% on a Y-o-Y basis. Airtel Business growth slowed to 6 % due to the portfolio mix of lower yielding voice minutes which was reflected in Ebitda margins increasing 9.7% Y-o-Y. We believe our diverse yet complimentary product suite give us a unique proposition to own the home market in India across the three screens (mobile, TV and broadband).

Despite a seasonally weak quarter, Africa performance is showing signs of growth and opex control with 5.9% YoY underlying revenue growth. In Africa, the weighted average currency appreciation in the last quarter, has been 0.7%. To understand the intrinsic performance of the Africa operations, all financials up to PBT and all operating metrics mentioned are in constant currency as of March 5, 2015. EBITDA margins for the quarter stood at 21.8% as against 20.7% in the previous quarter. Normalizing for the leased tower assets, the margins would have expanded to 23.3% which is the third consecutive quarter of underlying margin improvement.

The data story in Africa is unfolding well and non-voice revenues are over 30% of the total revenues. Mobile data itself is now 15.7% of the total revenues. Our 3G networks which have expanded over 30% YoY, have enabled data volumes to increase a staggering 110% YoY. Airtel money transaction values have grown by 74% YoY to about \$5 billion during the quarter, with more than 9.6 mln customers transacting on the platform.

At this point, we want to reiterate our strategy for Africa which is five pronged.

- a) Customer growth with quality at the focus.
- b) Stronger data network rollout thereby garnering higher incremental RMS
- c) Airtel Money adoption to induce loyalty and reduce churn.
- d) Localized go to market with intelligent volume and rate play
- e) Replicate the war on waste in Africa as well as focus on retaining quality talent pool.

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We have maintained our focus on growing customer base and networks. We have added over 866 3G sites this quarter. The continuing trend of growth in customer base, volumes of voice and data, as well as the adoption of mobile money is a re-affirmation of the potential growth in Africa. Coupled with the demographic dividend, there is no doubt that Africa will see the benefits of scale in the future.

Now moving onto the quarter's financial results

Consolidated revenues increased by 8.4% YoY. Normalized for the impact of IUC in India and impact of divestment of tower assets in Africa, revenues are up by 10.1% YoY – the highest in over 7 quarters. Standing at 36.8%, consolidated EBITDA margins continue to see an expansion of over 180 basis points YoY. Amortization costs are up due to higher spectrum costs in India during the quarter.

Net finance costs for the company at Rs 17,139 Mn were lower by Rs 2,251 Mn YoY on account of lower derivative & forex losses offset by higher spectrum related interest in India, and interest on FLO in Africa.

The effective tax rate (excluding DDT) in India for the full year came in at 28.8% compared to 25.5% for the full year ended March 31, 2015. The increase in the underlying effective tax rate in India is primarily on account of lower tax deductions due to expiry in tax holiday units.

The tax charge in Africa for the full year stood at \$189 Mn versus \$203 Mn last year, lower primarily due to change in profit mix of the countries.

The consolidated net income after Exceptional Items for the quarter came in at Rs 12,903 Mn, an increase of 2.8% YoY. The annual earnings per share at INR 3.23 has improved from INR 3.14. The board has also recommended a final dividend of rupees 1.36 per share. The dividend outflows utilize all the dividend inflows for efficient use of the dividend distribution taxes paid by all our subsidiaries. The board additionally considered and approved proposal to buyback fully paid-up equity shares of face value of Rs. 5 from the shareholders of the Company on a proportionate basis through a tender offer. The Buy-back shall be up to an aggregate amount not exceeding Rs. 1,434 Crores at a price of Rs. 400/- per Equity Share translating into approximately 35.8 Mn Equity Shares, representing 0.90% of the total paid up equity share capital of the Company, subject to the regulatory and other approvals, if any.

Our capex guidance for the full year was \$3.2 bn-\$3.4 bn subject to doability. Our cumulative capex spend for the year stands at \$3.15 bn and we expect to do another \$3 bn over the next year to upgrade our networks and effectively monetize our recent spectrum acquisitions.

On the balance sheet front, the net debt excl FLO for the Company is \$12.67 Bn. Around \$600 mln of DOT spectrum liability was recognized during the quarter and approximately \$160 mln is yet to be recognized. Net Debt excluding FLO and deferred payment liabilities to the DOT now stands at \$7,508 Mn.

In conclusion, the fourth quarter signals accelerating momentum across both geographies both on top line and margin expansion. This is a perfect platform for us to enter into the new fiscal.

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

Shareena - 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 to ensure maximum participation. Participants who wish to ask questions, may 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. Participants who wish to ask questions 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

Hi, thank you for the opportunity. Congratulations for a good set of numbers. I have two questions. First, on the ground we are seeing Idea reducing voice freebies and in process raising its implied voice tariffs, so Gopal, I wanted to know your thoughts on how Bharti views this, will you guys also follow or could we see a differential in voice tariffs between both of you going forward? That's first. Second, I wanted to understand the rationale behind buy-back, I mean Airtel had the option of using the proceeds from Infratel buy-back for debt reduction or perhaps going with a stronger balance sheet in auction but instead we are seeing a buy-back from Airtel and a related point is that if Bharti Telecom does not participate in the tender then its stake will move up so it comes across as increasing Bharti Telecom's stake in Bharti Airtel was a priority over perhaps debt reduction, so would love to know your thoughts out here. Thanks.

Gopal Vittal - MD and CEO - India & South Asia, Bharti Airtel Limited

Sachin, so let me answer the first part of your question. Firstly I will not comment on any competitor and their approach but let me talk about our strategy and I think there we have been entirely consistent which is really to say our job is to continue to grow revenue and margin, of course we will look at opportunities to raise voice realization because it is unsustainably low but we will do that in context of the competitive dynamics that we see. With specific reference to what has happened in this quarter I think there are two things that have driven our performance. I think the first is that we have continued to step up our customer acquisition and you will recall about six to nine months ago, I had mentioned that we will drive for acquisition but yet keep a tight check on churn and I think both of that has happened, so we have seen a growth in customer acquisition and we have seen some decline, it is a very marginal decline in our churn rate.

The second thing that has happened here is that we are really playing our portfolio of geography, that is something we have been looking at doing for the last year and I think it is now coming together, we do not look at this market as 22 circles. We look at it as 650 districts

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and in each of these districts we have got a job to be done, so there are three archetypes that we have created around 650 districts and that is what is helping drive our performance. So yes, we have seen some dip in voice realization, we have seen a massive jump in volumes and that has more than compensated for it, but it is in light of those two approaches that I talked about.

Sachin Salgaonkar - Bank of America - Mumbai

Okay, Gopal very clear. So I presume that is the strategy which you guys will be following in future also.

Gopal Vittal - MD and CEO – India & South Asia, Bharti Airtel Limited

I think the important thing is that we will look for opportunities to continue to raise voice realization but we will do that in a competitive manner and I think that, the end result of it will be what is happening to revenues and how we are actually driving the overall topline.

Sachin Salgaonkar - Bank of America - Mumbai

Okay. Its clear thank you.

Harjeet Kohli - Group Treasurer - Bharti

Sachin this is Harjeet. On your question on buyback may be I will take it in two or three parts. It is important to understand, Airtel started distributing via token dividends 2009 onwards, just about Re.1 per share. And then as Infratel started delivering more cash as a subsidiary and upstreaming that as dividends to Airtel, Airtel board over the last couple of years has followed the philosophy of utilizing the cash pool of a significantly large free cash-flow positive subsidiary to upstream it to Airtel's own shareholders, because Airtel's standalone balance sheet is otherwise taking care of their own growth CapEx, spectrum needs etc. If you see last years I think Airtel did Rs.3.86 per share dividend which was to match up exactly the amount which came from Infratel. This year Infratel has announced Rs.3 per share as dividend, there is some minor dividend which comes from Hexacom and combining that, translates into Rs.1.36 per share and that is what the board has recommended for AGM approval. Separately beyond this Infratel has chosen the distribution route of buy-back of up to 2000 Crores and that if you see translates into at the current shareholding of Airtel 71.7%, it translates in to 1434 Crores or Rs.14.34 billion and that is the same philosophy which we applied till last year keeping the same streamlined flow through of money to the shareholders of Airtel as well, this is exactly what Airtel is doing. In the overall scheme of things these \$300 million is not necessarily the make or break leverage situation but the philosophy of distributing the cash pool of significant subsidiary I think was more important. I will not be able to comment on the BTL intentions and what they finally do or not do, the process will ultimately take care of it, there is a formal process, the guidelines are prescribed for that but as a thought it is important for you to note that BTL had come out in public by virtue of their rights issue to comment that they will use the proceeds of rights issue to buy shares into Airtel and is in the process of increasing shareholding over

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multiple number of quarters. So that I think, is already out but what they finally decide on this front, the process will have to take care of that.

Sachin Salgaonkar - Bank of America - Mumbai

Okay. Harjeet it is very clear and just wanted to double check whether that is the philosophy which will be there going forward also, which is irrespective of debt at Bharti Airtel if Infratel probably gives a certain amount of cash to Airtel, that will be upstreamed or given back to Airtel's shareholders?

Harjeet Kohli - Group Treasurer - Bharti

I think no amount of strategy is hard coded. I think the key thing is, subject to overall consolidated management of both, the external debt as well as managing two different large entities, differential cash profile for the ultimate shareholders whether it is institutional, retail or the promoter group, I think from that perspective it is important to note that currently the stand as we see our next four/eight/twelve quarters roll out, if board needs to reconsider they can reconsider it.

Sachin Salgaonkar - Bank of America - Mumbai

Okay got it. Thank you.

Shareena - Moderator

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

Kunal Vora - BNP Paribas- Mumbai

Thanks for the opportunity and congrats for good numbers Sir. Two questions, one is can we have some numbers for the 4G business, anything you can share, customers, cell sites, usage pattern, realization, and have you seen any improved traction in the cities in which you launched 4G services, that is one and second is on Africa. I notice that while voice as well as data volumes have been very strong, even stronger than in India, the realization is under a lot of pressure, and are you looking to sell any more operations in Africa like you sold operations in two countries? That's it.

Nilanjan Roy - Global CFO - Bharti Airtel Limited

So just on the 4G numbers I think you would have seen from our investor pack from this quarter, we have actually started disclosing both mobile broadband customer base which is a combination of 3G and 4G because we were not showing 4G earlier so I think this is much more

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transparent disclosure and we have also started showing our mobile broadband sites across the country, so I think that is an additional disclosure we have started making. So I think at this stage we are not going to be segregating 3G 4G and I think for us the mobile broadband story is as applicable in 3G as in 4G. With regard to Africa at this point no plans for any disposal, I think the two countries like we have announced are in process with Orange, there is nothing more on the cards as of now.

Kunal Vora - BNP Paribas- Mumbai

Okay thank you.

Shareena - Moderator

Thank you very much Mr. Vora. The next question comes from Mr. Suresh Mahadevan from UBS, Singapore. Mr. Mahadevan you may ask your question now.

Suresh Mahadevan - UBS - Singapore

Hi, good afternoon, thanks for the opportunity and congratulations on an excellent set of numbers. I have two questions, one is, I have been quite surprised by your voice minutes growing almost 11% year-on-year, 6% quarter-on-quarter. So just wanted to understand if there is any cannibalization due to data, because you've significantly increased the data capacity, I would like to think, whether it is 4G, 3G, so how is this voice minutes growth still coming through. So that is question number one. The second question is, clearly 4G is something you've been advertising very heavily. I think it's great that there is no novelty factor in a new entrant now, but really isn't 3G going to be as big or bigger, because I'm assuming, particularly with 2100 spectrum coming to auction and with two carriers, probably you can give a similar customer experience. So just wanted to understand this 3G versus 4G in terms of how it fits into your strategy?

Gopal Vittal, Bharti Airtel Limited - MD & CEO (India & South Asia)

Suresh, this is Gopal, thanks for those questions. So let me answer your first question on what has driven voice growth this quarter and I think this would be characterized by four drivers, all of which are really around very sound execution in the last few months. The first driver is that which I mentioned earlier, we're playing a portfolio of geographies in a much sharper, much more segmented manner. Like I said, we've split the country not into 22 circles, but really 650 districts and we monitor the performance of the operation across every single district.

The second driver is that we've stepped up our focus, and I think this has happened over the last nine months, on customer acquisition, even as we've kept a tight control on the quality of acquisition as also the improvement in the customer experience overall. We've seen that flow through in terms of net adds and as a consequence that has obviously driven some of our voice volumes.

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The third is that there have been a bunch of operators who have been struggling, one of whom also sort of shutdown operations in part of the country or was in the process of migrating, and we've been pretty good at actually picking up a very disproportionate share of port-ins from that context.

And the fourth thing, which has actually driven this, is our network. While we have made announcements on what we're doing on Project Leap and the investments that we've made there on 3G as also 4G, but really around 3G. I think the thing that we haven't talked about much, but has been done very quietly is a very, very great emphasis on our network quality. We have really driven a whole culture of network quality across the last four, five months and that has been predominantly focused around voice to make sure that we are optimizing, we're putting small pole sites and solutions in congested markets. A lot of focus on decongesting the network and so on and so forth, and I think that has also been a part of the driver of actually driving the overall voice volumes. So I think those are the four drivers, as I would call it.

Coming to your second question on 3G versus 4G, I think, I've said this before that we've perhaps invested on 4G about maybe 9 months to 12 months ahead of time. We're now seeing a clear traction on 4G, the devices are beginning to flow through, you're seeing devices at Rs.5,000 to Rs.6,000, a very significant part of the new smartphones coming in are all 4G enabled. So this story is beginning to now unfold and we're seeing a substantial amount of volume of data flow through on the 4G network. But you are absolutely right, 3G is going to be very important and will continue to be important. We have substantial capacities on 3G with the 2,100 spectrum. We've also got 900 megahertz in a bunch of circles which is adding a second carrier, it picks up voice, but it also continues to drive data.

Remember 80% to 90% of the use of data in this country is still around basic applications whether it's Facebook, WhatsApp and maybe video, and at 1.5 Mbps on a small screen, a 3G network delivers video pretty seamlessly without buffering. So a lot of the demand of video consumption as also social media and other sort of consumption can very easily be fulfilled with the use of a 3G network. Where 4G really begins to play a role is in two areas. One is, a lot more capacity and the second of course is much more heavy bandwidth consuming applications.

Suresh Mahadevan - UBS - Singapore

Yes, I also think, as a market leader, maybe 4G, that you have such a lead that gives you some bragging rights and it's good for the brand, right. I mean it's great for the brand to have that kind of attributes.

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Yes, absolutely. I think that has helped us a lot. I mean with the launch of 4G, we've run what we think is a really strong campaign. That has actually strengthened our brand scores and the health of the brand is at its best that we've seen in the last, probably decade, very strong top of mind awareness, very strong preference, both of which are very crucial in determining the preference of a brand in this category.

Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2016 Earnings Call**Suresh Mahadevan - UBS - Singapore**

Thanks. Thanks, Gopal, and all the very best for FY 2017.

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Thank you, Suresh.

Shareena - Moderator

Thank you Mr. Mahadevan. 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

I have two questions. My first question is on your overall -- particularly the non-mobile part of India, where we have seen pretty robust momentum. I recollect there was a fair amount of re-organisation in the company about three years back, including dissolution of the joint venture, for fixed. Gopal, it'll be helpful to understand what exactly has happened under the hood over the last, say, almost two years, where the performance of this part is now not a drag any more on the India's profitability. So, that's my first question. The second one is just a clarification. As you roll out 3G on your own networks, the reduction in bilateral payments which you were making, where does that show up, in the network cost? That's more like a housekeeping question if I may ask. And thirdly on Africa, we have now seen relative stability in revenue and EBITDA terms probably getting closer to the free cash or neutrality, which has been the goal of the Company, is that something we can expect for fiscal 2017 and 2018 going forward or there is a possibility of an increase in CapEx in Africa? These are my three questions.

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Srinivas, let me take your first question and then I'll handover to Nilanjan for the other two. Our non-mobile businesses have now really become material and have also performed strongly. We have done a bunch of things, and if you step back and look at the last few years, the way we look internally at our non-mobile business is, we look at our homes business. So, while we report Telemedia, we look at a vertical, which is our homes vertical, which is really home broadband. We have a vertical called offices, which is our corporate business and this is largely small and medium enterprises, but we call it corporate because no small and medium enterprise wants to be called a small and medium enterprise. The third vertical is our domestic enterprise business, which is for the larger enterprises. I'm not, for a moment, talking about the global business, so if you leave that aside. The fourth vertical is our DTH business, which is our satellite TV business and of course the fifth vertical is the global business. But if I talk about the four verticals, which is homes, offices, enterprise and DTH. Let me start with homes. In homes what we've done is, two or three things. I think firstly, we have dramatically strengthened our delivery model. So today we are able to do a home installation in a very rapid pace and we have

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digitized pretty much most of the infrastructure that we have on the ground. So the customer experience for somebody either wanting a connection, wanting to shift a connection or wanting to upgrade a connection - is today much more seamless and much simpler than it ever used to be. The second is with the mobile termination on fixed line falling off to zero, we have actually made voice free at a very, very marginal cost, which has actually been a significant driver of churn reduction. And the third is that we've done a lot of granular micro marketing to identify low utilization parts of a city, pillars and so on and really driven that very hard. We have an independent CEO for the homes business, while we house that within the circle operation in order to give it the leverage that the mobile business gives, but the fact is that we still run that pretty independently. So that's one business.

If I turn to the office business and in the office and enterprise business, I would see it quite similarly. Again, what we've done here is, we've really put a lot of focus on improving our delivery model. We have tried to reduce the time and delivery dramatically. We used to have a concept earlier of saying we were either feasible or not feasible, which meant, were we able to actually provide connectivity or not. We've challenged that and said that every business must be connected and as a consequence we've looked at interesting models to reduce the cost of delivery and the time of delivery. We still need to do a lot more work, I would say that we've made progress, but it's not good enough. But having put out this ambition, what we're seeing is a very strong growth of our office connectivity business and of course the other vertical which is DTH continues to do well. This is a business again that is run pretty independently.

So, I would say the common characteristic of all of this is that we're now running these businesses as independent verticals with an independent CEO, who drives this centrally, but they are housed within the circle, providing us the leverage in terms of the office infrastructure, in some cases the distribution infrastructure. In some cases some of the other collateral benefits that come out of a large operation, so all of that is provided to this business. But yet, each of these businesses run independently with 100% focus. So, I think from a time a few years ago where we had, let's say, senior management spending 5% or 10% of time on each of these businesses, today, senior managements spend 100% of their time on these businesses and drives it with a strong focus on these areas that I mentioned.

Nilanjan Roy - Global CFO - Bharti Airtel Limited

Srinivas, on the 3G ICR cost, yes, these are actually coming off and they sit in the access cost line in the schedule as you can see. So, in the quarter, actually overall access charges are down by approximately 700 million rupees on the India front, and a large part of that is related to ICR.

Christian De Faria - Executive Chairman (Africa) - Bharti Airtel Limited

Okay, on Africa, Christian De Faria from Airtel Africa. I think we will continue to do what we have done in the last two years, and really continue to have an aggressive look on our CapEx and also extract value of the CapEx that we have deployed, we continue to develop and roll out CapEx. The profitability of the business in Africa is our main focus and developing the markets, voice and the data revenue and Airtel Money are few of the pillars that will help us if we want to improve the profitability going forward in Africa.

Srinivas Rao - Deutsche Bank - Singapore

Thank you. This is really helpful, Thanks, Christian. Thanks, Nilanjan. Thanks, Gopal.

Shareena - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Just couple of questions from my side. First, on the data thing, so this quarter, the revenue growth in data is lower than the previous quarter, do you read it as a base effect or is it also because of some ICR revenues going out and are we getting the new subscribers at some lower than 1 GB kind of plans. And just trying to understand, where do you see, when you do your AOP, India data usage going? Will it be 2 GB, 2.5 GB over the next two to three years, or will be going from just 900 MB to 1.5 GB? Based on your understanding of the 3G, 4G customer usage, if you can just help us understand the trend? Second, I'm a little confused on the 3G versus 4G debate. So 4G gives more throughput per site. And 3G is better on ecosystem, but just trying to understand if you were to choose between capacity or low megahertz spectrum, what are you going to choose? I'm referring to 700 megahertz, which is 4G and in some of the markets it's cheaper than 900 on per megahertz pricing. But you've been highlighting that 3G is more carrier available which is good news. So I'm just trying to understand from the upcoming auction perspective, how should I read this, and lastly, MVNO being allowed in Indian context, where there are not many operators with lot of excess capacity, what's your take on this?

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Thanks, Rajiv, lots of questions there. Let me start with data, I think one of the things that you will see in this quarter is that, there has been some reduction in our wholesale data business, this is a business that we've been doing in the context of some operators who didn't have 3G, the ICR arrangements that we have, so there has been some peel-off of that, as some of these operators have actually bought their own spectrum and rolled out their own networks. So you got to look at the data growth in the context of a reduction in the wholesale component. Look at the volume growth on data, it is still about 70%, so it's pretty strong. I think having said all that, there is some underlying concern around the fact that our data penetration on a national basis has kind of flattened a little bit over the last 3-4 months. Our penetration, the way we define a consumer of data is somebody who buys at least 1 megabyte per month and that's a very low level of data consumption, that number is around 23%. If you look at that number, I think the challenge for us is how do we grow data penetration, which means, how do you get more and more people on to the internet. And as you go deeper, this will mean a lot more education and internet literacy working across device companies, some of the application and content companies and ourselves and I think that is the effort that we're going to be engaged in.

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Your second question on 3G and 4G, you're absolutely right, I think 4G obviously gives you a lot more throughput, it's a much more efficient technology, but it has to be balanced by the fact that the ecosystem is a little more nascent. You must remember that we already have our 3G networks out there, most of which are riding on our existing 2G infrastructure, so they come at a real marginal cost, and therefore are margin accretive in terms of the incremental cost given that that is pretty low.

Coming to your third question on the spectrum strategy, I think this is something that we'll need to study once the NIA comes out. We've mentioned last quarter also that we believe that the 700 megahertz price that has been set makes it unaffordable for us. It is very high. And so it is something that we'll need to see how to look at. We are glad that there will be some 2100 megahertz spectrum that will come, I think there are three blocks coming up in most circles and we will decide where we need to pick up. There is one circle still that we don't have 3G, wherever there is some additional capacity needed, we will take a look at it. But one thing that has happened on account of the two deals that we've done between Aircel and Videocon is that, pretty much a bulk of our spectrum needs are now met, because we have, as we speak now, a PAN India 3G footprint with the exception of Kerala, we've got our 3G everywhere, six circles where we also have 900 megahertz or second carrier of 3G, plus of course we have between 2300 megahertz and 1800 megahertz now, we have a 4G footprint right across the country, subject of course to this deal being cleared by DoT.

Rajiv Sharma - HSBC - Mumbai

Thanks for these answers, Gopal. Just, where do you see the long-term usage given MVNO and one small question chipping in, on the fiberization of your towers, what's the plan going forward? Why not get into fiber sharing at some point of time?

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Yes. So, on MVNO, I think it's a bit early days -- early to say what will happen. I think you must remember that this is a brutally competitive market, there are already eight operators. So for an MVNO to come in and actually operate is going to be quite challenging. So, it's still early to see how that will play out. On the question on fiber, we've got a methodology of how do we actually look at fiber in our cities. The number of sites that we have fiber on is a clear ratio based on our own experience on how we've fibered. We are fairly healthy in most of the cities, particularly in places like Delhi, Bangalore, Chennai, where we have a sound home broadband business, we have solid fiber on the ground. We have some challenges in cities like Bombay for regulatory reasons and permission to lay fiber and get permissions to trench. We do share fiber, we do share IRUs with some of our competitors, we try and minimize as much as we can in terms of the cost of laying fiber. So some of that continues to happen.

Rajiv Sharma - HSBC - Mumbai

Okay, that's very useful. Thanks a lot.

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Thank you very much Mr. Sharma. The next question comes from Mr. Tien Doe from GIC, Singapore. Mr. Doe, you may ask your question now.

Tien Doe - GIC - Singapore

Thank you very much. My question is really just following on from Rajiv's question on data volumes. Your data ARPUs were also down, I think, for the first time, and I understand the point that you've made about flattening of data penetration. The reason for the decline is because of incremental subscribers being at lower ARPUs or because of your existing subscriber base, you haven't reduced prices to stimulate volumes or fight off competition. What is the primary reason for that data ARPUs coming off?

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Mr. Doe, I would say that, don't read too much into the data ARPU, a significant amount of that is actually the wholesale ICR business actually peeling off. If you look at the underlying data usage per customer, that continues to increase. So I would not worry about data ARPU at this point in our story.

Tien Doe - GIC - Singapore

So if you excluded the ICR business, the underlying retail data ARPU would still be growing?

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Marginally yes, it would be. We haven't reported that because we don't report our wholesale revenue separately, but yes, it would be up.

Tien Doe - GIC - Singapore

Alright, thank you.

Shareena - Moderator

Thank you very much Mr. Doe. The next question comes from Ms. Amruta Pabalkar from Morgan Stanley, Mumbai. Ms. Pabalkar, you may ask your question now.

Amruta Pabalkar - Morgan Stanley - Mumbai

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Hi, thanks for the opportunity. I just had one follow-up question. On Africa, how do you see the tax moving up or going forward in fiscal 2017 as it has been pretty low in fiscal 2016? Secondly, if I may just chip in, on the India tax holiday, you said that the units are coming out of the tax holiday, so, how are we so far and what more incremental impact do we intend to see going forward?

Nilanjan Roy - Global CFO - Bharti Airtel Limited

Yes. So, Amruta, on the Africa taxes, it's a whole mishmash of profit making OpCos and loss making OpCos and there the effective tax rate doesn't tell us much. But you can see the underlying absolute tax value, I think they are quite stable in the last few quarters. I think Q3 had a one-off, but I think you should see it more on a context of absolute tax, because tax rates won't tell you much because of different DTAs sitting in the Africa countries. The India rate is closer to 30% on a full year basis. I think this will marginally go up as we're coming out of the tax holidays as well. As you know the marginal rate is 34.61% - that's for India standalone, but we have some other businesses – like our global businesses, which are sitting in this business and are not in the tax regime, so, you could see this marginally inching up over the next few years.

Shareena - Moderator

Thank you Ms. Pabalkar. The next question comes from Mr. Aditya Soman from Goldman Sachs, Mumbai

Aditya Soman - Goldman Sachs - Mumbai

Just a quick question. Actually a follow-up on your total 3G net site additions. I just wanted to understand that you've added probably the largest number that you'll ever have in a single quarter about almost 28,000. Where are most of the sites coming in, are they in existing cities? Or would these be new geographies that you're adding these sites in?

Nilanjan Roy - Global CFO - Bharti Airtel Limited

Yes. So, I think from this quarter, like I mentioned, we have stopped reporting the 3G site count and we actually are now reporting the 4G and 3G combined site count, both from a perspective of how many of our standalone towers have a technology of 3G or 4G and also the number of BTSs, because one tower could have a 3G plus a 4G site. So I think that's the key change we've made. We don't report 3G anymore and like Gopal mentioned, for us the story is about mobile broadband irrespective of whether we run 3G or 4G. Yes, there is a component of 3G. We still have and are expanding in many areas as we got spectrum only in the quarter three of last year. So, I think it's a combination of 3G and 4G expansion across.

Aditya Soman - Goldman Sachs - Mumbai

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Thanks. And just on this whether these have been added in the same geographies or in the new locations?

Nilanjan Roy - Global CFO - Bharti Airtel Limited

It is a combination of both.

Aditya Soman - Goldman Sachs - Mumbai

Is there a split that you can share?

Nilanjan Roy - Global CFO - Bharti Airtel Limited

Not really.

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Aditya, it's Gopal here. A significant part of these sites are obviously in new geographies. Because like Nilanjan was saying, in many circles, we actually got spectrum, so fresh spectrum of 3G, which we bought in the auction and all that spectrum came in around August or so. So, we saw a ramp-up in quarter three and quarter four. In the existing towns, there have been some investments, but a very large part of it would be in new circles.

Shareena - Moderator

Thank you very much Mr. Soman. The next question comes from Mr. Pranav Kshatriya from Edelweiss, Mumbai.

Pranav Kshatriya - Edelweiss - Mumbai

My first question is regarding India's operating cost. So if I look at access charges, I think that is fairly clear. But network operating cost is flat quarter-on-quarter despite a strong site addition, and SG&A has also gone down by 3% on absolute basis, again, despite strong growth. So how exactly does this add up? I think even quarterly report says that there is certain one-off, but there is no quantification of that. So, some color on that will be helpful. Secondly, there was a media report stating that you have appointed a banker for sale of asset in the tower subsidiary that is Bharti Infratel. So if there is any update on that and how should we see the capital structure overall for the Company? Lastly, the CapEx I heard was \$3 billion is what you're guiding for FY 2017, so can you give a split between India and Africa? That's it from my side.

Nilanjan Roy - Global CFO - Bharti Airtel Limited

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So on the India operating cost side, I think as you see the trends, of course there is a lot of ongoing work which we have done from a cost reduction perspective, it's a program we run across all our circles and geographies called War on Waste. This tries to eliminate wasteful expenditure around network, going from ID to OD sites, looks at our entire S&D cost, facility cost, travel cost, so this is a very, very powerful program across all our employees which we run. And I think a big part of that is you can see from our cost curve and OpEx, which is a low single digit growth year-on-year.

Now specifically in the quarter, the network costs like we've mentioned, yes there are some minor one-offs, nothing very significant, we just wanted to highlight that. The SG&A drop is largely because of our bad debts on the enterprise side. I think this is a cyclic one, which we actually every year talked a bit about, because all the governments and the large B2Bs, as they exhaust their budgets for the year-end, we see a significant recovery on the bad debt side. In fact, that's one of the reasons why the enterprise B2B business EBITDA margins grows up in this quarter. So that's the SG&A story and network, like I said, there are some one-offs in that. Access charges, as already mentioned, ICR is a big part of the reduction in access costs.

On the CapEx side, on \$3 billion, approximately \$2.2 billion would be about India, South Asia; probably about \$700,000 to \$800,000 could be Africa including the FLO CapEx for the next year. So, that could roughly be the \$3 billion split. Harjeet will take the question on the capital structuring.

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

Pranav, that news, there's no point commenting on the news. I think you should note that in the last 18 to 24 months, post the IPO, Airtel had done two rounds of secondary stake sale for Infratel. I think both were about 2.5%, plus minus a few basis points. So, in general, the banks know of our generic interest, although they also know that there is no necessity or a need to generate immediate liquidity from these stock sales. I think it's also more done from an Airtel perspective, often to make sure Infratel has a larger free float for better price discovery rather than a liquidity event being funded from a secondary stake sale. So, the fact that given some banks know, they do often bring to us reverse enquiries on what is possible. So, I wouldn't want to go to the report and/or whatever else got regulated, from our perspective, we are lying still.

We have some of the monetization proceeds as has been already announced from the TowerCo sales in Africa coming in, some are about to come. One or two potential possibilities can also happen in Africa, but that's something which we have disclosed. Subject to regulatory approvals, there are proceeds to come from Orange. So, I think in general from a liquidity profile perspective, we didn't have any issues. Happy to, at points in time, where it makes sense both for Infratel price discovery perspective and any opportunity for us to look at more free float addition for them, to look at opportunities, but there is nothing which we are considering as we speak.

Pranav Kshatriya - Edelweiss - Mumbai

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I just have a small follow-up on that. See, basically my point is, if we look at currently your net debt to EBITDA is roughly 2.5 times, inching towards 3 times. Again, we're entering into a season of spectrum auction where you might pick up some of the spectrum. So, considering that, where do you see the steady state net debt, let's say, two years down the line when these things gets over?

Harjeet Kohli - Group Treasurer - Bharti Airtel Limited

I think that's a sum total of many events, Pranav. So, as I said, on one side, there are uses of money, which is whether the two spectrum trades that we have done once, there are approvals in place that will need to be funded, but at the same time, you are seeing these large monetizations also in the near few months itself. More or less whether it is 0.1 or 0.2 up or down from 2.5 is where we see. Having said which, if there are necessities where business thinks it's required to do something, at that point in time, which today there is nothing on the table, there are opportunities in the system to look at more possibilities without disturbing any market access that we have.

Shareena - Moderator

Thank you very much Mr. Kshatriya. Ladies and gentlemen due to constraints of time we will take only two more questions. The next question comes from Mr. Jimmy Chen from Bernstein Hong Kong. Mr. Chen, you may ask your question now.

Jimmy Chen - Bernstein - Hong Kong

Hi, thanks for the opportunity. First question, I just want to go back to 4G again. Can you tell us a bit about what has been the behavior of 4G subscribers that have signed on either data or anecdotally, especially how much extra data usage is the migration driving and what that is translating into high ARPU for the same customer? Second question is on Africa and South Asia, they seem to have turned around quite massively. Just want to understand what is driving that and what is your outlook for that sustainability of that recovery going forward?

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

Jimmy, the early trends on 4G are that, the type of customer that's actually taking it are some of our customers that are on our high end, so customers already consuming a significant amount of data actually moving on to 4G, because one of the things that we've done is, we don't really differentiate between 4G and 3G. So we've run a program where we are trying to swap the sim of a 4G device and give them a 4G sim, which is a USIM, and the moment they buy a data pack, we don't recognize the difference between 4G and 3G, the price is the same, we try and put them on 4G and wherever the network is not there, they fall off on to 3G.

On an average, this set of customers obviously consumes a lot more data, so probably two to three times what a normal average would be. Having said that, I think you have to look at it in the context of the fact that these customers are anyway the high-end customers. But one of the

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things that we do see is that with significantly higher throughputs and significantly higher speeds, these will tend to blow through their allowances a little bit faster. So in the past if a customer was completing his allowance, let's say, in 30 days, now it gets completed in above 24 days, 25 days, and that leads to one of two things. One is that there is an ARPU increase obviously, because they then buy more and consume more. We're beginning to see that. And the other thing that happens then is that they start calibrating their wallet, to say, I can't afford to buy and therefore then they switch it off. So, both those behaviors we are beginning to observe.

Christian De Faria - Executive Chairman (Africa) - Bharti Airtel Limited

On Africa, I think we have in the last two years, changed a lot of fundamentals in the way we have been driving the business, especially our focus on markets and also on initiatives which have addressed the customer needs, focus on quality of network, utilization of our assets on the ground, as well as a rigorous management of cost efficiency - and that we will continue to do going forward. So a very rigorous drive on the market segmented and market approach, as well as a product offering by segment and a bit of cost efficiency across all the cost element and we do intend to continue on this trajectory going forward.

Jimmy Chen - Bernstein - Hong Kong

Just a follow-up question on each. I guess on the 4G front. So, do you see the customers when they blow past their package faster, also upgrading to the next tier instead of just taking excess charges or turning off? And what proportion would actually do that? And on the Africa and South Asia front, I think last year you said part of the reason why the bottom line was deteriorating was because a lot of the costs were based in USD. It was hit by currency issues. Is the improvement that we've seen currently also a bounce back -- reflecting a bounce back of those currency issues?

Christian De Faria - Executive Chairman (Africa) - Bharti Airtel Limited

Okay, in Africa, I mean we have definitely tried as much as we can to convert US dollar denominated OpEx contract into local currency. So, it has resulted in some good improvement across the board.

Gopal Vittal - MD & CEO (India & South Asia) - Bharti Airtel Limited

And to your second question, Jimmy, it's too early to give you a meaningful answer to that question.

Shareena - Moderator

Thank you Mr. Chen. The last question comes from Mr. Naveen Kulkarni from Phillip Capital, Mumbai. Mr. Kulkarni, you may ask your question now.

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Sir, while I understand that wholesale would have contributed to a significant portion of the cost, but going ahead what do you see, sir, this wholesale component will keep on reducing in the data business and how do we see the impact going ahead and if we are to normalize it for this quarter on a like-to-like basis, what would have been the growth? Can you quantify that?

Nilanjan Roy - Global CFO - Bharti Airtel Limited

So, I think we still have a little bit to go in some of the circles and you know where the spectrum of competitors and ours is, and where their roaming deals are. So, there is a little bit, I think, probably we will see may be two or three quarters more of the data revenues peeling off. Like I said and Gopal said, I think at this stage we don't want to really segregate what is the impact of how much we've dropped, but suffice to say our data revenues would have been higher without the drop off in the wholesale revenue.

Shareena - Moderator

Thank you very much Mr. Kulkarni. I would now hand over the call proceedings to Mr. Nilanjan Roy for the final remarks.

Nilanjan Roy - Global CFO - Bharti Airtel Limited

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

Shareena - Moderator

Thank you very much, 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.