

Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call

Conference Call Transcript

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Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call

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Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call**PRESENTATION****Kamaldeep - Moderator**

Good afternoon ladies and gentlemen I am Kamaldeep the moderator for this conference. Welcome to the Bharti Airtel Limited first quarter ended June 30, 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 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 risks that we face. I now hand over the call to our first speaker of the day Mr. Nilanjan Roy, thank you and over to you Sir.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the first quarter ended 30th June 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 developments in the regulatory space. Harmonization of spectrum in 1800 MHz band has been completed in 21 service areas except Tamil Nadu. This is a welcome move as contiguity in allocated spectrum will improve spectral efficiency, thereby improving network quality and broadband speeds. This would also significantly increase the amount of contiguous spectrum put up for sale in the upcoming auctions.

The Company has adopted Ind-AS (Indian Accounting Standards) effective April 01, 2016 for the preparation and presentation of financial statements. While there aren't meaningful variations from IFRS, we have provided a bridge between the two standards to aid in the assimilation of our results and eliminate any conceptual gaps. Previous period figures have also been re-stated to facilitate like to like comparison.

Now, let me turn to the key company developments.

We are pleased to share that Airtel has again been recognized for demonstrating industry leading standards of transparency and ethical governance. Airtel has been ranked first in a listing of 100 emerging market multinational companies as part of a study on corporate transparency and reporting by Transparency International. Airtel also ranked #1 in FTI Consulting's "India Disclosure Index" for Mandatory & Voluntary disclosure practices, for the second year in a row.

Airtel successfully concluded the acquisition of the rights to use 2 x 5 MHz spectrum in the 1800 MHz Band allotted to Videocon Telecom in six circles - Bihar; Gujarat; Haryana; Madhya Pradesh; UP (East) and UP (West). Subsequent to the quarter close, we have also acquired Aircel's 2300 MHz spectrum across 6 circles. Along with the recent launches of Platinum 3G in key cities, our pan India 4G capabilities will continue to reinforce our leadership position in key geographies and enable us to effectively participate in and shape India's phenomenal data growth story.

Airtel has proudly announced a new initiative under Project Leap – Open Network, our national network transformation initiative. Airtel has opened up its entire mobile network information to its customers through an interactive online interface. The new interface will display Airtel's mobile network coverage/signal strength across India in addition to the network site deployment status, highlighting the strength of our network and recent initiatives. During the quarter, we continued to aggressively roll out our networks on 3G and 4G. Out of the total number of 157,000 sites, 69% now are mobile broadband enabled. Airtel has the largest 3G and 4G network in India. Such a national footprint would allow us to reduce our dependency on ICR arrangements, and build a more cost optimized network.

In line with the organization design to have a single Go To Market for all our enterprise customers irrespective of size, the erstwhile Corporates business (namely Small and Medium Enterprises) comprising of Fixed Line voice and Fixed Line data previously part of Telemedia segment have now been reclassified as part of Airtel Business. Airtel Business comprises of two large segments of Airtel Business India and Global Business and will together drive the expanding B2B portfolio within and outside the country. Erstwhile Telemedia segment has been renamed as Homes which will address the expanding Homes fixed Line broadband and voice opportunity. All prior periods have been restated accordingly.

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In Africa over the past 24 months, Bharti Airtel has undertaken tower assets sales in 11 countries (with 9 closed and settled and 2 to be closed shortly) and divested 2 country telecom operations (Burkina Faso and Sierra Leone) - for a sum total consideration of \$3.25 bn. All the sale proceeds/agreements are denominated in USD or Euro and have helped in deleveraging such that acquisition bank debt at Airtel Netherlands is zero as on date. These proceeds have also helped in reducing foreign exchange risk as well as ongoing tower capex and operations, thereby allowing a much sharper focus on customer centric activities in the market.

Let me now turn to the Company's operating metrics

In India, Airtel continued its trend of industry leading net additions. We added 4.5 mn customers this quarter, taking our total customer base to over 255.7 million. At the same time, we are focused on quality subscribers and hence our churn levels continue to be the lowest in the industry.

This quarter the on-going market consolidation provided opportunities to increase voice RPMs, resulting in a reported uptick of 0.24 paise while minutes of usage increased by 24 Bn minutes or 8.3% YoY. To sustain the health of this sector 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. However, given that there is a distinct tail of market share available to be taken by leaders, there could be VRPM related opportunities to be exploited in the short term. But our principle to participate in this lower yielding market shall purely be sticky and profitable minutes so as to optimize market share, revenue growth and margin.

We are happy to report that data volumes and revenues continue to march up. The Company's aggressive 3G and 4G rollout along with focused customer awareness campaigns have resulted in an impressive uptick in Data ARPU, which is up over 11.7% YoY, and at Rs 202 is over 45% 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 23.7% of mobile revenues as against 19.2% in the corresponding quarter last year. While there is a glass ceiling on data user growth driven by smartphone penetration, we are curating usage, especially with night packs and off-peak usage which generate an increase in demand, and are fundamentally accretive. 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 9.1% YoY. Our continued efforts to keep costs down has in turn resulted in an EBITDA margin expansion of 370 basis points YoY to 42.4%.

We continue to show strong performance in our non-mobile portfolio in India. Homes grew 11% YoY, Airtel business grew 10.4% and DTH grew 22.2% on a YoY basis. We believe our diverse yet complimentary product suite gives us a unique proposition to own the home market in India across the three screens (mobile, TV and broadband).

Africa's performance is showing early signs of growth with 3.8% YoY underlying revenue growth (in constant currency), despite macroeconomic headwinds. During the last fortnight of the quarter, Nigerian Naira devalued by 42% and the corresponding FX restatement impacts on the Balance sheet have already been reflected in the quarter end results. However, given that Nigeria is about a third of our Africa portfolio, the operational impact of the devaluation on the reported consolidated Revenue/EBITDA/PAT would be largely reflected in the reported results of quarter two. In our overall Africa portfolio, excluding Nigeria, the revenue weighted average currency depreciation in the last quarter has been 2%. 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 1, 2016. EBITDA margin stood at 22.4% helped by our strong focus on cost control, and on an underlying basis, improved significantly by 3.6% YoY, normalized for the divestment of tower assets and operating unit.

The twin engines of data and mobile money continue to drive Africa's growth story. Data is unfolding well and non-voice revenues are over 31% of the total revenues. Mobile data itself is now 16.5% of the total revenues. Our 3G networks which have expanded over 23% YoY, have enabled data volumes to increase a staggering 106% YoY. Airtel money transaction values have grown by 62% YoY to over \$5 billion during the quarter, with more than 8.6 mln customers transacting on the platform. 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 7.9% YoY. Normalized for impact of divestment of operating unit & tower assets in Africa, revenues are up by 8.4% YoY. Standing at 37.5%, consolidated EBITDA margins continue to see an

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expansion of over 270 basis points YoY. Depreciation and Amortization costs have further stepped up primarily due to higher depreciation and spectrum expenses in India during the quarter. Net finance costs for the company at Rs 19.4 Bln were higher by Rs 194 Mn YoY on account of higher interest on borrowing due to spectrum borrowing cost and finance lease obligation offset by lower forex losses.

The effective tax rate (excluding DDT) in India for FY16-17 will increase as compared to prior year on account of lower tax deductions due to expiry in select tax holiday units.

The tax charge in Africa for the quarter stood at \$46 Mn and is in line with last year's quarterly average charge.

The consolidated net income after Exceptional Items for the quarter came in at Rs 14.6 Bln compared to Rs 21.1 Bln in the corresponding quarter last year. Q1'16 Net Income of Rs 21.1 Bln has exceptional gains of Rs 5.6 Bln on account of re-instatement of prior year financials from IFRS to Ind-AS.

On the balance sheet front, the net debt excl Finance Lease Obligations for the Company decreased by \$ 240 Mn to \$ 12,365 Mn as compared to \$ 12,604 Mn for the previous quarter. The net debt excluding the DOT obligations now stands at \$ 6,891 Mn. The auction deferred spectrum liability has entirely been recognized. The high spectrum costs and consequent increase in amortization has resulted in deterioration of Return on Capital Employed to 7.6% from 8.6% in the corresponding quarter last year.

In conclusion, the first quarter of the year in India signals continuing momentum, sustained efficiencies and margin expansion on an underlying basis. Africa revenues and EBITDA are stable despite seasonal weakness. The tower disposals in Africa and sale of two operations to Orange are a material positive.

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. 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 "*" on their touchtone enabled telephone keypad. On pressing "*" participants will get a chance to present their questions on a first in line basis. To ask a question participants may please press "*" 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. Congratulations for a good set of numbers. I have two questions. Clearly, you guys have made huge investments in data, but when we look at the current quarter, net data subscriber additions, especially mobile broadband subscriber additions, it is a bit poor to say. I understand ICR agreement impact, but do not understand why we are not seeing new additions. So is it the price point issue or a handset penetration issue? Second question is, do you see risk to your voice revenues if a new entrant like Jio starts offering free VoLTE voice, not immediately of course but if VoLTE-led handset penetrations starts improving.

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

Sachin this is Gopal. I think you are absolutely right on data. We have been noticing a slowdown in penetration over the last few months, and if you look at the total mobile broadband customer base in Q1 that is about 36-odd million customers and clearly something that we are concerned about. I think there are couple of barriers here, one is the price of the device because even today when you look at the shipments of smart phones our estimates are that in Q1 we will probably have about 25 million smartphones shipped out into India but equally there will be 30 million feature phones shipped out into India, so there are sort of two or three segments within the overall countries with a particular large set of customers for whom a price of 3000 is unaffordably high and so the device is the barrier, so that is one part.

The second part is that educating customers on the need for the internet and how to use the internet is an important aspect of our internet literacy and data growth strategy and I think this is something that I had spoken about last quarter as well. We are in the process of doing a couple of pilots and we will try and work out how to scale this.

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The third thing that I think will be important is how do you enable data penetration through the right price points, so we have launched a bunch of sachet packs in the last month or two and these sachet packs are at very low prices with very limited data shocks and we believe that this could be a method or a mode for a people to start getting into the category.

On feature phones we have also launched a bunch of café packs. People do not understand what a megabyte is, so we have launched time bound packs so you know for one hour a certain amount of value let say Rs.9 per hour or Rs.6 per hour and so on and so forth, so these are café packs which people understand and that is the other thing that we have done. So we are clear that this is an opportunity, if I step back and look it on a longer term basis I think in the next four to five years we are likely to see at least 500 to 550 million customers with smartphones in India so this opportunity will grow, but we believe that we have a role to play along with some of the other players in the ecosystem, devices players and some of the larger internet players to actually drive data penetration.

To your second question I think all I would say is, it is speculative because we do not quite know what our competition will do but theoretically if voice was made free then we will need to see how to deal with that but at the end of the day you must remember that every operator is here to make a return and finally the investments that you put in must yield a return. So, yes there may be some short-term ups and downs and quests for filling up capacities but what our focus is, and continues to be, creating capacities on the data side, we have made large investments on data with the spectrum that we bought to deploy sites and create capacities and the second is really to manage a very tight operation, on the go-to-market side in really focusing on quality of customers, managing the equation between voice and volumes and rates sensibly, so I think that efforts continues.

Sachin Salgaonkar – Bank of America - Mumbai/

Thanks Gopal. A small follow up actually. So when we look at the data growth in the market, do you think it will be gradual or do you think there will be perhaps an inflection point wherein suddenly handset becomes affordable and there is perhaps a killer app in terms of video or it will be a very gradual growth per se?

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

I think if you look at the way the penetration has grown on data and you look back over a longer period of time let us say if you look back 15-16 quarters you will see that pretty much every quarter we tend to see anywhere between 0.6 to 0.8% improvement in our mobile internet penetration, now that number has kind of remained at 0.1 – 0.2 in the last four five months and so I do not expect this to be going from let us say 3% increase in penetration suddenly in one year to go to 15% increase unless of course the smart phone price drops down to Rs.500 or Rs.600 so I think there will be an increase in penetration but over a longer period of time if you look at let us say the next five years there is no reason to believe why internet penetration cannot get up to 35% may be 40%. But will it happen in a very short period of time? I do not think that is the way the category penetration will go.

Sachin Salgaonkar – Bank of America, Mumbai

Okay this is helpful. Thanks a lot and all the best.

Kamaldeep – 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

Congrats for good numbers, sir. First question on data revenue. There have been sharp cuts in data pricing recently, what has been the thinking behind it and what are your thoughts on volumes and realization going forward? In the short term, immediately, do you see data revenue potentially even declining or how are you like thinking about this?

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

First and foremost the primary objective here for us as far as we are concerned is to grow data revenues and we are not particularly fussed if realization drops because as long as revenue grows the question really is do you have the capacity to support the volumes that comes as a result. As realization is a function of two things, one is the extent of data that is used from the allowance that is given to the customer, which has gradually been seeing a significant upswing. And the second is the mix of customers in the portfolio so when you have customers who are heavier consumers of data let us say 2GB or 3GB or 5GB, you tend to see a lot lower realization and for the right reasons as long as it is ARPU accretive, so typically when you start seeing adoption of 4G you start seeing people consume a lot more data, they give you more ARPU but you also see your commensurate realization drop so I would say I think the significant challenge for us is how do we accelerate data revenues without being so fussed about realization and that I think is the challenge for the business and as you rightly pointed out as Sachin said there has been a slowdown in data revenue growth and that is a source of concern for which the real challenge is how do you grow penetration of data because unless you get the funnel right in terms of customers coming in into the category, overall growth would not accelerate so I think that is where we are putting a lot of focus.

Kunal Vora – BNP Paribas - Mumbai

In your view, has data pricing been a concern for the customers? Is that something, which needs to be corrected? With that correction in data pricing, do you think more customers will enter the category?

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

There are two parts to it, one is how do you drive down the unit price which is where our focus has been. We have launched a bunch of sachet packs in order to drive down the unit price for people coming into the category. It is at the top end where people really shape realization and not so much at the lower end

Kunal Vora – BNP Paribas - Mumbai

Next question is on Africa, in Nigeria, there has been a sharp depreciation in Naira. How is that impacting the telecom spending in that market? And we have seen various risks emerging in Africa over the last few years. How are you looking at it? Are you reconsidering your strategy for Africa, like say you exited couple of markets? Would you look to do that for more markets? Your thoughts on Africa, please.

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

Raghu here, firstly when the depreciation happens for the local market it has no impact so the consumption or usage changes have not been felt nor do I expect to see that. That is the first question on Nigeria so the consumption is continuing as such and I think it's a local issue that will continue as such.

Harjeet Kohli – Group Treasurer

This is Harjeet. I think your question on the country portfolio and/or any opportunities to look at potential sale or divestitures. I think at this stage our conviction remains exactly as it always was, we had mentioned to you our belief in the continent and specifically the sub-Saharan African domain, the opportunity space is high both in voice as well as data, penetration is still relatively lower with limited competition, reasonable spectrum and there are bits and pieces of other issues but I think that is the overall belief which stands as is. We have had taken slightly longer than earlier envisaged to reach where we are and that is why on the basis of prudence of capital allocation two – two and half years ago the decision was to see how best to keep access to the entire market space and yet try and see if we can get some tower assets monetized which I am glad Nilanjan noted in his earlier comments that of the 11 countries that we had contracted nine of those have already been closed and bulk of those proceeds are already in. In fact during this process we got a chance more as a reverse enquiry around opportunities from operators to look at commensurate geographies which makes sense in their portfolio and in that scheme of things Burkina Faso and Sierra Leone transactions came up for discussions with Orange. That have since also been consummated. Our press release mentions that sum total of about \$3.25 billion has been contracted, bulk of it is received I think only one or two small towers transactions are left and all of that has gone to deleverage the balance sheet, so in a way capital allocation has reduced, focus has increased, towers have been outsourced to tower specialists, so management bandwidth is more allocated towards

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customer centric, distribution centric, market centric activities, so I think with that in play there is no necessity to try and dive and see if we need more divestitures. Having said which, if there were opportunities which come by either side we are generally open but without any necessity to be very pensively looking at doing anything. This is a good space to be in. Of \$10 to \$10.5 billion of initial allocation \$3.25 has been monetized; EBITDA is about \$800 million dollars. We also mentioned the two EBITDA multiples for Burkina Faso and Sierra Leone to be, 7.9 times for their March 2016 earnings so it is a fair reflection of a strong building business now as we see in Africa.

Kunal Vora – BNP Paribas - Mumbai

Okay. Understood, thank you. That is it from me.

Kamaldeep – 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

Congrats on the good set of numbers. I had a couple of questions. One is, if I look at your margins, they keep improving and this is particularly true in the Indian mobile business, so I was just wondering, is it primarily contributed by data growth because I think there is a fair amount of debate whether data is accretive or not but this could be an interesting way to look at it. So just wanted to understand, if I look at your last probably nine quarters, I think mobile service margins have improved by 650 basis points almost. So just wanted to understand that. The second question is with respect to data. I think there is obviously a lot of focus on realization, etc, but is it not a lot more about capacity utilization also? Because my sense is, given the roll out has picked up, speed in terms of rolling out 3G and 4G, your capacity would have grown up significantly and therefore, is not there an element of capacity utilization, how should we think about it basically in terms of capacity utilization versus the yield? So would appreciate any thoughts especially going forward, like for instance, how much roughly would your capacity have grown? My sense is it's probably grown faster than perhaps the demand. So I would like your insights on these two.

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

Suresh thank you this is Gopal. I think yes, you are right, margins have improved fundamentally on account of three factors. One is exactly what you are saying, which is as the contribution of data grows the access cost of data is obviously zero compared to voice and that translates therefore from gross revenue directly into net revenue and consequently into the margin. And this is helped by the fact that a large part of the data rollouts is fundamentally on existing site and so they go in at large cost of putting up new sites and new towers. The second factor is the peel off of our ICR revenues, our intra-circle roaming arrangements that we had on our 3G. We now have our own spectrum in most circles actually almost all circles with the exception of Kerala and with the peel off of the ICR cost that has been a factor of improved margins particularly in the last couple of quarters. The third factor which is again from a longer term perspective for the last few years we have been having a very strong program called 'War on Waste' which really tends to look at every element of waste and seeks to eliminate it and we have done a lot of work on the network cost side, on the customer experience side as well as in other areas. So those were the three factors that have led to improvement in margin. When it comes to data I think with the spectrum that we have bought, we bought a lot of spectrum as you are aware in the last few auctions and we now have a pan India 4G footprint. With the acquisition of spectrum of Aircel and Videocon we have a very good spectrum footprint now across the country. We also have a strong 3G footprint across the country with the exception of Kerala and we have also selectively bought 900 MHz for 3G in critical circles like Karnataka, Andhra, Mumbai, North-East, Assam, and Punjab and so on. Now as we have rolled out our network obviously we have been able to create capacity and so that is something that definitely will stand us in good stead. I think the fundamental question on if you have capacity, you know why is that you cannot drop realization and therefore drive revenue, I think it is a trickier question because it is not a symmetrical market so everybody does not have the same capacity so as a leader we have to be a little careful that we do not take the pricing down because when somebody does not have that much capacity on the 4G side then the response can equally be on 3G or 2G and therefore I think this has to be done a little bit more in a calibrated way but we have enough capacity to stand us in good stead over the next few years.

Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call**Suresh Mahadevan – UBS – Singapore**

Thank you so much.

Kamaldeep – Moderator

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

Manish Adukia – Goldman Sachs, Mumbai

Good afternoon and thank you for your presentation. I have two questions, both related to your India wireless business. My first question is around your outlook on network OpEx and margins for the India wireless business. So given Bharti Infratel and Indus both have implemented new MSAs, how does that impact Bharti Airtel and if it can potentially lead to some kind of margin benefit over the near term for you? And my second question is on tower additions for 3G and 4G. So your 3G, 4G BTS continue to expand but your 3G, 4G towers have not increased much this quarter. Can you provide us some color as to what kind of population coverage do these many towers give you and how many towers will you potentially need to have a pan-India kind of 3G, 4G coverage? -.

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

I will take your first question and then handover the second one to Nilanjan. I think on the first question as far as network OpEx is concerned let me just step back a little bit and explain to you what it is that we have tried to do in this new MSA that we have signed between ourselves and the tower company. There is a structural anomaly today where a new entrant or a new tenancy that is being put in there actually comes at a significantly lower rental than an older tenant and that is quite a weird kind of thing if you think about it because he has an older tenant/operator who actually has plenty of tenancies, a new tenancy comes in at a significantly lower rate. So we have corrected this anomaly in order to structurally alter the manner in which we operate with the tower company for the long-term. I think that is the primary reason or the primary purpose of this change in MSA. As we have done this we have been mindful of the fact that there has to be some give and take and so we have extended some of the term of the tower lease for a couple of years and as a consequence I think when you look at it from a longer term basis it is really a zero sum gain.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Manish as regards the question on the towers versus broadband station I think as we got the 3G/4G spectrum last year there was a lot of mad rush actually more into coverage side and now as we are looking in to a network and network quality we are trying to see the complementarity of things like FD versus TD and TD versus FD so I think this is more of a short term impact. We are making sure that we are putting for instance an FD coverage here even if we have a TD site, I think this for just a short term and you will see of course this catching up with the tower count as well going forward.

Manish Adukia – Goldman Sachs, Mumbai

Great that is very helpful. Thank you.

Kamaldeep – Moderator

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

Sunil Tirumalai – Credit Suisse - Mumbai

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I have a couple of questions. I just wanted to clarify, you mentioned about \$3.5 billion worth of inflows from these asset sales in Africa. So, is the \$2 billion of tower sales that you've mentioned in the annual report part of this, or is this only Burkina Faso and Sierra Leone? Just clarify that, please.

Harjeet Kohli – Group Treasurer

Sunil hi, this is Harjeet. No this is sum total over the last 24 months so it includes the two-ish odd billion dollars of tower co sales that is already there in the annual report and there are then subsequent to that a couple of other countries that have been closed for tower sales as well as Burkina Faso and Sierra Leone, which have also been consummated now. So all of those disposals cumulate to \$3.25 billion.

Sunil Tirumalai – Credit Suisse - Mumbai

And Harjeet is this already part of the balance sheet for the quarter or some of it is post the quarter close?

Harjeet Kohli – Group Treasurer

Of the 3.25, three transactions are post the quarter, one of that has already happened which is Sierra Leone closure of the country operation sales and two are tower transactions in Niger and Tanzania, which are work-in- progress.

Sunil Tirumalai – Credit Suisse - Mumbai

Would you be able to quantify how much of it is still left?

Harjeet Kohli – Group Treasurer

I may not be able to give because that then comes out to be valuation of individual portfolios but you will see that in the September quarter.

Sunil Tirumalai – Credit Suisse – Mumbai

Yes. And I had a question on the good old voice business, we saw the previous quarter Idea Cellular had taken up tariffs meaningfully and we were kind of expecting you guys being the market leader would have something similar, while you had a voice RPM increase its pretty much flattish given overall scheme of things so I mean wondering what is the strategy there. Is it to gain some volume market share or how do you see the voice pricing going forward?

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

Sunil our strategy has been very consistent so we have been pretty consistent about our position which is that we are attempting to drive new customers into mobility, so continuing to attract customers but doing that with a keen eye on the quality of acquisition. Secondly on the existing customers really looking at managing the rate volume equation carefully, pricing and realization is a function of the whole portfolio of customers so we identified those who have dual sims and manage this quite carefully and the net result of all of that is finally that this must translate into revenue growth and we think that that is really what the game is about. Having said that we would love to continue to see improvement in voice realization but we have to be mindful of this dynamic and in that context the comparative issues also become important.

Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call**Sunil Tirumalai – Credit Suisse – Mumbai**

Thank you. And just a last question on the MSA renewals with the towercos, I understand that you mentioned about give and take, so you have a benefit in terms of your rentals being frozen for a couple of years, but you also mentioned that your renewal is being pushed back in return. I did not understand how one is negative and the other less positive from your perspective; I see both as positive from your perspective?

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

I think we have a ten year contract right as part of the MSA and that renewal has been pushed back by a couple of years, so if your assumption is that the renewal will come at the same rate or at higher rates then I think your assumption is absolutely true.

Sunil Tirumalai – Credit Suisse, Mumbai

Okay. Thank you very much.

Kamaldeep – Moderator

Thank you very much Mr. Tirumalai. The next question comes from Mr. Vinay Jaising from Morgan Stanley, Mumbai. Mr. Jaising you may ask your question now.

Vinay Jaising – Morgan Stanley - Mumbai

Thank you so much. Firstly, congratulations on the domestic business especially. I have two questions here, first on the domestic wireless front, if you look at your incremental revenues and your incremental EBITDA; the incremental EBITDA growth has been more than the revenue growth. This has happened I think once before a couple of years ago so what is the secret and how much of this is sustainable for the future in terms of the EBITDA margin improvement that is my first one. My second, I do appreciate you know we are all struggling with the data volume growth, but the impressive tariff cuts on new packages which you have introduced in the last month, what do you think will be the impact of that purely if we were to look at just data ARMB tariff cuts expected for this quarter? Thank you so much.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, so mobile incremental EBITDA in the long term trends what Gopal mentioned - there are three big drivers of course, one is the data being at no access cost, there is no S&D since there are existing voice customers upgrading so in that sense data is there, the ICR impact is there and of course our war on waste, those three levers. Of course on a sustainable basis, I do not think our incremental EBITDA can outstrip revenue continuously, you may have one-offs in some quarter but I think steadily in the long term we have been talking about over a 50% incremental EBITDA margins from the business. On data volume growth, we have only taken the tariff on the top end not the core 1GB pack so I do not think these are dramatically going to change the rates going forward because most of them are actually sitting well below this and any case you see decline of our rates as Gopal mentioned because of a combination of mix of 4G and of course 3G with more usage and night packs etc., going in so it is a combination of many things so I do not think there will be a one big step down on data rates because of these packs.

Vinay Jaising – Morgan Stanley - Mumbai

Sir just to be confirmed on the second part on the data part of it, what we are saying is that most of the tariff packs which have come up are for higher usage, so for people who are using the 1 GB package you do not see much tariff decline in this quarter so far.

Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

No we have not touched that,

Vinay Jaising – Morgan Stanley - Mumbai

Thank you so much.

Kamaldeep – Moderator

Thank you very much Mr. Jaising. 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. My question first is on the spectrum which you have mentioned would be available from harmonization in the upcoming auction now that is of fairly large amount and particularly in couple of markets from what we understand, how does that change your view on potential biddings and how do you think about the upcoming auctions and secondly does that mean that the competitive gap which you have with at least other two incumbent peers with respect to having more spectrum than them, do you see the competitive landscape changing because of this particular auction? That is my first question. The second is on again going back to Suresh's question as to at least if you look at last ten to twelve quarters it does seem that the relative sort of say contribution of voice or data to your overall revenues has less of a margin impact, does that mean you know that going forward if there is as Jio says prices where voice is at whatever level free or less should have a less competitive impact on your margins, what matters more is basically the revenue table rather than the revenue mix, is that a fair assumption? Thank you.

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

I think Srinivas we are not going to comment specifically on our auction strategy, but let me just say that when you look at our spectrum position today, we are in a very solid position, we are on a very solid position on 3G with one carrier across the country with the exception of Kerala. We have a second carrier in Tamil Nadu and in several circles that I mentioned earlier Karnataka, AP, Punjab, Mumbai etc., with 900 MHz,. We also have FD 1800 now pretty much in a large part of the country with the conclusion of the Videocon acquisition and TD again with Airtel we now have it in about 17 circles, so broadly I think from a spectrum perspective we are in a very solid position. We will look to fill up few gaps here and there but we do not see great need for spectrum at this point in time. The second question which is to do with the impact of any rate reduction, I think is likely to be, the question is what is the kind of pricing which is speculative like I said, secondly how do you deal with that, we currently have operators who are offering half the rate that we are and we do manage to find our calibrated response to it on a very segmented basis. We will continue to look at those of kind of opportunities. Of course if rates come down then clearly that will have an impact on revenue, but that is something that we would be determined not to let happen but I mean this is speculative.

Srinivas Rao Deutsche Bank - Singapore

Understood Sir and this is really helpful. One question I have, Africa what is your medium term outlook I mean we all understand the longer term opportunity there and when I say medium term I mean literally the next four quarters, do you see any possibility of revenue uplift from the current levels of revenue which we are seeing around 950-odd million dollars, that is my question. Thank you.

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

In Africa in general the population mix is right, the penetration is in the right frame of the market for it to grow. There have been a few macroeconomic indicators that have not been so great in some of the countries. However if you really look at the next four quarters, you would see a steady growth in our numbers both in customers and revenue and I

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think it is a good interplay of pricing and customer additions that should bring into this. Data growth has been really good and that should add on to our revenues. So I really look at it very optimistically.

Srinivas Rao Deutsche Bank - Singapore

Thank you so much and this is really helpful.

Kamaldeep – Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Raj Gandhi from Sundaram Mutual Fund, Mumbai. Mr. Gandhi you may ask your question now.

Raj Gandhi – Sundaram Mutual Fund - Mumbai

Thanks a lot for the opportunity. Sir these data packs wherein you increased the data allowances for 2GB 3GB packs and also have you seen people using these higher data allowances for the same price, at least let say those who are buying those higher value packs?

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

We just did it a couple of weeks so it is too early to look at that.

Raj Gandhi – Sundaram Mutual Fund - Mumbai

Just given that you know per MB pricing for now for the higher value packs is much lower versus 1GB pack so again just too early but any initial price elasticity that you are seeing in terms of people opting for the high value packs?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

No again very early on this but at least there are strategies, you can see the laddering basically what we are saying is above Rs.250 it's a Rs.100 per GB ladder, I think it incentivizes customers to use more for more kind of things, so I think that is deliberate strategy but it is just too early to respond on that side.

Raj Gandhi – Sundaram Mutual Fund - Mumbai

Okay. And Sir just as you mentioned that for data penetration to see that J curve you need 500 or below sub Rs.1000 smartphone handsets coming in at that price range so just what would be the kind of data revenue that we can get from them for such a price sensitive segment and overall even if the penetration increases and they do come into the fold, but will it make significant proposition in terms of absolute revenue contribution?

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

Just to clarify I did not say that, I was responding specifically to your question by saying that you expect the penetration to suddenly grow or you expect it to grow on a secular basis and I said that if penetration has to suddenly grow then obviously it gives a disruption of some sort, either there is suddenly great flashes of income into rural India or there is a significant reduction in device prices so I think that is a bit theoretical I mean it was more to make a statement that penetration would actually grow by one and half two percent every year, that was the point.

Raj Gandhi – Sundaram Mutual Fund – Mumbai

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Okay sure Sir. Thanks a lot.

Kamaldeep – Moderator

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

Sanjay Chawla – JM Financial - Mumbai

Good afternoon. Thank you for the call. Congratulations on a great set of results. My first question is, you probably have 25%, 30% smartphone penetration in your customer base right now and the mobile broadband user base penetration is only 14%, so clearly while Rs.3000 price point of smartphone maybe a barrier for someone who is on a 2G network and a voice-only customer, there's already a significant customer base who has a smartphone. So are you really looking at a very fundamental issue in terms of customers not finding a great Internet to be a great utility or maybe it's got to do with the price value equation, which is relevant for the Indian market in terms of to drive adoption? So my related question is, are we looking at Rs.100 per GB kind of price point driving significant adoption and until then we really don't have a choice rather than let the market grow organically at it's very slow pace, as it is growing, that is first question. And secondly, regarding spectrum auction, you have certain 2G circles where you have got 1800 spectrum, which may be coming up for renewal within five year, six years' time. So do you think, would you be looking at kind of derisking those circles by acquiring 1800 spectrum in advance in this current auction where there is lot of spectrum available thanks to harmonization, or do you think it is too early for that?

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

On your first question I think you know I said the fundamental barriers to internet adoption are the price of the device which is one, but equally like you rightly said the need for the internet and we have to work on both, how do you educate people on the need for the internet, how do you allow them to understand how to use it, I think the fact is that when we go and actually teach people how to use the internet, we show them what is possible then they see that their lives can actually be better but the challenge is to actually get there, reach them and be able to educate them and I think that is one of the challenges for us as a business. So yes pricing will be important but I do not think it is so much to do with a Rs.100 per GB kind of price point as it should do with the unit price, so when the unit price actually falls which is a sachet thinking then clearly that is another barrier that is taken off.

Sanjay Chawla – JM Financial - Mumbai

I guess on this, sorry, on this point, if I could spend a minute here. There is already a customer base, which is a non-mobile broadband user but is still a data user who is spending some money on data every month. So they are already familiar with Internet and probably they see some utility there. So don't we need a lower price point to get them onto a mobile broadband user category?

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

No, like I said, we do not distinguish right now, if you distinguish or if you do not differentiate between 2G and 3G and smart phone and feature phones and just look at data penetration, data penetration is about 23%-25% and that number needs to grow and that is the number that is not growing as fast as we think it ought to, which comes back to what are the barriers to internet adoption and comes back to therefore how do you educate people on the need for the internet. Because if you have something which is dramatically useful and people are willing to pay, they do not need to pay Rs.100 for a GB because remember most of these people will start off by more basic applications for which even Rs.20-Rs.30 is more than adequate and that is where we are bringing in the concept of sachet packs.

Sanjay Chawla – JM Financial - Mumbai

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So how much is the low hanging fruit if you have the non-mobile broadband user, non-3G, non-4G data user? How much of that is a low hanging fruit in terms of upgrading them to higher ARPU, mobile broadband usage.

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

I did not understand that question.

Sanjay Chawla – JM Financial - Mumbai

In the sense that you have 35 million, 36 million 3G, 4G users, but you also have 58 million overall data user base. So the non-broadband user base is a significant low hanging fruit and in terms of revenue upside, shouldn't that be the first.

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

Sanjay the challenge is to actually grow that 58 because the gap between 36 and the number of people who have smart phones and who do not use data is just a small number. So I think the real challenge is how do you get more and more smart phones in and how do you get more and more people using data.

Sanjay Chawla – JM Financial - Mumbai

Okay and you mentioned 25 million is the smart phone shipment so how much of that would you think would be going to a new customer rather than being a replacement demand?

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

That comes back to what is the data penetration growth because if you start looking at the data penetration growth like I have been telling you we are not growing that adequately which means a substantial part of these are potentially device upgrades or device changes and really the challenge is how do you grow that penetration of smartphones and penetration of data.

Sanjay Chawla – JM Financial - Mumbai

Okay and the spectrum?

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

On the spectrum I think it is too early to comment, our strategy will be something that we just want to say that yes there is a lot of spectrum that is coming up in the auction and we are well placed.

Sanjay Chawla – JM Financial - Mumbai

Okay. Thank you and all the best.

Kamaldeep – Moderator

Thank you very much Mr. Chawla. Due to constraints of time we will take only two more questions. The next question comes from Mr. Rajeev Sharma from HSBC, Hong Kong. Mr. Sharma you may ask your question now.

Bharti Airtel Limited First Quarter Ended June 30, 2016 Earnings Conference Call**Rajeev Sharma – HSBC - Hong Kong**

So just few questions, Gopal. One is on VoLTE. There was a view that VoLTE will not work but now the test launch of Jio suggests that VoLTE is working. So at what point of time Bharti will consider migrating to voice over LTE and what will be the various considerations? And does that worry you that now the voice over LTE is working well for Reliance Jio, your thoughts on that. Second is active sharing. Though the regulation has come in, but we have not seen incumbents getting into active sharing. So is there any savings on the capex going forward? Can we see something meaningful? Your thoughts on that and this whole data growth, subscriber led data growth is being debated a lot, so Jio is getting involved in the handsets, Bharti is staying away. What point of time you think that it makes sense for Bharti to get involved with handsets, data bundling, voice bundling your thoughts on that. Is WiFi affecting data usage growth in urban markets, because most offices have Wi-Fi, most homes have some form of WiFi be it from small cable operators and overall thoughts on ARPU, so you have done a good job on this whole recent pricing with the data ARPU trying to take it up, but voice, once VoLTE works and once Jio starts bundling VoLTE with 200 minutes of VoLTE with data packs, will there be a pressure on overall ARPU. Your thoughts on these, thanks a lot.

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

Rajeev, there are very many questions there, but let me try and answer as best as I can. On VoLTE we are currently not deploying VoLTE yet. We do not feel the desperate need to do it right now because we have legacy networks which delivers voice well but we will at the right point in time, we will look at testing it and so on and so forth. I think what will determine that is the ubiquity of 4G coverage as also sub-GHz spectrum that is good for running VoLTE networks, our experience from around the world suggests that when you do not have sub-GHz band then typically VoLTE does not work as well so we will have to look at that a little more carefully. On active sharing I think it is a great policy but it has to be looked at in the context of what is the vendor ecosystem in that particular circle, what is the complexity across spectrum bands, where do you share, how do you share and so on so we are still to tie-up any such arrangement but we will look at that opportunity. On handsets we have no intentions of getting into our own handsets but we do bundle very aggressively so we believe it's the internet - the ecosystem is an open one and so we are in conversation with everybody Samsung, Micromax, Intex and Apple and so on and we do bundle with everyone. And your last question on ARPU, I think time will tell, my sense is that when you put everything together it's typically the amount of consumption that is spent on telecommunication as the percentage of GDP varies between 1.5% and 3% around the world. We are at I think it's about two percent little over 2%. At the end of the day wallets of people is what we will need to tap into, may be there are realization drops with increased capacity on certain revenue streams like data but the question really is are you able to get the ARPU that you are getting and actually grow ARPU and I think that should be the effort. On WiFi it is not material. The fixed line fixed broadband infrastructure in India is still quite nascent as you know, but where it is there is a lot of consumption that happens of the wired broadband.

Rajeev Sharma – HSBC - Hong Kong

So, is WiFi distorting or taking away some of the growth or upsides from data in your view today.

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

No.

Rajeev Sharma – HSBC - Hong Kong

Thanks for all the answers. Thanks a lot. This helps.

Kamaldeep – Moderator

Thank you very much Mr. Sharma. The last question comes from Mr. Jimmy Chen from Bernstein, Hong Kong. Mr. Chen you may ask your question now.

Jimmy Chen - Bernstein - Hong Kong

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I just want to ask three questions; one, the subscriber trend or the operating data trend in South Asia and Africa for the last two quarters seems to be going down after a few quarters of improvement. Just want to understand why, and that's in the subscriber numbers, minutes and data. Second question on the Bangladesh merger, just want to check what the situation is and the likelihood of that going through. And then just a housekeeping, was there any new spectrum that was put into operation and started amortizing in Q1 and do you expect any further spectrum to start amortizing in Q2.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Jimmy the South Asia numbers is largely coming because of very strict KYC norms biometric registration in Bangladesh so that has pushed down the numbers but minutes on year-on-year continue to be high there. The merger has not gone into effect. There is a final high court hearing scheduled for I think the August 7th and we hope post that it will get consummated in this quarter so we will have to just wait for the high court orders. The amortization of spectrum, all the auction which was bought has been amortized. Of course as you know that we bought Videocon and Aircel, that amortization has not kicked in. It should probably kick in as we start ramping up our network may be sometime this end of this quarter or early next quarter.

Jimmy Chen - Bernstein - Hong Kong

And in terms of the operating momentum, what about Africa, how's that going?

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

So we have had a little slowdown in the last quarter in Q4 earlier on in due to KYC norms and some disconnection but otherwise post that I think the pick up has been good and with the right play interplay of minutes and rate along with aggressive data growth I think we should be good.

Jimmy Chen - Bernstein - Hong Kong

Okay. And on the minutes, I'm just checking the numbers, it seems that the South Asia minutes in last quarter was actually down quarter-on-quarter, is that actually a strong number or is that a seasonality?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

No that I said was largely because in Bangladesh due to the customers dropping off we saw a drop off in minutes as well but I think once we start getting back and getting the registrations done we should see a pick up but like I said is quite moot, we are waiting for the merger in this quarter and so we will wait for the high court order.

Jimmy Chen - Bernstein - Hong Kong

Thank you.

Kamaldeep – Moderator

Thank you very much Mr. Chen. At this moment I would like to handover the call proceedings to Mr. Nilanjan Roy for the final remarks.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

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