

Bharti Airtel Limited Fourth Quarter ended March 31, 2018 Earnings Conference Call

Conference Call Transcript

Event: Bharti Airtel Limited Fourth Quarter ended March 31st, 2018 Earnings Conference Call

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Bharti Airtel Limited Fourth Quarter ended March 31, 2018 Earnings Conference Call**CORPORATE PARTICIPANTS****Gopal Vittal**

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PRESENTATION**Kamaldeep - Moderator**

Good afternoon, ladies and gentlemen. I am Kamaldeep, the operator for this conference. Welcome to the Bharti Airtel Limited Fourth Quarter and Full Year Ended March 31, 2018 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, Global CFO. Thank you and over to you Mr. Roy!

Bharti Airtel Limited Fourth Quarter ended March 31, 2018 Earnings Conference Call**Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited**

Thank you. Good afternoon, ladies and gentlemen, thank you for joining us today for this earnings call to discuss our results for the fourth quarter ended March 31, 2018, which we announced yesterday. Present with me on the call today are Gopal, Raghu, Jaideep and Badal. I would like to welcome Komal who many of you know; she has taken over as the IR Head in place of Parag.

Let's start with the top themes in India's telecom industry during the year. Financial year 2018 has been a decisive year for the industry on multiple counts. The launch of new entrant providing below cost services has meant a declining industry table. Current telecom spend in India at less than a percentage of nominal GDP is amongst the lowest in the world, which in itself has declined by 30% on a year-on-year basis. Operators with stretched balance sheets found it difficult to survive and, in this quarter, witnessed near-closure of the last marginal private operator. With this, the industry is moving effectively towards a 3 plus 1 market structure, where SIM consolidation is inevitable. For a colossal market of 1.3 billion customers with less than 2/3rd unique mobile penetration and an even lower than a quarter data penetration, this is structurally very positive news for the industry by any global benchmark. While market pricing may not follow a linear path upwards, we continue to believe that ARPUs will need to move up in the long run to ensure industry viability. Global shifts in telecom industry are also coming to India. The role of the smartphone for the new customer of today is more than just a connection, it is convergence of connectivity, entertainment, trade, education and banking. In a mobile-first market like India with massive data offtake, telecom operators are transforming from pure-play mobile to being digital service providers integrating connectivity and content across various screens.

These changes in the industry have necessitated unprecedented network rollouts, which only the larger operators can afford. We do believe that the industry is going through a once-in-a-lifetime transformation and we are truly well poised to capitalize on this, with our industry-leading position in customers, revenues, best-in-class spectrum footprints and network assets. Macroeconomic factors turned favorable in Africa during the year. There was stabilization in prices of crude and commodities. Increased competition has led to in-country consolidation and we concluded consolidation in 2 markets, namely Ghana and Rwanda, during the year, which has resulted in a better industry structure.

This is a welcome step given the relatively smaller scale of these countries. With this, we are number one or number two operator in 12 of the 14 markets we operate in, creating a strong foundation for a solid sustainable business in Africa. Looking into next year, our 5-pronged strategy is:

Firstly, win the 4G games decisively. This is crucial if India transforms to 4G. We intend to win the 4G game by garnering a disproportionate share of 4G devices and driving upgrades from 2G, 3G to 4G. Each year, 130 million 4G devices are shipped into the country, with upgrades driving bulk of these shipments. With the lowering of price points, a very large proportion of our 2G, 3G customer base will upgrade over the next few years and this presents a massive opportunity for us to be the primary 4G sim slot. We are already seeing a very strong traction of 4G upgrades, led by smart participation in the device play by working with major handset manufacturers on our platform across the spectrum. In the future, low-end smartphones can decisively replace feature phones, and to this extent, we announced partnerships with Google and various OEMs to launch low-cost 4G smartphones, powered by Android Go in India under Airtel's Mera Pehla Smartphone program. We also entered into partnerships with high-end smartphones like Galaxy S9 and Apple. We have radically simplified our pricing bundles. Prepaid pricing has been simplified to fewer bundle plans. On the postpaid side, we are providing more values through alliances like content partnerships, phone insurance, data rollover benefits, etc.

Second is winning with brilliant network experience. High-speed networks have to be the backbone of any operator and this year was no different in our quest for network transformation. During the year, we deployed a staggering 107,000 mobile broadband base stations. We have launched VoLTE in various cities across 8 circles, with tests underway in many and we plan to go nation shortly. With the largest event in Indian sports, we launched Massive MIMO near IPL match venues to enable seamless and world-class new experience for our customers. Our investments in fiber and backhaul continue. We are happy to state that as per Ookla, the global leader in speed tests, Airtel continues to be the fastest mobile network in India. This is the third time in a row that Ookla has rated Airtel as India's fastest network. During the year, we have also begun to work on identifying use cases around the fifth generation (5G) technologies, while conducting technology lab test trial.

Third pillar of our strategy is to build new revenues. Consumption of video entertainment in India is undergoing tectonic shift. Content consumption is becoming more personal and individual in nature instead of community, group-based consumption. Small screens have become the preferred mode of consumption. Airtel has already solved the network access problem for online content consumption by rolling out pan-India 4G networks that enable seamless video consumption. We are now solving content fragmentation problem, ease of access and pricing problems for customers in India, which will further unlock the true potential for data consumption. In this regard, Airtel launched Airtel TV offering, which offers live and catch up TV for 350 plus channels and over 9000 movies and shows on the backs of tie-up with all major broadcasters. We continue to expand our partnership race for content aggregation and in this quarter forged partnerships with Hotstar, Eros and ALTBalaji. The TV app platform is built on a highly scalable video delivery architecture that is heavily integrated with our video grade 4G network. We are happy to say that Airtel TV is one of the most downloaded video OTT app of 2018. Our music app, Wynk Music, is the number one app in the country in terms of music consumption. We believe that with our unique access to customers, distribution and content platforms, such offerings will continue to differentiate us, while ensuring our customer relationship is deepened and engagement enhanced beyond just being a mobile services provider.

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The fourth pillar of our plank is our war on waste. For us, cost efficiencies remain a company-wide focus. And during the year, we were able to hold Opex year-on-year, largely led by our war on waste initiative.

Let me now turn to our Africa operations. Airtel Africa witnesses' steady improvement across top and bottom-line on the back of the twin engines of data and mobile money, underpinned by strict cost controls. Operating leverage in the model is playing through predictably. On a constant currency basis, Q4 versus Q4, GR growth has been 10.7% year-on-year, the net revenue growth has been 13.4% year-on-year, Opex has declined 5.4% year-on-year and EBITDA grown by 55% year-on-year. Consequently, EBITDA margins expanded from 25.5% in the last quarter of this year, of the previous year to 35.9%, which is more than 1030 bps improvement. The business has entered into a sustainable positive cash flow era, which gives us confidence that the investment rationale seven years ago is as valid today. Our strategy in Africa has centered around strengthening our distribution model, and enhancing the consumer experience via network modernization. We did the highest ever rollout of broadband sites this quarter. We offered U900 in 11 of our countries and LTE in 8, with plans for launching in the balance soon. Simplification and optimal bundling of products was also introduced looking at new revenue streams via postpaid, enterprise and home broadband.

The expansion of Airtel Money continued throughout the quarter and our year-on-year throughput is now \$5.6 billion per quarter. As you are aware, the Board of Directors of the Africa Holding Company, BAIN, have authorized its management to initiate non-binding exploratory discussions with various banks and intermediaries to explore the feasibility of listing of its shares on an internationally recognized stock exchange. The discussions are of exploratory nature and there is no certainty on the outcome of these discussions, as and when there are updates, we will keep the markets informed accordingly.

On the regulatory front, in India, TRAI cut international IUC from Re.0.53 to Re.0.30, effective February 1, 2018. This cut in the international IUC impacted the telecom industry, and will further create imbalance between incoming and outgoing international calls at the benefit of foreign telecom companies and create an additional loss of foreign exchange for the country. Additionally, TRAI came up with the amendments to their tariff order to regulate principles on tariff assessment pertaining to promotional offers, tariff disclosure and predatory pricing. We believe TRAI's latest tariff order curtails operational flexibility of operators and we have challenged the same in courts. Only yesterday we have been granted a stay by TDSAT. In Africa, IUC rate cuts were seen in Tanzania and Malawi during the quarter.

We are happy to announce that Bharti Airtel bagged the second position in 2018 Brand Finance India 100 list, which features India's topmost 100 valuable brands. Bharti Airtel also secured the top position under the telecom and allied category in the annual Business Today-People Strong survey for 2018.

We are expecting Telenor merger to be completed in Q1 of this year and are awaiting DoT approval. The Tata merger is expected in Q3 2019, where we are awaiting SEBI and NCLT clearances. As you are aware, the Board of Bharti Airtel in its meeting yesterday approved the proposal for the merger of Bharti Infratel and Indus Towers Limited. Infratel Investor Relations team would be scheduling a call shortly for Q&A relating to this merger and hence in this call, I would request you to restrict questions on Airtel only.

Moving on to our financials. Consolidated revenues for the quarter dropped 10.5% year-on-year due to decline in India mobile revenues and Airtel business. This was largely led by a cut in domestic and international termination charges besides continuous pricing pressure leading to ARPU declines on the mobile front. Africa constant currency revenues at USD \$791 million is the highest ever year-on-year growth of 10.7% in the last 15 quarters.

Consolidated EBITDA at Rs.70.3 billion is down 12% year-on-year, led by mobile India. Africa organic EBITDA and constant currency at USD \$283.7 million is up 55% year-on-year. Depreciation and amortizing expenses were at Rs.48.9 billion, an increase of Rs.0.6 billion, mainly due to the additional capitalization during the quarter. Net finance costs for the quarter were at Rs.18.3 billion and are lower by Rs.2.6 billion versus last quarter, mainly due to higher investment income. Financial year 2018 saw a massive network rollout to create market-leading, high-speed broadband networks in India.

Consequently, we undertook a Capex of Rs.24000 crores in India. Looking into next year, we expect to spend a similar amount in India, as we believe this tactical advantage of advancing these future Capex spends to provide the best and widest broadband data coverage will augment our growth and revenue market share ambitions. Underpinned by a strong network modernization program, we expect to undertake a Capex of about 600 million to 700 million in Africa. Overall, total Capex will continue at Rs.27000 to Rs.28000 crores mark next year, as we continue to focus on creating market-leading, high-speed 4G data networks. To enable our spends, strengthening our balance sheet and focus on debt reduction remain key priorities.

Net debt during the quarter was Rs.952 billion and net debt to EBITDA at 3.23. The Board of Directors have approved issuance of non-convertible debentures up to Rs.10000 crores on a private placement basis and issuance of FCBs up to a limit of USD \$1 billion in one or more tranches. Any funds if raised from these issuance will be issued for routine treasury activities including refinancing our existing debt and spectrum liabilities.

To sum up, while reduction in international termination charges led to a decline in topline during this quarter, India's telecom industry is fast consolidating and witnessing a huge expansion in data and voice usage with move towards bundled offerings. With our scale and efficiencies backed by a superior spectrum and network footprint, we continue to hold and drive market share leadership.

Finally, our focus on strengthening our distribution model and enhancing consumer experience in Africa is leading to profitable topline growth.

I would now hand you over to the moderator.

Bharti Airtel Limited Fourth Quarter ended March 31, 2018 Earnings Conference Call**Kamaldeep - Moderator**

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

Manish Adukia - Goldman Sachs Group - Mumbai

Good afternoon. Thank you for taking my questions. My first question is just on the underlying trends you are seeing in the India wireless business. Can you just help us understand, excluding the one-off like termination charge cut, etc., in the quarter, what was the underlying sequential growth trend that you just saw in 4Q and what is the current status of ARPU downgrading? Last quarter, you mentioned that you are largely done with that. So if you can give an update on that? And a related question on that is just any meaningful impact you're seeing due to Jio Phone uptake and what are the key measures you are taking to protect this revenue stream for yourself? And the second question is just on the other businesses, home broadband, DTH enterprise all these segments, where Jio is probably likely to enter in the near to medium term. How are you thinking about your own revenues there and do you foresee fairly high competitive intensity in these segments in the coming quarters?

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

Manish, thank you, this is Gopal. I am sure that this question would probably be a common question for many people, so I am going to sort of step back and look at your question in that context. We have had two years of industry sort of mayhem, if I might call it, one year of free services and then one year of near-free services. There have obviously been several regulatory hits, the interconnect costs going down on the domestic front and more recently on the ILD front. Within this context, I would say we have obviously seen revenue erosion over the quarters, but when you step back and look at it, we have held well. We have held well in terms of market share, cash and margin. We have also dramatically stepped up Capex. So last to last year was about Rs.16000 odd crores of Capex. Last year, which has just ended on March 31, was almost Rs.23500 crores and this coming year will be another big year of Capex. And we are seeing massive growth in data, massive growth in voice. For us, I think the most important metric to track in this period of heightened competitive intensity is, are we getting more customers and primarily data customers on 4G, and are we growing our consumption. Those are the two metrics that we track really closely. On both those metrics, we are making good progress. This quarter, we added almost 16 million mobile broadband customers, data growth continues to be strong, and voice growth is also strong. And that is because of the move towards bundles and the natural move towards the primary slot once the customer has a bundle. We believe these are the two metrics to track very importantly, simply because as industry repairs, value creation will be high. The good news is that we are in a three-player market with 1.3 billion customers, three operators that are serving them; we think that we are very well positioned in this context to actually create value and win. In the short term, yes, there are headwinds. ARPU has eroded, but like I said last quarter, the worst is behind us in terms of revenue erosion and you're seeing those early trends in Q4 as well. But that said, competitive intensity continues to be strong. As regards home broadband and DTH, yes, we do expect an entry probably sometime this year or maybe next year. The fact is that we have seen competitive intensity in every segment, we have seen this over years. We do believe that we are ready for it. ARPUs may compress, but these are things that I do not wish to speculate right now. I think the important thing is, are we getting more customers, are we upgrading our networks, getting high-speed broadband, and are improving the content offerings. Those are the things that we think are most important right now in order to serve our customers, so that we deal with any competitive eventuality.

Manish Adukia - Goldman Sachs Group - Mumbai

Sure, Gopal. Just if you can comment also on the question about any impact that you have seen due to Jio Phone into the market in the last couple of months in a more aggressive manner and any measures you're taking to protect your own revenue stream there. Also, a follow-up to the comment that you made that you added like 15 million data customers in the quarter. In terms of ARPU, how does it change when a customer moves from voice to data? Do you immediately see an uptake in the ARPU of that customer or how much duration does that customer need to be a data customer for you to see any meaningful change in ARPU, if you can comment on that?

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

I am not going to comment on any competitor, but the new phone that has been launched has been there in the market for perhaps a few quarters now. It has a small share of the total feature phone market, feature phones continue to be strong, and feature phones continue to see shipments. We have not seen any significant pressure in our overall net adds and that is really the key metric to track, because in that overall net adds number, we have both feature phones and smartphones. When it comes to growth on 4G, the way to see it is what happens when a customer upgrades from 2G to 4G. Nilanjan mentioned that there are 130 million shipments

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coming into India. A vast majority of the shipments are devices that are upgraded on our networks for customers moving from 2G to 4G. We see almost a doubling of ARPU when people move from 2G to 4G. And I think that's the big opportunity. So 4G is a very, very critical game for us to win.

Manish Adukia - Goldman Sachs Group - Mumbai

Thank you so much and all the best.

Kamaldeep - Moderator

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

Kunal Vora - BNP Paribas - Mumbai

Thanks for the opportunity. My question is on data capacity, you have seen explosion of data volumes- almost like 7x over the last 1 year. What is the network utilization now and would it be possible for you to give out your capacity in terms of petabytes per day and how do you see that capacity changing over the next 2 years, be it on your investment plans that you have laid out? And second question is, can you share your spectrum requirements from here? You mentioned that you are doing some work on 5G, would you need to acquire spectrum for 5G in next couple of years. When would that network deployment start?

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

So if you look at data today, we do a little over or close to 20 petabytes of data in a day on our mobile networks, little over that, that used to be about 1.5 to 2 petabytes probably 6 to 7 quarters ago. So there has been a clear and massive growth over the last 6-7 quarters. Our utilizations are still low. We have a lot of spectrum that is still unutilized. And there are several circles, where in fact, we have not even got our 2300 spectrum deployed, which came on account of the Tikona acquisition. So that is still in the bag. We have not deployed TD LTE across the country, our FD footprint is more or less completed across the country, but TD is not yet deployed across the country. So again there is a lot of juice left in terms of utilization. And finally even where we have deployed it, our utilizations are still low. So there is still a significant amount of upside in just leveraging the entire spectrum to roll it out. The other spectrum that will also come to us will be the Telenor spectrum, once the merger happens in 6 circles, we'll get another slug of 1800 megahertz. And then the Tata spectrum in 3 circles, AP, Maharashtra, Mumbai, the 1800 megahertz 1 slug which will come through, plus in many circles we will have 2100 megahertz, so a lot more spectrum that is in the bag. And as you know, in this business, an additional carrier within the same spectrum band just needs a software upgrade to actually play with the capacity. You do not even need radios, and if you need new spectrum band, then the cost of radios are substantially lower than the cost of the spectrum, because of the way spectrum has been priced historically. So these are modular costs, which are low. So I would simply say to your question, utilization is low. There is a lot of upside in terms of creation of capacity. Your second question was related to 5G. I think it's still in its early days. We are still not done with 4G. In India perhaps you will see 3.5 gigahertz coming into the spectrum auction at some stage, the 2.3 gigahertz band will also move to 5G at some stage. Right now it is still up for finalizing the standards. If that happens, then many of the base band units that we have are already 5G compatible can be turned on. Some of the radios will need to be replaced, but this is still in the future. For the next couple of years, it is still 4G. The other thing is that on 5G, a lot of it depends on the use cases. These basically are very low-latency applications, which you will need. On a smartphone, speed beyond a point does not matter, but it is really low latency applications like driverless cars, robotic surgery and things like that, many of these use cases are still evolving, many of the technologies are evolving. They will all come through. If you look at it 5 to 10 years from now, it will be a very different story, but in the short term, we still have time for 5G to come.

Kunal Vora - BNP Paribas - Mumbai

Sure. That is helpful. Just like you mentioned on Telenor spectrum. In Telenor, is there any bottleneck now, like there were some news reports about Telenor filing for bankruptcy and potential hurdles for a deal with Telenor, anything like that, anything which we'll hear on that?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

No, we read the same news reports.

Kunal Vora - BNP Paribas - Mumbai

Okay, so nothing incremental to share. That is it from my side. Thank you.

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Thank you very much Mr. Vora. 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. Couple of questions, first on Africa. Raghu, if you can throw some light both structurally, talk about deal in Kenya, which would change the landscape, if you can give your thoughts on that, that it will be helpful. On a related note, Africa PAT has gone up quite significantly this quarter, it seems like the interest costs or the finance costs have come down quite dramatically, so just if you can help us with that, it would be helpful. On the India side, any commentary on Airtel bankruptcy and the potential subscribers, which are kind of moving out, what has been your experience in trying to attract them? Those are my three questions, I will come back for more. Thank you.

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

Firstly, the way we have looked at Africa is, there are couple of countries where we were not a leader or close number two and these were countries that we said we will try and structurally make some corrections. Ghana was one, Rwanda is one, where we picked up, and Ghana is where we did the merger. Now the other countries, there are always discussions, but at this stage, there is nothing that we can discuss or it is all speculative at this stage, and as and when anything happens, we will surely let you know. On the financial part, costs and why the PAT has gone up, I will just request Jaideep.

Jaideep Paul - Chief Finance Officer - Africa - Bharti Airtel Limited

On interest on borrowing, it has come down by on a year-on-year basis. Major reason was, we had a tax assessment settlement in Nigeria, which resulted into interest not charged on the VAT and we created that provision earlier, so that has been reversed after the assessment is done.

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

So, Srinivas, on the Airtel part, after they filed for bankruptcy in NCLT, their operations have come to stop. Their networks have shut down more or less. They also had issues with distributor stock and so on and so forth. Many of the customers were disadvantaged. We got a higher than our fair share of port-ins in the key markets that we serve, which is in Tamil Nadu, Jammu & Kashmir and North-east.

Srinivas Rao - Deutsche Bank - Singapore

Understood. This is really helpful. Any light on 4G, which you said in terms of upgrade, which is the key focus, any more color on what you are trying to achieve there. I know there have been some handset plans, where you kind of essentially encourage 4G handset, via discounts on spending. And also the content landscape, any commentary as to how it is likely to move or what Airtel is doing on that will be helpful.

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

Sure, on the upgrades, we have launched a program in the last few weeks, called Project Jump, which is basically upgrade-just upgrade my mobile. that is something that we are offering, essentially free data for a month to customers who are moving from 2G to 4G for the first time on our own networks for them to be able to experience Airtel's high-speed broadband network. That has given us some decent results. So, that is one part. This in addition to all the device bundles that we do. On the content side, on Airtel TV, specifically we are an aggregator. So we aggregate all content, we have about 350 live TV channels. We have over 9000 movies. We have content from Eros, from Voot from ALTBalaji, many web series from YouTube. There is, in addition to content, which is live TV from all the broadcasters and then of course we have Hotstar which we've done a deal with, where customers are able to see Hotstar free on the Airtel app and IPL is therefore available to them free of cost without paying for the subscription rate that otherwise Hotstar would charge. We have a similar arrangement with Zee and we will continue to aggregate all kinds of content. At this point, we have still not gotten into the game of developing our own content, but right now we are aggregating. We are sitting at about 26 million to 27 million monthly active customers. So this has seen some seriously good traction and it's growing every month.

Srinivas Rao - Deutsche Bank - Singapore

Thank you.

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Kamaldeep - Moderator

Thank you very much Mr. Rao. The next question comes from Sachin Salgaonkar from Bank of America, Mumbai. Mr. Salgaonkar you may ask your question now.

Sachin Salgaonkar - Bank of America - Mumbai

Thank you for the opportunity. I have two questions, one is to Gopal. This is with regards to your earlier comments. Clearly, I do see your focus in terms of getting after broadband subscribers and gaining traction in 4G. But when we look at the incremental subscribers' market share, it is still disproportionately in favor of Jio. Anything you guys are trying to do in terms of gaining that further incremental market share? That is question number one. Question number two is to Nilanjan. So Nilanjan, last year was a great year in terms of overall cost control and we could see that into numbers despite revenues not coming down. I just wanted to understand, how much of the levers are still left, can you talk about some of the areas where you have still room for further cost control? And of course, the related question is with the way diesel prices are going up, how do you see this for network Opex cost control?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Badal will talk about what we do in cost control for India.

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

Right, Sachin, we have had a fantastic year as far as overall cost control is concerned. Clearly, our war on waste program, which was initiated almost four years back, which constitutes both short-term and long-term projects is yielding results. We have a healthy pipeline of projects, which we undertake across all lines of expenses, just not network. And I think we are fairly confident that next year we'll have another stupendous year as far as cost control is concerned. Apart from that, the overall market, especially on the mobile side, is also changing structurally with almost 4 players, marginal players having gone over. There will be some consolidation, so supply and S&D expenses, I think should come down substantially over the next 3 or 4 quarters and that should definitely help us.

Sachin Salgaonkar - Bank of America - Mumbai

So, is it only SG&A, which is going to come down, any other room for...?

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

Sachin, I called out SG&A because that is almost evident. We all can make out that's a structural change which the country is going through, specifically in the mobile segment. As far as network and other lines of expenses, which is customer service expenses, as I said, we have substantial number of programs, which we run both long-term and short-term, which we continue to work on. For example, network modernization, energy efficiency, call center cost reduction, simplification of product, which we lead to call center reduction, etc. So it is a combination of all.

Sachin Salgaonkar - Bank of America - Mumbai

And Badal, on a really big picture basis, at some point in future, when you guys consolidate Telenor and Tata, should that artificially up margins?

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

No, you should not see a dip in the margin, we should be able to hold our margin, and over a period of time, we should be able to kind of expand it.

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

Yes, Sachin, on your other question on customers our focus is to really firstly focus on 4G, where you have a much better quality of customer base with higher ARPU. Equally, we want to drive a superior network experience and therefore massive investment and

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focus on network quality, we actually should be able to do that. That is really what our obsession is and that should hopefully translate in a consolidating market into more market share.

Sachin Salgaonkar - Bank of America - Mumbai

Got it, okay.

Kamaldeep - Moderator

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Vinay Jaising from Enam Asset Management, Mumbai. Mr. Jaising you may ask your question now.

Vinay Jaising - Enam Assets Management - Mumbai

Thank you so much for the opportunity. I have 2 questions, one on the bundle plans and a small one on the impact of Airtel and RCom. Firstly on the bundle plan, the question is- is this good or bad for us? At one end, as the increasing traffic both sides in terms of bundle plans, we cannot see revenue growth as everybody moves to that. And at the other end, what we are seeing is, the Capex needs are increasing if voice keeps on increasing in terms of volumes, your costs too are going up because at the end of the day, the termination revenues which you are going to pay somebody else, for the access costs are moving up. So if you do not see revenues move up and if you see costs go up, your EBITDA margins as in this quarter, part of it starts keep on eroding till you get pricing power. So that's my first question. The second question is, is there any one-off impact on Airtel and RCom shutting shop and on account of which any terminating revenues you were to get? And then is there some one-off in this quarter, it would be great to know that. Thank you so much.

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

Let me take the first question, which is on the bundles and maybe I will hand it to Badal. It is a paradoxical question that you are asking. Ultimately, customers demand it. And if customers are moving to it, then it is good. The only problem with bundles today is that the pricing of these bundles, given the value that is being thrown at is at an artificially low level. These bundles should have been priced at a higher level than where they are today. That is the only problem. Because they are priced at such a low level with an ARPU that is capped, and because it is unleashing greater consumption, yes, it does put pressure on network capacities and network investments, but if it did not play here, then fundamentally you are losing the primary slot and you're losing the customers. So there is nothing to fight for in the future. So I would say that this pain that we are going through in terms of the financial anomaly between revenue, Opex and Capex is something that we are going through because it is a fight for the industry structure of the future. And the fact is that it's a 3-player market, in a 3-player market with three reasonably large operators, it is a fantastic position to be in because it is serving 1.3 billion customers and therefore that is the place at which when the repair happens, you will see significant value being created. So I would say, we have to go through this, because if you do not do it, then when you come out of this situation at the other side, you come out weaker if you don't have customers. As regards the second part on Airtel and RCom, there is no significant number to report in terms of the one-off nature of the revenue that you are talking about.

Vinay Jaising - Enam Assets Management - Mumbai

So just moving back to the first part of the question, just a small probe, if I can. So what this means is technically till we do not see pricing power come in, any kind of elasticity in volumes both in data and voice is not going to lead to revenue growth unless subscribers obviously come in, so subscribers into the incremental revenue, ARPU definitely will be a revenue growth driver, is that a fair comment to make?

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

We always said that the current levels of ARPU are unsustainable Nilanjan made that comment in the opening and that is simply because of the nature of the price plans that are on offer. But having said that, the erosion that we have seen in the last four to five quarters, two years, like I said - one year of free services, one year of near-free services, eight quarters of erosion you do the math, and you will see, Vinay, that there is some flattening out in terms of revenue erosion, which we talked about last quarter as well. It is also that this quarter has been masked by some regulatory hits and so on and so forth. So the point is that if your question is, is there going to be very significant growth without pricing and ARPU lift, the answer to that is, no, but what are we fighting for, like I said, the real game here is to get more customers and the right consumption, and if that means more Capex then in the short-term, we are prepared to put in that Capex and fight in this marketplace in order to gain market share. That is really what our objective is.

Vinay Jaising - Enam Asset Management - Mumbai

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This is very clear. The only reason I asked this was that I am seeing EBIT losses after long, or probably the first time at the India mobility levels. So that is worrying me a bit. Thank you very much.

Kamaldeep - Moderator

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

Sharon Chen - Metlife - Hong Kong

Thanks for hosting this call. I missed the initial section, if I am not mistaken, you did mention the debt reduction is one of your priority. Can you talk through some of your plans in terms of debt reduction? And I know that you are not supposed to mention Infratel, but do you have intentions to sell your further stakes in the combined entity? Thank you.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, so if I just focus on what we are doing in the form of inorganic, we have, as you know, announced the DTH deal in the last quarter. We hope that that transaction can get consummated during the current quarter. We have also announced initially a potential listing of Africa, it is very preliminary, but that is something, which we can look at. The third thing of course is the Indus Infratel. While the Board as of now has said we will complete the merger, you have seen that there is an additive on that to say that any exploratory talks with any strategic investor will happen post. So at this stage, like I said, options are open, but for Indus Infratel, for now I think the focus is to get the merger done. They have these regulatory hurdles to clear and we hope we can have that completed, because we believe that the value accretion through the combined entity is going to be very substantive versus just the standalone Infratel, which was the rationale for the deal.

Sharon Chen - Metlife - Hong Kong

Thank you.

Kamaldeep - Moderator

Thank you very much Ms. Chen. The next question comes from Mr. GV Giri from IIFL Mumbai. Mr. Giri you may ask your question now.

GV Giri - IIFL - Mumbai

Thank you. Question for Gopal. Number one, what is your outlook on Airtel TV, how are you going to develop it? Your number of HD channels seem to be very few as compared to that of some of your competitors, does that matter? Is your bandwidth a constraint and how do you see that moving along? Number two, on the online recharge mentioned by Badal, my question is, how do you see this current distribution network reshape over the next couple of years, because if a lot more revenue moves from offline to online, what happens to the dealers and how do you get customers after that and what happens with churn? And thirdly, on VoLTE - you have launched in many markets in the last few months and are you doing any work with handset manufacturers to smoothen the experience on VoLTE particularly?

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

On offline movement, there has been obviously significant movement and this has only led to growth. In my view in last two to three years, we have begun to consolidate many of our distributors. So just to give you an example, in Delhi, about 2.5 to 3 years ago, we would have about 120 and 140 distributors. Today, we have barely 25 to 30 distributors. So we have consolidated them into larger parties, much more professionally managed, better infrastructure and this process will only continue as that shift happens. So we will keep a close watch on it in order to make sure that we are viable. The second part is on VoLTE, yes, this is something that we have now launched in many circles, and we are carrying a small amount of traffic on it. The challenge with VoLTE is that you have to have the devices certified. Significant part of devices have already got certified on our network, most brands' new devices coming in are now certified on our network and have the same specifications of our VoLTE profile. Once they have the device, then you need to use them on that or the data sim, the 4G sim in that device. There again, we have now got more than 90% of our customers with the 4G sim. And then, of course you need it to be provisioned and then your networks need to be optimized. So think of this as a funnel, device to use them to software provision to network optimization and there is a follow-up in each creation. We are tracking this follow-up in order to make sure that we get more and more VoLTE traffic and smoothen the experience. In the case of HD, our DTH has about 75 channels, and on Airtel TV, we have 41 odd channels, there are 350 odd channels totally. We are bolstering

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these as we speak and we will be very competitive as far as Airtel TV is concerned. There are no capacity constraints really that limit this.

GV Giri - IIFL - Mumbai

Just a quick follow up on this online recharge, Gopal, my question was how do you see the retail network that you have made use of over the years changing and how do you see customer acquisitions happening and churn?

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

Giri, if your question is, how do you see the retail experience from a recharge acquisition perspective?

GV Giri - IIFL - Mumbai

As more and more traffic moves to online recharging, what will happen to the dealer network that is what I am trying to get to.

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

No, today retailers also make money from acquisition and acquisition cannot be done online. You still need a biometric and you still need somebody to go physically and do all of that, or someday this may all become online, but that is still far away. The second thing is on recharges you still are not seeing more than 15% to 20% of recharge online. And it is not that it is growing at three-digit numbers. In fact, if I were looking at online recharges, let us say, one year ago, it was about 15%, this year it is about 16% to 17%. So it is not that this has really dramatically changed. It is more a gradual change and therefore we are prepared to see whatever adjustments we need to make on the offline distribution model.

GV Giri - IIFL - Mumbai

Sure. That clears it up. Thanks a lot.

Kamaldeep - Moderator

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

Bharat Shettigar - Standard Chartered - Singapore

Thanks for the call. Couple of questions on the cash flow. Firstly, if I look at it from a full-year perspective, while your profitability this year was clearly under pressure, the operating cash flow was actually better than FY2017 and that is mainly because of working capital being the net inflow. So question really is, how should we look at working capital going forward? That is one. Second question is, if I look at the interest expenses in the cash flow statement it is about Rs.44 billion, whereas in the income statement, interest expense is about Rs.95 billion, can you help explain me why this huge difference in numbers between income statement and cash flow?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, so I think the interest and finance charges paid, which is in the cash flow does not include the deferred payment or the spectrum liability interest, which is as you know the Rs.45000 Crores DPL payment. So that is a gap, but that gets added to the debt, as you know. So that is a big gap between interests. Yes, working capital improvement has been there as you know, of course with cash focus even we have to tighten all our cash streams and definitely working capital is one of them. Collections, we have to improve our collections, of postpaid, B2B, etc. Same way in creditors, we are looking at credit terms, etc., but net-net cash from all sources, money is locked up in taxes, fees to government as advance tax, refunds, etc. So I think working capital will continue to remain a focus and I think during the year itself, that is going to be a driver, because cash anyway, as you know, from whichever sources comes is positive for us.

Bharat Shettigar - Standard Chartered - Singapore

Thanks.

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Kamaldeep - Moderator

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

Ravi Menon - Elara Securities - Mumbai

Thank you for the opportunity. Gopal, you had said last quarter that there is still some bit of room for down trading because there are still a lot of customers who are sitting well above that kind of gap from the bundle plans. So how do you think about it now, because you seemed to suggest that this is kind of the last quarter where we have seen an ARPU dip and things should stabilize or even improve from here?

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

Well, it all depends on how and what happens to pricing from here on. But as we look at it, it is lower than what it was last quarter. So it is more or less substantially declined.

Ravi Menon - Elara Securities - Mumbai

Right. And the second question is, how are you charging for the content, how do you foresee charging for the content in future, or do you think that will actually be a way of monetizing versus just charging for data?

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

That is a good question. I think right now our focus is to actually get customers and have them really spend more and more time on the app and consume a lot of content, because once we get that behavior going, for us to be able to charge a price for that content is going to be easier. The second question is what is the nature of pricing, should it, how do you actually price it, should you price it on a subscription basis or on a per watch basis. Those are questions that need to be answered. And the only way to think about it is to actually have the right customer experience, the right customer journey. The third question is, even if it is on a per watch basis, should it be monthly, half yearly, annual, those are questions also to be answered and then finally what pricing do you set at and at what prices they are going to be, elasticity or a lack of it. These are all questions that we are seeking to try and get a grip on. We have announced right now that the Airtel TV content is free up till June. We will take a call on what we want to do close to time.

Ravi Menon - Elara Securities - Mumbai

Thank you. Best of luck.

Kamaldeep - Moderator

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

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. Just couple of questions from my side. So with ARPUs at 116, it is fair to assume that a chunk of your subscribers who would be at 30, 40, will maybe be 100 million or more. So now that the 2G market has consolidated between Bharti and Vodafone, is there a chance for an ARPU upgrade in the segment till the time they operate in 2G and how you are looking at this piece, because it is also consuming your valuable 2G spectrum resources in some circles. And second, coming to the Vodafone-Idea merger, we have not seen any loss in market share from both the entities so far. So how do you see this playing out, last quarter there was example shared about the Hutch-Vodafone in Australia and to take market share for them, do you think there will be another round of price cut, which the industry will see or will it be the Capex investment of the two major players, you and Jio, which will play out. So, just trying to understand just, any color will be helpful.

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

I think the first question is a good one, which is at Rs.30, Rs.40, obviously there still are customers below that, we could actually get a little bit of an ARPU upside there. As a leader, that will be our focus in any case. On competition, I will not answer specifically to what their strategies will be or what we are going to do against them. Suffice it to say that our objective is that at a time when there is a lot of change in the industry, our simple objective is how can we strengthen our position? How can we gain more customers and actually grow market share? That is really what we are focused on.

Rajiv Sharma - HSBC - Mumbai

And Gopal on the first one, if you could elaborate, means obviously as a leader you would benefit, but will you be willing to take some kind of minimum ARPU kind of plans that, okay, at least pay Rs.45 or Rs.49? Will you be willing to take that call as a market leader in that segment?

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

I think it is a bit speculative, Rajiv. I would not like to comment on that.

Rajiv Sharma - HSBC - Mumbai

And lastly on your EBITDA margins, which are around 28.5%, how should we look at FY2019 assuming pricing more or less remains in the minus 5%, 10% kind of thing range. So how should one look at 30%, 32%, and 29%, what should be our assumptions there be?

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

So, now you are looking for guidance from us, which we do not give, Rajiv. But I would just tell you that we are obviously, like I said on pricing level, we are at a pretty low level, ARPUs are low. Currently, in fact our ARPUs are about Rs.70, lower than what it was two years ago. And if you look at that Rs.70, for an industry, that Rs.70 is about Rs.80000 Crores. So, it is a lot of ARPUs that we have eroded as an industry over the last two years. Having said that, I think while ARPUs are unsustainably low, I think our focus is really how you actually pick up more customers right now as ARPUs lift in the future. But we would not give you guidance on what the margin will be. I will just say that there are cost headwinds that we are confronted with, diesel rates are up, we have got massive deployments that we have done, also there is some tower consolidations that are happening, and therefore that reduces tenancies. All of these are headwinds and Badal spoke about it already. We have a full program on War on Waste through combination of reengineering our processes making sure that we get procurement savings and try to do everything we can to deal with those headwinds in order to keep costs under check.

Rajiv Sharma - HSBC - Mumbai

That is helpful. Thanks a lot.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. The last question comes from Mr. Sunil Tirumalai from Credit Suisse Mumbai. Mr. Tirumalai you may ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you very much. I have a couple of questions. Gopal, in the last quarter call, you had kind of explained to us the ARPU trajectory, the competitors most popular plan should give about Rs.130 of ARPU, whereas your ARPU blended was about Rs.123 and hence there should be expectation of a downtrend and that is what happened this quarter. So, I just wanted to clarify an earlier comment that was made, I mean can we be confident that phase is behind of further ARPU compression?

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

Difficult to say sitting here and looking forward, because there was an earlier question asked on is there still downgrading that is happening. Obviously every quarter the downgrades that have happened have reduced in their intensity, simply because of the nature of the bundle plans. So as we go into this quarter, we are seeing a lower intensity of downgrades and that will only continue,

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when it will bottom out, I think time will tell. Right now you can already see from the revenue perspective, there has been some bottoming out that we have seen during the quarter. From an ARPU perspective, I would not comment right now.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay, got it. The next question is actually regarding the Infratel deal that got announced. And this is unfortunately a question, which I am sure the Infratel management will direct back to the Airtel management, because it concerns you guys. So allow me this, if you are uncomfortable, I am okay not taking an answer, but basically there I am just trying to understand the logic of having equal rights with Vodafone while having a higher stake?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, I think it would have been tough to do a deal otherwise.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay, got it. And just want to clarify the comment, which Nilanjan made earlier that till the deal happens, you will not be selling anything in Bharti Infratel, because that was not part of the press statement?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

So like I said, there is no restriction, but like for instance we have a stake in our nettle, which we can sell down. So we have 3% line there. So that amount we can sell down definitely.

Sunil Tirumalai - Credit Suisse - Mumbai

But beyond that you cannot?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Beyond that, the announcement says that there is no restriction. So I am going to just read from the announcement that there is no restriction on sell down.

Sunil Tirumalai - Credit Suisse - Mumbai

Okay got it.

Kamaldeep - Moderator

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

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Thank you everyone, for joining us on this call today and look forward to see you over the next quarter. Thank you.

Kamaldeep - Moderator

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