

## **Conference Call Transcript**

**Event: Bharti Airtel Limited Third Quarter Ended December 31st, 2019 Earnings Conference Call**

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## Transcript of Bharti Airtel Third Quarter and 9M Ended December 31, 2019 Earnings Conference Call

**CORPORATE PARTICIPANTS****Gopal Vittal**

Managing Director & Chief Executive Officer, India & South Asia, Bharti Airtel Limited

**Badal Bagri**

Chief Financial Officer India & South Asia- Bharti Airtel Limited

**Nakul Sehgal**

Corporate Chief Financial Officer, Bharti Airtel Limited

**Harjeet Kohli**

Group Director, Strategy & Business Development

**Komal Sharan**

Head - Investor Relations

**CORPORATE CALL PARTICIPANTS****Manish Adukia**

Goldman Sachs, Mumbai

**Sachin Salgaonkar**

Bank of America, Mumbai

**Parag Gupta**

Morgan Stanley, Mumbai

**Pranav Kshatriya**

Edelweiss Securities, Mumbai

**Kunal Vora**

BNP Paribas, Mumbai

**Vivekanand Subbaraman**

Ambit Capital, Mumbai

**Anna Zhang**

Rowe Price, Hong Kong

**Rajiv Sharma**

SBI Cap Securities, Mumbai

**Varun Ahuja**

Credit Suisse, Singapore

**Tammy Twee**

Tahan Capital Management, Singapore

**Bharat Shettigar**

Standard Chartered Bank, Singapore

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**PRESENTATION****Rajyita – Moderator**

Good afternoon, ladies and gentlemen. I am Rajyita, the moderator for this conference. Welcome to the Bharti Airtel Limited Third Quarter ended December 31, 2019 Earnings Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr. Badal Bagri. Thank you, and over to you, Mr. Bagri!

## Transcript of Bharti Airtel Third Quarter and 9M Ended December 31, 2019 Earnings Conference Call

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

Good afternoon ladies and gentlemen. Thank you for joining us today for this call to discuss our results for the Third Quarter and Nine Months Ended December 2019, which we announced yesterday. Present with me on the call today are, Gopal, Harjeet, Nakul and Komal.

The quarter gone by was very eventful for many reasons, including customer additions, industry repair initiatives, regulatory changes and judiciary outcomes. As you are aware, the industry is faced with an unfavorable verdict on the AGR definition case from the Hon'ble Supreme Court. As per the supplementary order, the affected parties were directed to pay the dues amount to DoT within a period of three months which ended on January 23, 2020.

Since the review petition filed by the operators seeking a re-examination of the matter was rejected, the operators have filed an application for modification of the supplementary order before the Hon'ble Supreme court, which is pending disposal. The COAI, on behalf of the industry has already made representations to the government for providing relief by way of deferment for the payouts besides granting a moratorium period and congenial interest rates. We are hopeful for a constructive engagement with the judiciary and the government on this matter. We will not be able to comment on this topic any further as the matter is sub-judice.

The Government continues to be cognizant of the stress faced by the sector and after deliberation by a high level committee of secretaries, has approved the option for the telcos to defer the payment of annual spectrum auction installments due for the next two financial years, while keeping the overall tenure of payments unchanged. This will provide a much-needed cash flow release to the sector.

Also, based on the plea from the industry seeking a floor tariff on data, TRAI has floated a consultation paper and is currently inviting comments from all stakeholders.

This quarter also saw regulatory change in the form of extension of interconnection usage charges regime till December 31, 2020.

Moving to business performance, let us talk about our mobile wireless business. The broader industry having now consolidated to three large players continues to seek some semblance of stability and growth. The industry in a long-awaited move, revised the tariff for the prepaid mobile customers upwards in December 2019. A combination of record 4G data customer additions, our continued focus on upgrading and high-value customers, coupled with tariff revisions has resulted in an ARPU increase of Rs.7 in the quarter to reach Rs.135.

We continue to believe that the industry ARPUs need to move up further to ensure viability of the sector especially at the time where the incumbent players having saddled with a large regulatory burden and yet have to continue investments towards next generation networks and 5G. We believe that industry ARPUs need to move to Rs. 300 in the long-term. This will provide the right balance between customer aspirations and sector investments.

The ARPU enhancement on the back of tariff hikes, data net adds, and overall upgrading of customer ensured that we continue the sequential revenue growth trend that we have been witnessing in the past few quarters.

This quarter there have been a reporting change on account of reorganization of our optic fibre operations, which have been transferred to a wholly owned subsidiary. As a result, the group reorganized the business whereby the assets and the liabilities pertaining to bandwidth capacities have been allocated directly to all the respective segments. Previously these operations were part of the mobile segment and bandwidth capacities were billed by the mobile services segment to other segments. To this extent, there has been a reduction in the reported mobile revenues; however, there is no change in ARPU on account of this reporting change and the same has always been reported based on customer revenues.

Our underlying mobile services revenue accelerated their growth trajectory this quarter and grew by 5.1% quarter-over-quarter which is one of our highest sequential growth rates recorded in the last five years. The quarter saw Airtel's highest ever 4G data customer additions of 21 million. With this we have 138 million data customers of which about 124 million are on 4G. We do believe that 4G handset penetration still has significant headroom to increase and therefore for the foreseeable future this number has potential to grow further.

Our focus on quality customers is also evident from the best-in-class yet improving operational parameters. The network continues to witness strong engagement of the customers as a monthly average data usage from the customer base grew by 6.2% sequentially and voice usage was at 898 minutes per month, a growth of 5.9% sequentially.

On the network front, we added more than 4200 sites during the quarter and close to 12000 mobile broadband stations. We also further added capacities across the network through additional sectorization and Massive MIMOs. We completed 3G shutdown in 11 circles and refarmed spectrum to 4G. During the quarter, we became the first mobile operator to introduce voice over WiFi in India. This product leverages cutting edge technology to enhance the indoor voice calling experience for Airtel smartphone customers.

In one of the fastest uptakes of a new network technology in India, customers using Airtel's voice over WiFi has already reached 1 million within first month of launch.

Our focus on creating an ecosystem of digital services has been yielding good results. Wynk Music, our music streaming app, continues to see a surge in its popularity amongst smartphone users in India with over 50 million monthly active users. According to

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App Annie data, this app was the most popular music streaming app in India with highest daily active users for the month of October 2019.

We continue to expand our partnership ecosystem and join hands with global leaders including Lionsgate, Starzplay and CuriosityStream to provide best-in-class content on Airtel Xstream.

Talking briefly about other businesses, Digital TV Services business continues to grow on the back of customer additions. This quarter we added over 100k customers, while sustaining ARPUs. Our converged digital equipment play Airtel Xstream has taken off to a very strong start and we are hopeful of scaling it up even more.

Airtel business continues to grow led by the demand of connectivity, data centres and solutions across the spectrum. Reported numbers were a shade lower due to seasonality around the hubbing traffic. While we continue to enjoy a very strong market leadership across the enterprise market in India, we are pushing further on growing the enterprise offerings in the SME space. We recently partnered with Google Cloud to boost collaboration, productivity and digital transformation by offering G Suite to small and medium-sized businesses.

Home broadband revenues have also grown this quarter on the back of our strong fiber network and simplified pricing propositions. We remain excited about this portfolio and continue our quest of focused expansion in the segment.

Overall, trends in other lines of business remain intact.

Moving on to other noteworthy areas and significant events for this quarter; on Infratel, as you would be aware the Board of Directors of Infratel have approved the extension of the long stop date for the proposed merger with Indus till February 24, 2020. We await the finality of the same to be able to comment on this topic any further.

Subsequent to the balance sheet date, Airtel successfully raised USD \$2 billion through QIP which is largest ever by a private sector issuer in India and \$1 billion through FCCB which is a largest offering from an Indian issuer in the last 12 years. Both the QIP and FCCB were priced at the tightest end possible with the QIP issuance at a mere 1.57% discount to the SEBI floor price and the FCCB at a coupon of 1.5% and conversion premium of 20% over the QIP price. The transaction was anchored by many existing and new shareholders. Several of the large global long-only funds, sovereign wealth funds, domestic mutual funds, insurance companies participated in the offering in sizable quantities. Long-only investors comprise 80% of the total demand for the QIP. We intend to use this fund, raised proceeds for augmenting our long-term resources and strengthening the balance sheet besides any AGR related eventualities.

Moving quickly to consolidated results. Consolidated revenue for the quarter stood at 219 billion up 3.9% compared to 211 billion in the previous quarter. Consolidated EBITDA was at Rs.94 billion during the quarter compared to Rs.89 billion in the last quarter. EBITDA expansion was broad based across India and Africa. EBITDA margins for the quarter was at 42.6% as compared to 42.3% in the previous quarter. Reported India EBITDA margin was at 41.2% flat quarter-over-quarter; however, on a like-to-like basis without the impact of higher license fee due to the adverse AGR judgment, margins would have been higher at about 41.5%.

EBIT margin for the quarter was at 10.9% as compared to 9.4% in the previous quarter. Net finance cost for the quarter at Rs.30 billion slightly up due to higher gross debt, even as the net debt for the quarter was lower. The resultant loss before tax and exceptional items for the quarter was at Rs.4.5 billion as compared to a loss of Rs.6.2 billion in the previous quarter. There was net exceptional charge of Rs.10.5 billion during the quarter which comprised of various items including interest on license fee and spectrum usage charges pursuant to the AGR judgment, charges relating to accelerated depreciation of 3G network equipment and a release of provision on account of full and final settlement of customary indemnities to a clutch of investors of Airtel Africa PLC. The resultant net loss for the quarter came in at Rs.10 billion.

Consolidated net debt of the company has decreased to 1149 billion from 1181 billion in the previous quarter. This does not take into account the proceeds from QIP which were realized only in January 2020 but include the impact of the perpetual bond raised in the company during the quarter.

The net debt to EBITDA ratio as at December 2019 was very healthy at 3.07 times as compared to 4.41 times as on December 2018 and 3.30 times in the previous quarter.

To sum up, the telecom industry in India is finally seeing industry repair through tariff hikes. Our mobile business has accelerated their growth trajectory while our non-mobile business continued to keep the upper trend intact. Africa remains on its profitable growth journey with reporting eighth consecutive quarters of year-over-year double-digit revenue growth while improving EBITDA margins. We are hopeful that we will get a favourable outcome from the engagement with judicial regulators going forward to ensure long-term growth and viability of this sector.

With this we open up for questions and answers.

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**Rajyita – 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 services from Airtel. Due to time constraints, we would request if you could limit the number of questions to

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two to enable more participation. Hence management will take only two questions per participants to ensure maximum participation. Participants who wish to ask questions may please press “\*” “1” on their touchtone enabled telephone keypad. On pressing “\*” “1” participants will get a chance to present their questions on a first-in line basis. To ask a question, participants may please press “\*” “1” now. The first question comes from Mr. Manish Adukia from Goldman Sachs, Mumbai. Mr. Adukia you may ask your question now.

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**Manish Adukia – Goldman Sachs – Mumbai**

Good afternoon and thank you for taking my question. I have two questions; firstly if you can just tell us what has been the initial customer response to the tariff hikes that you did in December if you can comment on the trends that you have seen in December and January to these hikes? Has there been any evidence of down-trading or some consolidation as a result of the tariff hike? Second, the 4G subscriber momentum in the quarter ending December was quite strong, material acceleration versus September quarter, can you help us understand what was driving this acceleration 4G customer adds and how sustainable are these trends. Thank you.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

Manish, this is Gopal. I think on the 4G customer additions we had a strong momentum in the last quarter and this was on account of some changes in tariffs that happened back in October and November where one of our competitors started charging for off net minutes and I think that led to a surge of customers consolidating their second SIM and switching to our network. So, I think that was one of the drivers. I think the overall response to the tariff hike I would say has been satisfactory. We have seen large parts of it go through without much of a concern primarily because tariffs are at an exorbitantly low level in the country today. We think that while this is a welcome relief, it is not good enough. I think in the end stage we need to see an ARPU of Rs.300 in Indian telecom and I think that is when we will earn a reasonable return on capital on the overall business. So, the short answer to your question is that the response seems to be overall good.

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**Manish Adukia – Goldman Sachs – Mumbai**

Gopal you talked about the fact that the tariff needs to go up further but given the fact that the recent tariff hike now need to do pretty material. Would it be safe to say that there might be some time now before we see another round of tariff increases and maybe a related question what is your expectation from the floor tariff consultation that the TRAI has initiated?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I cannot comment on timing on tariff hikes. I think even with this round of tariff increases, today our ARPU is about Rs.135, while the ARPUs will go up in the next quarter because of the tariff increases but that is just not good enough, I mean at Rs.200 ARPU, we will barely be head above water in terms of return on capital. So, it is clearly something that we need to see moving. However I cannot comment on what the timing is. I think the TRAI consultation has now been delayed in terms of response to the end of February so we are readying with our response then. Of course the regulator, the authority will decide how to take it forward. I think the situation in the industry has come to a stage where tariffs which have largely been under forbearance for over two decades have reached such an abysmally low level that the authority has put out this consultation to discuss this with the industry. Let us await and see what happens from here.

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**Manish Adukia – Goldman Sachs – Mumbai**

Thank you so much and all the best.

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**Rajyita – Moderator**

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

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**Sachin Salgaonkar - Bank of America – Mumbai**

Thank you for the opportunity. My two questions are firstly on Capex. Now Gopal is it fair to assume that directionally Capex may continue to go down before 5G hits on but at the same time we are seeing good net additions in number of towers or base stations that you guys are seeing so I just wanted to understand how are you thinking in terms of overall investments going forward so that is first question. Second question is predominantly on competitive landscape. Now are you guys generally looking to invest into areas let us say one of your competitors is not aggressively investing and are seeing some incremental room for market share at their expense. I just wanted to understand that as well.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

Sorry I could not understand the second question.

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**Sachin Salgaonkar - Bank of America – Mumbai**

So, one of your competitors Vodafone-Idea is talking about investing into those areas where they are relatively strong. So, I just wanted to better understand that is there room for you guys to sort of capitalize on that opportunity and gain more share?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I think firstly just to say that two years back our Capex had hit a peak of about Rs 24000 Crores. We have consistently said that our Capex outlook will be lower than our peak while we do not give guidance, I would say that it is a dynamic situation, we have seen a surge in demand in both data as well as on the transport side besides the access side and at the end of the day we are in a very competitive market. One of the important metric that we look at is the profitable market share with a focus on chasing quality customers, so there may be some increase in Capex in the immediate future, but overall like I said it will be significantly lower than where our peak Capex was. From a competitive standpoint, the way we look at is that we have about 190,000 towers, almost all of our towers are now enabled with 4G broadband. We are adding capacity as we speak. We have reformed all of our 2100 band spectrum more or less all of it and by March everything will be done. The second part is that we are looking to expand our towers. This year we put up about 12000 towers. We will continue to see some increase in towers next year as well. Primarily we will be focused on expanding coverage in rural areas where we believe there is an opportunity to go and expand to drive 4G and when that happens obviously we do that very prudently, very smartly so that we get the best return from the assets that we put out and hopefully that should also drive revenue for us. So, competitive landscape I would say we look at opportunities across. The only one guiding force that we put it at the heart of the strategy is that we really want to chase quality customers.

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**Sachin Salgaonkar - Bank of America – Mumbai**

Got it. One followup is what is your exit ARPU coming out of this quarter?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

We have reported an ARPU of Rs.135, I think exit would be close to Rs.140.

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**Sachin Salgaonkar - Bank of America – Mumbai**

Got that. Thanks.

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**Rajyita – Moderator**

Thank you very much Mr. Salgaonkar. The next question comes from Mr. Parag Gupta from Morgan Stanley, Mumbai. Mr. Gupta, you may ask your question now.

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**Parag Gupta - Morgan Stanley - Mumbai**

Hi Gopal, just a couple of questions. Firstly, just to understand when you talk about Rs.300 ARPU in the long-term, I just want to understand how quickly can you get there? So, can we see something happening on the postpaid side sometime this year itself or that is not on the anvil? Second is do you think we can see tariff hikes for prepaid customers in quick succession given the starting point itself is pretty low. So, I just wanted to understand how quickly can these go up and what exactly is the long-term mean out here? The second question is with respect to asset monetization. So, you have talked about the intention to monetize in the past and there has been a fair bit that has already happened. But can you tell us about what the level of preparedness on some of your other plans is be it towers, be it optic fiber or anything else. Just to get a better sense of what can we expect sometime this year. Thank you.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

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Let me take the first question. I think Rs.300 ARPU is the level at which we will return close to 15% return on capital. I am not able to comment on when that will happen. I think that if India needs to see or we need to see substantial investments in 5G over the next few years to make sure that we build future ready networks in line with the developed parts of the world, then I think the operators need to have healthy balance sheets and the capital required to actually put in those investments and that is the reason why we believe that is where the ARPU must go. On postpaid, you will appreciate that the postpaid pricing is still substantially higher than prepaid. The arbitrage has come down with the recent increase in prepaid pricing and we are beginning to see some momentum restore on our postpaid side of our portfolio especially in the months of December and January. I think that we will have to wait and let this tariff increase settle down and sometime next year we will have to reassess and see whether the market can absorb the second round of tariff increase. So I am not in a position to comment on it because it also depends on what happens with rest of the competition simply because if we have to take a pricing which we can, which we did in fact on December and the good news was that the others also followed. But if we did it and took up pricing and became completely uncompetitive in terms of the premium then you potentially could lose market share. Hence one of the things that we need to assess is how the market will absorb it, so I think that is an evolving situation.

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**Harjeet Kohli - Group Director, Strategy & Business Development - Bharti Airtel Limited**

Thanks Gopal. On your question Paragon monetization frankly the way to look at it is in two folds- you could seek monetization for the purposes of fund raising; or monetization is the activity in the right evolution point of the business or sub business vertical that we have.

In the context of fund raising it is important to see what has happened. There is no great necessity to be able to raise funding; either for liquidity purposes because of the recent fund raises that have been done both globally and in India. Also, from a perspective of managing the fund raise for a better capital structure or debt or equity mix I think the recent round of equity raise provides the right financial flexibility that one needs to have in the capital structure. So monetization driven out of any large fund raise required need not necessarily be the objective

Then I think the choice is one from our earlier stated position on the tower side where post the potential merger which is still waiting for approvals there is a possibility of stake sale that continues to be the stated position but frankly we had to be guided by how the merger process evolves. We still have three, four weeks to go before the long stop date expires and assuming that were to go through we will evaluate whether it is the right time to have a stake sale done there that is more in the way our historical evolution of the towerco portfolio has been. Apart from that frankly we have few other opportunities- fiber has been carved out in a subsidiary of AirtelIn DTH you would have seen earlier we had done a monetization, one could argue over time data centers is a case in point, but all of these have to be driven by the business objective and not necessarily because either the company needs funds or needs to monetize, so to that extent I think we will stay agile. In general post do well once before if there is any plan on that count.

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**Parag Gupta - Morgan Stanley - Mumbai**

Gopal just a followup on the first question, you talked about generating 15% return on capital employed which is what can get you to 300 just wanted to understand in the upcoming spectrum auctions are you going to be looking at picking up 700 MHz or anything for 5G now or do you think it is not appropriate given that the balance sheet is still not fully prepared?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

On 5G, if you look at it the ecosystem it is still nascent. Devices are still very expensive, and the applications are still to be developed. I think both in China and the US there is a very, very nascent ecosystem. The second factor, which we have talked about in the past earnings calls is that the reserve price of the spectrum that is being put on the block which TRAI had recommended. We are yet to see what DoT or the government does, but what TRAI had recommended on the 3.5 gigahertz band is close to a Rs 49,000 Crores or 50,000 Crores for 100 megahertz of spectrum. 5G requires large blocks of spectrum as you know. At 100 megahertz, Rs 50,000 Crores is just something that we cannot afford, and we believe it is too high priced. So, we will not pick it up at those prices.

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**Parag Gupta - Morgan Stanley - Mumbai**

Got it. Thanks Gopal.

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**Rajyita – Moderator**

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

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**Pranav Kshatriya - Edelweiss Securities - Mumbai**

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Thanks for the opportunity. A couple of questions; firstly Sir, if I look at the exit ARPU if I just take Rs.128 as a base ARPU till December 6 and then calculate what could have been the ARPU for the remaining period, I get a figure off Rs.153-odd so, your comment on Rs.140 exit ARPU I just want some clarity on that? Second question is you talked about that Jio is charging for IUC led to some customers coming back to Bharti Airtel and that is the reason for spurt in 4G subscriber addition. Have things changed after Jio started offering bundled plan with 1000 minutes off net? Thank you.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I think on the ARPU it is a bit premature to comment on where it will end up. The reason being that the price increase went through on December and customers have different types of plans, they have 28 day plans, there is 56 day plan, 84 day plans, so it is a mix of all kinds of plans and so the full impact of whatever we did will be visible only in Q4. Like I said, I think, Q4 ARPU will certainly be better than Q3. How much better it will be? It is a function of what happens from here till March which is dependent on SIM consolidation that we see, any down-trading that happens and so on and so forth. All of that we will track closely.

On net adds, I think the market is settled. October and November was the period where there was a changed dynamics given that one of our competitors started charging for off net calls. Since then I think it has kind of settled so we are back to an even keel and from here and hence we are driving the business in the same way that we have.

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**Pranav Kshatriya - Edelweiss Securities - Mumbai**

Just to sum it up on the second point, we should be expecting more like 8 to 10 million kind of subscriber addition going forward. Is that we should take from here?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

No, we do not give that guidance, Pranav. That is something that we do not do.

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**Pranav Kshatriya - Edelweiss Securities - Mumbai**

Thank you so much.

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**Rajyita – Moderator**

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

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**Kunal Vora - BNP Paribas - Mumbai**

Thank you for the opportunity. On postpaid subscriber addition, it seems very strong, almost 1.5 million, 11% increase quarter-on-quarter, what is driving this? Are you seeing movement of customers from your competition or is it Airtel Thanks, if you can throw some light on what is happening there?

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

Kunal, this is Badal here. So, I am assuming you are back calculating the postpaid customers from the prepaid percentage. So, there was small typo out there, correct number is 94.9% pre-paid customers. The revised deck has been circulated to the entire investor's community. So, there has been addition in the postpaid customers in the quarter but not as much as you have mentioned.

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**Kunal Vora - BNP Paribas - Mumbai**

That is helpful. Second is Jio started charging for off network outgoing minutes this quarter. How did it impact you in terms of your IUC revenue?

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



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I think that there was a change in the symmetry or asymmetry of traffic that we had during the quarter primarily because of this, but the way we look at it is that we have picked up extra customers, we picked up 21 million 4G customers and so net-net you can see the numbers reflected in our gross revenue growth. Clearly, it was a profitable mix that we were able to acquire.

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**Kunal Vora - BNP Paribas - Mumbai**

But did the IUC revenue itself go down, or let us say what is the net IUC you have been receipt or payments which you had made this quarter?

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

I just said that the ratios have changed. We do not report those numbers. The ratios have changed that is what I would say.

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**Kunal Vora - BNP Paribas - Mumbai**

That it is it from my side. Thank you.

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**Rajyita – Moderator**

Thank you very much Mr. Vora. The next question comes from Mr. Vivekanand Subbaraman from Ambit Capital, Mumbai. Mr. Subbaraman, you may ask your question now.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Thank you very much for the opportunity. I have two questions; one is on the ARPU trends. Could you help us with the broad contours of the 4G ARPU versus the non-4G ARPU base and similarly postpaid versus prepaid and could you comment on whether the tariff hike has resulted in any change in consumer behavior? Are they opting for a longer duration recharges to save money from SIM consolidation or any other trends that you are noticing that is worth calling out? Second question is on the Capex. You mentioned that there could be some increase in Capex as you look to add quality customers. So, could you comment on the capacity utilisation levels at present and where do you look to keep this going ahead also? Thank you.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

On the 4G ARPU I think we have mentioned in the previous earnings calls that we do get an increase in ARPU as and when people upgrade from 2G to 4G on the average that translates about Rs. 60 - Rs. 70. Postpaid ARPU tends to be higher. If you look at postpaid plans our minimum plans are at Rs 399 and then go up from there so you can do the math based on your assumptions, but its a substantially higher ARPU then what we get on prepaid. On the trend, post the tariff increase I think it will be a bit early to tell you what happened. I would broadly say that whether you look at ARPU, whether you look at SIM consolidation or whether you look at data consumption, all of those metrics seem to be on track. So, broadly I think, it has gone in line with what we were expecting. On Capex, I think, with the 3G refarming or the 2100 band refarming that we did, we were able to get utilization of about 72%. The Capex is not going up in a way. What we are trying to do is to pull forward some of the Capex given the incremental consumption that we have seen on the data side, and I think that is a sensible thing to do because ultimately you know we are here to serve customers in a profitable way.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Just one small clarification, so the refarming of the 2100-megahertz spectrum is giving you 70% to 72% higher capacity, is that what you are saying?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I was commenting on the overall capacity utilization which you had asked

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

**Transcript of Bharti Airtel Third Quarter and 9M Ended December 31, 2019 Earnings Conference Call**

Okay and where should this be on a steady state basis, the utilisation level that you are targeting?

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

There is still headroom to drive that up further, but there are many things to look at. It is not as simple as just looking at capacity utilisation because it is not just the capacity utilization, but it is also concurrency of traffic in a given location. When there are many users using the network you may still run a lower capacity utilisation, but you are not able to then carry all of those customers because of load on the signaling side, so it is a combination of different factors that need to be looked at. I think one of the important things that we look at is to see are we delivering the best experience on video streaming, on download speeds and things like that and that is the basis on which we look at where we need to invest. It is done very prudently on a site by site level. On the transport side, it is a direct correlation with the overall payloads that are happening across our businesses whether it is home broadband, enterprise or wireless. So, I think that is the way we look at it.

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**Vivekanand Subbaraman - Ambit Capital - Mumbai**

Thanks a lot for the clarification. All the best.

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**Rajyita – Moderator**

Thank you very much Mr. Subbaraman. The next question comes from Ms. Anna Zhang from T. Rowe Price, Hong Kong. Ms. Zhang, you may ask your question now.

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**Anna Zhang - T. Rowe Price - Hong Kong**

Thank you for the opportunity. I just had one question. It is about your rating. So how is your conversation with S&P and Fitch going because both of them put you on negative watch especially after you have done a great job in terms of addressing the regulatory dues?

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**Harjeet Kohli - Group Director, Strategy & Business Development - Bharti Airtel Limited**

I think that is a continuing communication. I am glad to report that they had set some triggers at least from a fund raise perspective, the capital structure perspective, most to all of them are getting met. Clearly as a rating agency, they also have to see the operating dynamics which are showing positive signs or rather changed operating dynamics with price increases also kicking in. So, I believe we will still engage with them. They have to reflect back on our results and post that they will do their own independent assessment. I cannot guide you on anything on the rating side, but I see no reason why first of all there should be any stress. But that said, how it evolves in terms of stability and/or potential rating improvement is something we will have to be guided by how the rating agencies think. Operating dynamics are improving, leverage overall is coming down and capital structure is fairly well positioned.

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**Anna Zhang - T. Rowe Price - Hong Kong**

Thank you.

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**Rajyita – Moderator**

Thank you very much Ms. Zhang. The next question comes from Mr. Rajiv Sharma from SBI Cap Securities, Mumbai. Mr. Sharma, you may ask your question now.

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**Rajiv Sharma - SBI Cap Securities - Mumbai**

Thank you for the opportunity. Just couple of questions from my side, the first one being Gopal, what kind of ARPU stabilization you see post this tariff hike is fully percolated to the entire subscriber base? Where will we be in the next three quarters in your view? Second is Vodafone's future is confusing and there are lot of assumptions there, but hypothetically if it was to shut down, what kind of implication it has for the telecom ecosystem, Bharti's towers, vendor ecosystem, what are the negatives here, positive is understood, their subscriber base goes between two operators and pricing power goes up, but what are the other sides of the coin and lastly, if this was to play out, will Bharti need more spectrum to add their subscriber base? That is, it from my side.

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**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

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ARPU stabilization, I think we will have to wait and see what happens. Like I said, I think, Q4 we should certainly see a higher ARPUs and where we are in Q3. I think by March, this round of tariff increase should have fully flown through into ARPU and beyond that any ARPU increase will be a function of three things. One is the natural upgrade that happens from 2G to 4G. Second is any acceleration that we are able to get on postpaid. Third is that any material changes in tariff. I think the first two are underlying drivers, which we should keep trying to drive and we got a whole program of Airtel Thanks to drive that, but the third one which is a tariff round, we talked at length earlier on the call, so I would not go and repeat that.

On Vodafone I think my view is that they will remain. I wish that they thrive. India needs a three-player market. It is the large enough marketplace to absorb three players. I think it will be good from all perspectives- - be it investment, jobs, reputation, that Vodafone survives and thrives, and I have no doubt that they will do so. The hypothetical question that you raised I think will need to be assessed based on what happens and I think it is a bit premature for us to go into that. The matter is as you know, and as Badal mentioned is in the Supreme Court, and we sought a petition to try and seek time, seek a permission from the Supreme Court which will allow the government and us to negotiate the terms of payment and once that matter is dealt with we will then assess what needs to be done.

**Rajiv Sharma - SBI Cap Securities – Mumbai**

Just one small followup from my side. You are at 70% to 72% capacity utilisation. If the 4G subscriber increase was to continue at this 21 million or let us say accelerate for some reasons because of the change in the competitive dynamics landscape, then do you think you will need some 4G spectrum in the next 6 to 12 months or you can do with the tower increase and the capacity you are already executing on?

**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I think if you look at our spectrum, we have sub gigahertz spectrum in about 11, 12 circles, most of it has been fired up. 2100 band will be all refarmed by March. That also will be fired up. On the 1800 band and the mid band, we have pretty much all across the country, we have pan India 4G network. TD which is on the 2300 band we still do not have most of our towers covered with TD, so there is a big capacity headroom to actually deploy 2300 there. The second place where we believe has significant headroom is to sectorize the sites. In other words, to most sites have a three-sector configuration. We could look at a fourth sector as well as a fifth sector. It needs to be done smartly in order to prevent interference but that means the fourth and the fifth sector essentially just need a set of radio units and you can kind of densify the network and get capacity. Finally, there are other solutions which we have access to. Things like Massive MIMOs, which give you substantial capacities because they have almost 256 beams that can simultaneously do both downlink and uplink through individual channels. So, that is the sort of technology that we could use before we actually start putting up more towers and so on. So, the large number of the primary growth around towers is to actually expand into rural areas where we are not able to deliver 4G coverage. The second area where we expand is where cities are expanding. As you know our cities are expanding constantly and so some coverage sites are required to actually meet that. Then there is a second area of investment, which is around transport and electronics. This is a modular investment based on surge in demand. It comes in chunks and we had made a substantial investment over the last 15-18 months on the transport side, but it will come in chunks based on where that moves and then of course there is fiber. Most of our sites are now one hop away capable of 250 MBPS. It is only in rural that they are about two hops away so some of that fiber will need to get rolled out, but that is secular Capex that goes in. Finally, there is core Capex, which the small component. That is completely modular and based on how the capacities move up. So, I think that is the way we look at Capex.

**Rajiv Sharma - SBI Cap Securities - Mumbai**

That is very helpful. Thank you so much.

**Rajyita – Moderator**

Thank you very much Mr. Sharma. The next question comes from Mr. Varun Ahuja from Credit Suisse, Singapore. Mr. Ahuja, you may ask your question now.

**Varun Ahuja - Credit Suisse – Singapore**

Good afternoon everyone. I have got three questions. First, Gopal you talked about increasing ARPU to Rs.300 level. I just wanted to understand how do you think it can be achieved given India has now reached a stage where the pricing is more like flat. Earlier it used to be usage-based pricing, a pyramid kind of a structure. So how fundamental change do you see has to be done in the way mobile is being priced or data is being priced in India. So, wanted to hear your thoughts how this can be achieved? Number two, the ARPU increase during this quarter was Rs.7 or 5% quarter-on-quarter and you have seen good addition into 4G. So just wanted to get a little bit clarity on how much is because of 4G subscriber versus the December price hike. Did the December price hike contributed to ARPU increment during the quarter? Number three, just a housekeeping question. If you look at the mobile service revenue that is being reported under operating section is around Rs.113 billion and what you have reported is around Rs.111 billion.

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So that delta is now negative. Earlier it used to be positive. So wanted to understand what is happening because of this change in reporting that has been done? Thank you.

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

Varun I will just take the last question first. As mentioned in our IR Pack if you go through the management discussion analysis section, which we highlighted in the opening speech as well that there is reorganization which was done, whereby the mobile segment used to house the bandwidth capacity, which was being charged to other segments, which are Homes , Airtel business and that was sitting as revenue in the mobile segment. Now those assets are sitting in their respective segment so that revenue in the mobile segment no longer continues and we have given a table, which clearly reflects what it would have looked like if the mobile revenues were sitting and the growth would have been close to 5.1% sequentially on a mobile external basis. On an underlying basis, we have also highlighted that the customer facing unit revenue, which is indeed is increasing 5.4% and that is an incremental information, which has been given historically throughout and ARPUs are calculated based on this customer facing unit revenue.

**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

I think Varun on your first question on ARPU and the construct of how to get to Rs.300 I think is a very legitimate question because today we have unusual situation in India where if you can afford to pay Rs.500 or Rs.1000 you are still paying only Rs.150 or Rs.270 or Rs.200, but if you cannot afford to pay more than Rs.100 then in any case you cannot pay Rs.200. So these bucket plans, which give you everything that you need including 1 to 1.5 GBs of data per day plus unlimited calling by paying about Rs.200 to Rs.250 is I would say have been unusual situation when you benchmark to other parts of the world.

India as you know has rich middle class and poor people and I think you need a construct where you get more allowances for paying more, so ideally if you have Rs.100, Rs.300 and Rs.1000 plan that would be the right kind of architecture. I am just giving you a very broad and you can have nuances within this, but that kind of an architecture needs to come about to make a very fundamental shift. Having said that you will know that people spend 4 to 4.5 hours on the device, the consumption on an average is about 13.5 gigabyte per month and people are speaking almost 800 minutes per month. That is a lot of consumption that is happening on the device and the mobile device has become almost a necessity because it does everything whether it is entertainment, commerce, payments and so on and so forth. So chances are that there will be a high propensity to pay as you even move up these bucket plans. Regardingn this quarter, we have seen Rs.7 ARPU increase, means, we still have not seen the flow through impact of this tariff round because like I said that on December 3, 2019 is when prices went up. Typically, people are on either 28-day plans or 84 day plans. Even all the 28-day plan customers would not have switched because if he moved on December 2, 2019 you still get to be ended a month so it still is something that will get reflected only in the next quarter.

**Varun Ahuja - Credit Suisse – Singapore**

Thank you Badal. I think I read the MD&A so probably I will take it offline. Gopal just a followup I remember you mentioned two, three quarters back the feature phone customers who were paying the activation daily or monthly minimum fee service what is the subscriber base now? That is, it from me. Thank you.

**Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia - Bharti Airtel Limited**

We do not give that number, but it is a pretty meaningful base that I presume you are talking about Rs.49 plan, which is a minimum, so it is a pretty meaningful base and there is opportunity to upgrade some of them.

**Varun Ahuja - Credit Suisse – Singapore**

Thank you.

**Rajyita – Moderator**

Thank you very much Mr. Ahuja. The next question comes from Mr. Tammy Twee from Tahan Capital Management, Singapore. Mr. Twee, you may ask your question now.

**Tammy Twee - Tahan Capital Management - Singapore**

Good afternoon. Congratulations for the good results. My first question relates to again the credit rating, when is the next ratings review by S&P and what is your confidence level on reaching or not reaching the downgrade triggers? That is my question.

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**Harjeet Kohli – Group Director, Strategy & Business Development - Bharti Airtel Limited**

I think we just covered it, but I can reinforce that some of the downgrade triggers that we have had earlier over the last three to six months ensuing from the Supreme Court negative order, as also over the last 12 to 18 months basis the operating dynamics in India, which had taken the EBITDAs down heavily in mobile segment in India. All of those triggers we have well managed. I think the key is clearly if you and I were the rating agency we need to see the sustainability of what changes are at work both in the operating mobile industry in India and also the corrections on the leverage and/or capital structure. In the second piece we are working on what we have absolutely in our hand, we have had all of those aspects tied in. I think the sustainability of the operating dynamics is what I would guess the rating agencies will have a look on. One of the rating agencies also had a trigger, which is more event based whether there is any deployment of capital in buying RCOM assets, etc., which as you know that process is over, and we are not there. So in general from our perspective we are reasonably well positioned, but that said this is our submission. I think they have their independent assessment. I would assume in the next three to six weeks there is a lot of rating committees will work over what they think is right plan on this and you will hear from them or from us.

**Tammy Twee - Tahan Capital Management - Singapore**

One follow-up question so, I understand that your total AGR dues is \$6 billion. Do correct me if I am wrong and you have placed \$3 billion on the capital markets by QIP and convertible bonds, so where is the residual \$3 billion that come from?

**Harjeet Kohli – Group Director, Strategy & Business Development - Bharti Airtel Limited**

I think the amount, which you have \$6 billion is likely more than what the company has assessed. The details of that assessment that we had done and accordingly whatever net incremental provisions had to be done in the quarter of September 30, 2019 when we announced the results in mid November are available. The sum total of that is close to \$5 billion and I am just taking round numbers here please.

You are right from a funding perspective in the unfortunate and ultimate event where the entire money is being asked to be paid upfront- the \$3 billion we have secured from the fund raised. For the balance, if you go and see our cash and cash equivalents and investments held on the balance sheet at the end of December 31, 2019 you will see a significant drawal of existing facilities that has already happened, so cash along with the funds raised is 100% backstopping any of the possibilities, but that said this is a matter, which is a bigger matter. Gopal mentioned on the evolution that has to be happening over here. We are waiting for direction from the Supreme Court and accordingly shall keep you posted.

**Tammy Twee - Tahan Capital Management - Singapore**

Thank you very much.

**Rajyita – Moderator**

Thank you very much Mr. Twee. Due to time constraints, the last question comes from Mr. Bharat Shettigar from Standard Chartered Bank, Singapore. Mr. Shettigar, you may ask your question now.

**Bharat Shettigar - Standard Chartered Bank - Singapore**

Thanks for the call. One question, this is on derivative liability line in the cash flow statement this quarter of Rs25 billion, I believe this pertains to the Africa indemnity. Can you throw some colour and more importantly have you seen the end of it or could we see some further outflows in future quarters?

**Nakul Sehgal - Corporate Chief Financial Officer - Bharti Airtel Limited**

Yes, to a great extent the amounts that you have alluded to in the cash flow is pertaining to the said figure. What we have also mentioned in our accounts is that this is consequent to a full and final settlement of the indemnities that we have carried in the books on account of certain investors of Airtel Africa and you will not see any exceptional item with respect to this going forward in the future. So, this is where it is.

**Bharat Shettigar - Standard Chartered Bank - Singapore**

Thanks a lot.

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**Rajyita - Moderator**

Thank you very much Mr. Shettigar. At this moment, I would like to hand over the call proceedings to Mr. Badal Bagri for the final remarks.

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

Thank you all for taking out and joining this call. I look forward talking to you again next quarter and meeting a few of you in between as well.

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**Rajyita - Moderator**

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.