Conference Call Transcript

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Bharti Airtel Limited Fourth Quarter Ended March 31, 2017 Earnings Conference Call

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PRESENTATION

Kamaldeep - Moderator

Good afternoon, ladies and gentlemen. I am Kamaldeep, the moderator for this conference. Welcome to the Bharti Airtel Limited Fourth Quarter and full year Ended March 31, 2017 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call.

In case of a natural disaster, the conference call will be culminated post an announcement. Present with us on the call today is the senior leadership team of Bharti Airtel Limited.

Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face.

I now hand over the call to our first speaker of the day, Mr. Nilanjan Roy – Global CFO. Thank you, and over to you Sir!

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 31st March 2017, which we announced yesterday.

Let me introduce you to the senior leadership team who are present with me on the call today – Gopal Vittal, Raghu Mandava, Jaideep Paul, Badal Bagri and Parag Toley. Many of you know Parag who will start heading up Investor Relations going forward.

A few thoughts on the industry and the company

We closed the year on a transformational note. In India,

- The industry disruption has hastened consolidation, as two large operators announced a merger between them;
- The telecom market moved to unlimited voice, bundled with large buckets of data,
- The new entrant finally announced the launch of its paid, albeit below cost services
- We expanded our integrated suite of offerings with the nationwide launch of Airtel payments bank.

In Africa, our efforts to strengthen our competitive position in weaker markets continued. We entered into an agreement to combine our operations in Ghana with Tigo. This will further strengthen our position in the market and offer huge benefits arising out of synergies in operations, resulting in better experience for the customers. With revenues close to $300 million, the combined entity would be one of the largest communication companies in Ghana.

Continuation of ‘free pricing’ by a new operator continued to jeopardize the financial health of the telecom industry in India. Sector revenues declined by ~6% QoQ in Q3’17 which marks the biggest decline ever seen in the sector historically. In the short to medium term predatory pricing is impacting all stakeholders, hampering government levies and taxes, including lenders with a debt exposure of over Rs 450,000 cr to the industry, as well as customers as operators struggle to invest on their networks.

In this heightened phase of competitive intensity, our priorities for the year center on retaining and growing our high-quality customer base while optimizing cost, all of which will be enabled via our network leadership and an uncompromising commitment to our customers. We firmly believe that we are the best prepared for this new normal, where the battle for capacity, network reach, and customer experience intersect.

With the proposed acquisitions of Telenor and Tikona, we will have the highest data spectrum capacity per site in the industry. Post completion of the deal with Tikona, Airtel will have spectrum in 2300 MHz band across all telecom circles in the country. As part of the deal with Telenor, Airtel will acquire Telenor India’s running operations in seven circles. With this, Airtel will add 43.4 MHz LTE-ready spectrum in the 1800 MHz band, further augmenting its overall customer base and network. The closing of the said transactions is subject to certain customary regulatory approvals and other closing conditions.

In a world of unlimited plans and surging mobile data usage, you need a network with the capacity to handle the load and meet customer expectations for quality service. We have built just that. As Airtel extended its network leadership, we were recognized by third party test results. Airtel has been rated as India’s fastest mobile data network, by Ookla and OpenSignal.

Backed by the confidence in our network, Airtel continued to launch innovative plans across postpaid and prepaid segments to address evolving customers’ demand in a highly competitive environment. We also announced full protection from bill shocks for our customers on International Roaming and abolishment of roaming charges on incoming calls for National Roaming w.e.f. 1st April. As we continued to enhance our customer experience, Airtel DTH launched ‘Internet TV’ – India’s first hybrid STB, powered by Android TV, which brings the best of online content to the TV screen along with a bouquet of over 500 plus satellite TV channels.

We have assembled platforms on targeted content pillars to leverage the growing customer demand for digital media. Wynk Music crossed the mark of 50 million app installs, and we announced a strategic partnership with Netflix to collaborate to bring popular video content to Airtel customers.

Our customers validated our efforts - Airtel emerged as the third Most Trusted Brand in India, across all product and service categories, in the coveted Brand Equity’s Most Trusted Brands 2016. Across the ocean, Airtel has been rated among the Top 10 admired brands in Africa by Brand Africa.

Coming to the highlights this quarter

As we continue to expand our network capabilities, during the quarter we invested Rs 28.5 bn in India adding ~20K Mobile broadband base stations. With the addition of Telenor and Tikona's spectrum, we will have 126 3G+4G carriers, highest in the industry. Our current year capex spend is shy of $3bn across both geographies. In order to create additional data capacities in light of increased data usage in the country, and to grow both coverage and capacity along with keeping a close watch on capex efficiency and productivity, our capex guidance for FY'18 stands similar to FY'17 spends at ~$3bn.

Voice realization per minute in the quarter dropped by 5 paise to 24.28 paise per minute, aggravated due to the tsunami of incoming minutes from the new operator's free tariffs. We did however see elasticity in usage as operators reacted with unlimited voice bundles, which while defeating the multi simming trend in India, resulted in total minutes on our network increasing by 23.8% YoY.

Our aggressive rollout of 4G, coupled with competitively priced bundles, helped the Company add ~3.1mn mobile broadband data subs in the first 2 months of the calendar year as per TRAI, while the rest of the operators with paying customers lost 3G+4G subscribers. Despite free offers from the new entrant, data usage on our network increased 53.4% YoY and data usage per customer crossed 1.3GB for the first time. Data ARPU, however, declined 17% YoY as we continued to curate usage among customers with our innovative packs offering bundled voice calling and substantial data benefits. As part of the industry customer base migrates towards ARPU bucket plans we believe there exist opportunities to upgrade customer ARPUs by giving more value through bundled data at various price points. We firmly believe that our competitive unlimited offers, coupled with the network strength and reliability, allows us to attract, retain and grow high-value customer relationships.

Revenue in Mobile India consequently declined 6.1% sequentially with a commensurate decline in EBITDA by 9.7% QoQ, leading to ~330 bps reduction in EBITDA margins YoY to 36.9%.

Our product portfolio in India beyond mobility was impacted this quarter. Home Broadband grew 3% YoY, the slow growth attributed towards Vardah cyclone in Chennai. DTH is seeing some residual demonetization impact and grew 10.4%, and on the Enterprise side, Global voice business was impacted due to change in traffic mix. With high focus on costs, despite top line QoQ de-growth, we added EBITDA margin in our other businesses. We continue to focus on our non-mobile segments and believe our diverse yet complimentary product suite gives us a unique opportunity to own the home market in India across the three screens (mobile, TV and broadband).

Africa continues to build on a potential turnaround. Underlying Africa revenue growth for the quarter was 2.6% Y-o-Y, as we shed some unprofitable voice revenues, and stricter KYC regulations in few countries. However, with our War on Waste efforts on opex efficiencies, EBITDA margin expanded by 710 bps YoY and now stands at 26.8% on a constant currency basis. We are pleased to inform that Africa has turned PBT positive for the full year for the first time in constant currency. We have now seen a steady improvement in the momentum of Africa performance over the last year across the top and bottom line with RMS gains in a few opcos.

Churn rate in Africa reduced from 6.8% as of last year to 5.2% in the current quarter. Customer growth with focus on quality helped garner quality customer acquisition. The twin engines of data and mobile money continue to drive Africa's growth story. Data is unfolding well with data traffic increasing 77% YoY. Data usage per customer during the quarter was at 752 MBs as compared to 509 MBs in the corresponding quarter last year, an increase of 47.7%. Total value of transactions on the Airtel money platform has witnessed a strong growth of 35.1% to $4.0 Bn in the current quarter as compared to $3.0 Bn in the corresponding quarter last year.

This continuing trend of growth in data volumes and correction of prices in voice, as well as the adoption of mobile money is a re-affirmation of the potential growth opportunity in Africa. Coupled with the demographic dividend, there is no doubt that Africa should see the benefits of scale in the future.

Now moving onto our consolidated financials

The consolidated revenues for the quarter dropped 8.8% YoY on underlying basis, adjusted for disposals of 2 Africa operating units, tower sales and sale of Bangladesh operations. Growth was further muted by 3.2% on account of Nigeria currency devaluation. Consequently, consolidated EBITDA de-grew 13.0% Y-o-Y with EBITDA margin dropping by 0.4% to 36.4%, led by India-SA margin drop of 2.4% Y-o-Y. The portfolio benefits and our operating leverage clearly visible in the muted margin impact.

Depreciation and Amortization costs have stepped up YoY primarily due to higher depreciation and spectrum expenses in India during the year. Net interest costs at Rs 19.1 bn increased as compared to corresponding quarter last year due to higher spectrum related interest costs.
The underlying effective tax rate in India for this period has increased by 2.4% on account of reduction of tax holidays benefits. Reported effective tax rate in India for the full year came in at 32.5%. The tax charge in Africa for the full year came at $160 Mn, which is in line with the previous year adjusting for impact for disposals. After accounting for exceptional items, the Consolidated Net Income for the quarter stands at Rs 3.7 bn.

During the quarter, we successfully completed the secondary sale of over 190 million shares representing 10.3% of our subsidiary Bharti Infratel Limited, to a consortium of funds advised by KKR and Canada Pension Plan Investment Board. The Company used the proceeds from this sale primarily to reduce its debt, keeping leverage in check. As a result, net debt for the Company decreased to Rs 914 Bn as compared to Rs 974 Bn for the previous quarter. The net debt excluding DOT and finance lease obligations stood at Rs 475 Bn as compared to Rs 520 Bn in the previous quarter.

High spectrum costs and consequent increase in associated amortization costs has resulted in decline of ROCE to 6.5% from 8.3% in the corresponding quarter last year. In line with our dividend policy, the Board proposed a final dividend of Rs 1 per share for the financial year ended March 31, 2017, subject to approval by the shareholders.

To sum up, predatory pricing by a new telecom operator in India is negatively affecting the industry. The Indian telecom industry is at the cusp of a transformation as we see data usage explode. We firmly believe that with our scale and efficiencies backed by our rich spectrum and network footprint, we will emerge only stronger with a superior market share position. Finally, focus on profitable top line growth along with capital reallocation is helping stabilize and turn around our African operations.

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

Kamaldeep - Moderator

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

Manish Adukia - Goldman Sachs – Mumbai

Good afternoon and thank you for taking my questions. My first question is on the trends that you are seeing on your network currently, so are you seeing at this point in time any increase in, for example mobile number portability from your network, have your customers who had stopped using your services because of Jio's free offering now started increasing their usage on the network, given that Jio has now starting to charge on its network at least marginally. The second question is on voice, again we saw spike in volumes in this quarter driven by incoming minutes and also through bundled offerings that you rolled out, can you give us a sense of what proportion of your customers today are on bundled plans and at Rs.114 has the voice ARPU now largely bottomed out those are the two questions that I have?

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

Manish, this is Gopal. In the IR pack we do cut out the customer base. We are not in a position to share exactly what the number of customers on our bundled plans are, so to your second question we do not give that data. On the mobile number portability we have not seen any substantial increase in mobile number portability, that is in line with trend, we have seen a slicing of ARPU and that is fundamentally coming on account of lower tariffs, you can see that is a direct correlation to lower tariffs, so the share of wallet may have been intact, but it is just that the consumption that we are seeing is coming at a substantially lower realization which has impacted ARPU. Coming back there are two things that I would see positively, one is overall churn coming down and secondly to your pointed question on MNP, no major increase in trends that we see.

Manish Adukia - Goldman Sachs – Mumbai

Right so when you say that the share of wallet has come downI understand that in the December quarter you made a comment that the customers who were remaining on your network, but they had shifted usage to Jio's network because they were free, but now that Jio has started charging, has that usage started coming back on your network at least in the early part of April and May?

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

I would say if you look at the overall consumption growth both on voice as well as data you will see a very sharp growth almost a 15% sequential growth on volumes on voice and about a 30% growth in data after quite a few quarters of flattish growth. That in a way signifies that some of that consumption is coming back, albeit at a lower realization, which is, not therefore translating into revenue.

Manish Adukia - Goldman Sachs – Mumbai

Right that is very helpful. Thank you and all the best.

Kamaldeep - 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.

Sachin Salgaonkar - Bank of America – Mumbai

Thanks for the opportunity and congrats for some good resilient margins and growth of data consumers in the tough environment. I have two questions. First question is wanted to understand how you look at ARPUs from a really big picture view because there are two elements to this, one is a part of your subscribers in last three, four months have trended to lower packages and the other part as, eventually some of the voice consumers will start using data and essentially end up paying more, so just wanted to understand in that overall blend how we should look at the trend of an ARPU and second question again on a really big picture view how do you view your ownership into tower companies in India, does it make sense to even own 50% or does letting go control as you did in some of the other markets , especially under the current circumstances when two of the three partners of Indus are willing to sell their entire stake?

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

Let me kick it off and take the first question, from a big picture view, Sachin I would say that this is still a market that ultimately has over a billion odd customers and with a total smart phone penetration sitting at about 240, 250 million, what you are likely to see over the next let us say three years is this number going up to maybe 600 to 700 million and that in effect has a real big impact and implication on the way data growths will actually take place. In the short term, clearly we are seeing financial pressure coming on account of eroding tariffs as we have pointed out due to predatory pricing, which is leading to loads of incoming minutes coming in for which we are actually investing in our networks, which is not the way we would like to do it, but that part is also happening. So in the short-term you are seeing ARPU compression, but you have to look at it like this, in a world of data what happens is when the customer gets habituated to using data and internet and seeing stuff, entertainment, commerce, social media and so on and you can look at the absolute consumption increase there is a big consumption increase per customer. Once that habit takes root then moving pricing at a time when there is equilibrium in the market will actually lead to all of that pricing coming back in the form of revenue, so our objective is very simple that we see long-term huge promise in this market. In the short-term there is financial stress and therefore in the short-term one of the major metrics that we are tracking and really relentlessly going after is the market share. You can see the value players melting down; the smaller operators are really coming under tremendous pressure because they are not investing in capacity. They have also not been able to play in the bundled minutes as well because of costs of actually operating there, the merger of several other players in the market or potential mergers leading to some amount of uncertainty so in all of this we feel that there is opportunity for us to accelerate our market share even as tariffs come down which is what has happened in the quarter leading to some revenue pressure, but long-term we are very optimistic about the ARPU construct of the market.

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

On the Towerco issue, the Africa and India story is slightly different. As you know in Africa these are really own towers. There were two parts of the equation , one is actually to get the synergy benefits of the towerco which goes beyond owning the tower company, so selling all our assets to our tower company and then consolidating tenancies and getting the benefits of cost on both rental and energy, and of course the second part was the monetization benefits which we got from selling the towercos. In India as you know, we already have deleveraged and monetized 20% of our Infratel stake actually 10 to an internal subsidiary which will give us headroom in the future to deleverage and 10% as I just mentioned earlier to KKR so we still have 50% stake. We have the headroom on 10% as well going forward so at this stage we do not see any particular need to actually divest the entire portfolio. We are quite comfortable with our leverage ratios and if any need arises this is asset of last resort but nothing as of now.

Sachin Salgaonkar - Bank of America – Mumbai

Okay that is clear Nilanjan. One small follow up is on CapEx guidance for next fiscal,if you could break it between India and Africa?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

So it will be roughly as what you see now about $2.5bn in India and about 500 million Africa.

Sachin Salgaonkar - Bank of America – Mumbai

Okay thanks.

Kamaldeep - Moderator

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

Kunal Vora - BNP Paribas – Mumbai

Thanks for the opportunity. Can you share your thoughts on how the 4G market is shaping up? The customers that might remain with JIO as long as they continue with their promotions and what will be your strategy to get them back onto your network, would you wait or do you think the plans which you are now offering are good enough for customers to come back to your network?

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

What is happening is that almost let us say 85% to 95% of the new smart phones getting shipped in to India are really coming in as 4G phones so the market has tipped over and shifted quite dramatically to 4G. The price of a 4G phone continues to hover around Rs.4000 to Rs.5000. There are some talks of a 4G feature phone that is likely to get launched in a couple of months that may come at lower price depending on how operators tend to play in that market. Our own sense is that one of the big measures we track is our share of 4G, new 4G devices coming into our network. It used to be about 35% a few quarters ago and then dropped down because the free offers that were run in by one of the competitors, but since then we have been able to inch that back and we are pretty pleased with the share of 4G devices that we are getting on our network. We have bunch of interventions that we do to actually get there from a whole lot of alliance with other trading partners,and actually looking at how do we intervene at the point of sale. There are some very, very significant programs that we run on very large scale and we have put in lot of investments in these programs in order to make that metric move and finally the other thing that we also look at is most of these customers who have picked up a SIM of a competitor, a 4G SIM, they continued to remain on our network and we have been able to entice them back onto our network with the right kind of offers and that is another metric that we look at so we look at those who we have lost but continue to remain on network, what can we do using our marketing science to actually bring that back. So we have to attack it from two angles, one is share of new 4G devices coming on our network and the second is how do we get back the wallet share that we have lost at the time when free services would be launched. That is also moving in the right direction.

Kunal Vora - BNP Paribas – Mumbai

Sure just a follow up on that, it looks like the new entrant has got disproportionate share of the 4G market how do you see the market share - if I look at 4G there is different kind of market share which is playing out right now while 2G or 3G market share is different. Do you see these market shares converging in the medium term as LTE feature phones get launched?

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

Well I think that currently if you look at 20% to 25% of this market, operators do not have 4G so you must remember that they are fundamentally operating on 2G and 3G networks so you are left with 75%, even within the 75% you are probably looking at the other two operators who have not got as wide a reach on 4G so to that extent I think the choice really for customer becomes one of two brands may be 1 or 2-1/2 brands and so the market share of the new entrant is likely to be higher than expected on 4G but the measure that we monitor is what is our market share and there we are okay and I think that is the most important metric to measure.

Kunal Vora – BNP Paribas – Mumbai

Government has formed a panel to look into the financial issues, the debt which telecom sector has and they are supposed to come up with some recommendation in the next three months. What do you think the government can do and what would be your suggestions to them?

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

We have also seen the same reports that you have seen on the press. We will look at it as an industry so COAI is going to work on this to actually come back with a point of view. I think there are a few things that come to mind. We are a very heavily taxed sector, across a whole bunch of levies whether if you look at license fee, spectrum usage charge, service tax and you add all that up it is a very substantial number and the question really is what we can do to actually get some rationalization on that at a time when the industry is under stress.

The second part is really the cost of spectrum itself which has historically been higher for various reasons, what can we do actually to bring that cost down, but importantly what we can do to defer some of the payments that need to be made to the government on both spectrum and also the interest rate that we actually paid. Some of these issues would give a lot of relief to the industry. I would say that this is an area that we will need to engage with the committee at the right point in time if we are invited to give our views, we will definitely give views and we are very hopeful that given the situation in the sector, a prudent view would be taken because our belief is at the end what matters is a healthy telecom sector because the economic growth in India will be served by actually having a very, very robust network across the country and data network and that will only get served if the financial health of the industry is viable in order to actually put in the massive investments that are required to bring that broadband across the country.

Kunal Vora – BNP Paribas – Mumbai

I understood. Thank you sir. That is it from my side.

Kamaldeep - Moderator

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

Parag Gupta - Morgan Stanley – Mumbai

Good afternoon. I just had two questions, firstly given kind of volume growth that you have seen in this quarter and you know potentially this is likely to continue with the promo offers. Do you see signs of increase in congestion in your networks and does that mean that over the next couple of years CapEx intensity will have to go up, so I know you have guided for $3 billion but you see upside risk to those estimates and then the second is you talked about 4G feature phones coming in the next few months. Do you think that there is going to be a pressure building up on 2G, 3G subscribers if you know some of the new entrants were to start pushing out more aggressive offers there and what would be your strategy for the same?

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

So to your first question, if you look at our spectrum position, our spectrum position is very, very robust. If you look at data spectrum across the 2100 band, 1800 band, 2300 band and the liberalized 900 band we have massive amount of spectrum that can really go to meet the capacity requirements over the next several years. The second point to make is that at the end this is a modular kind of industry where you put in CapEx based on what you see in terms of growth of volumes and therefore we will keep putting in investment as and when we see our growth I think that guidance from CapEx remains, we do not anticipate that this is going to be very substantially different from the overall guidance so within the context of spectrum we have and the modular investment that is required, we believe our capacities will be more than adequate to meet the surging demand arising out of lower prices. So that is very clear. The second question from you is around the VoLTE feature phones. I think it is early to say what is going to happen there. Let us wait and watch how that evolves. I think our objective as I said is very simple, we want to continue to increase our market share but equally we will be very prudent and selective in how we deal with the competitive pricing pressures, so that is something we will continue to do.

Parag Gupta - Morgan Stanley – Mumbai

Great. Thanks a lot.

Kamaldeep – Moderator

Thank you very much Mr. Gupta. The next question comes form Mr. Srinivas Rao - Deutsche Bank - Singapore. Mr. Rao you may ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

Thank you very much Sir. First on India, Gopal just your commentary up until now suggests that you would be focused to remain quite tactical even at the cost of margins for at least the short-to-medium term. How much do you think there is a leeway to continue with this stance against Jio at this stage and I see that obviously costs have been quite flattish and if Nilanjan can help us and say what could be the trend going forward for the next two to three quarters; that is on India? On Africa it would really helpful if we can get some feedback on what has driven the improvement, we understand that the competitive intensity has been a bit muted particularly in Nigeria, so any commentary around that would be helpful. Thanks.

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

Srinivas, I do not think I said that we would drive market share at the cost of margin, I do not think that is stated strategy of ours I am just saying that it is very important at a time of turbulence for us to continue to grow market share. Equally I think as you have seen our war on waste program is kicking. We will try and make sure that every rupee we spend is spent wisely. So OpEx is going to be a very big area of focus. And the third area of focus is going to be CapEx, both in terms of procurement savings that we are going to drive very relentlessly as also there are several opportunities to minimize CapEx to a combination of sharing with active infrastructure, fiber sharing. In addition to that, we are actually looking at every single site like it is a factory with profit center and really being prudent about putting in CapEx where we can translate it into revenues. Having said all of that I think in the next 12 to 15 months, it is very important that at a time when the industry is consolidating, at a time when the industry is in churn and there is a lot of uncertainty, this we believe is once in a life time opportunity for us to accelerate our market share. I think we want to grab it, we want to make sure that we get that right.

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

Regarding Africa, there are two parts to your question; one is on Africa and one is specifically on Nigeria competition intensity. First on Africa, if you see based on what Nilanjan has said we have been growing our revenues, have been quite muted at 2.6% underlying but what we have done is to focus a lot more on our quality revenues and our net revenues have actually moved up by about 4.5%. Along with this there has been a lot of working on re-engineering our entire model in order to lower our costs. I think this continuous effort has actually been the reason why our margins have continued to improve over the last few quarters. Coming to Nigeria, Nigeria actually is going through two or three changes. One is the massive change in currency depreciation that has put a lot of pressure on our cost and the second one is one of the competitors is under a little more pressure than before on funding and otherwise. So we see some very handsome growth in revenues in Nigeria but the profitability growth is still under pressure there but overall we have been able to move our profits both on revenue growth and also some very good cost reengineering.

Srinivas Rao - Deutsche Bank - Singapore

I understand. This is helpful. Thank you so much.

Kamaldeep – Moderator

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

Rajiv Sharma – HSBC - Mumbai

Thanks for the opportunity. I have just got couple questions. So Gopal, Jio is expanding its fiber, so just wanted to understand what kind of impact it may have in the medium term on your fixed line broadband business, your DTH business; they could be vulnerable because I understand you have done vectoring with your fixed line but is that enough to retain subscribers and protect revenues , and even the enterprise business may see some more threat in the coming days, so your thoughts on that, how do you look at these businesses and secondly if there is a 4G feature phone launched, how vulnerable would be Bharti's non-smart phone subscriber base because they could be the target to 4G feature phone as well and how do you plan to respond? Thank you.

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

Rajiv, the answer to your second question is let us wait and watch. I mentioned that earlier, it all depends on price tag and how attractive that phone is. If its priced for example is about Rs.2,000 to Rs.2,500, my sense is it would not be attractive because if the smart phone is available for Rs.4,000 so somebody upgrading from a Rs.700 phone will probably not go to Rs.2500 he will go to Rs.4000 phone, which is really attractive but on the contrary if its priced is at Rs.1000 well that is a different game and that will mean a massive subsidy so we will need to wait and watch and see how that evolves. It will need very robust locks. India as you know is a country where locks are broken quite easily and so how those locks actually operate is again to be seen. So I would say it is difficult to predict at this stage.

We will need to wait and watch. On your first question, which is on fiber; one of the things that we have done in the last two years is we had aggressively rolled out a lot more home passes, close to a million home passes last year that we rolled out which was a massive amount of rollout that we did. Secondly our overall growth in our home broadband business has been robust. We now have close to 2 million homes on home broadband, used to be about 1.1-1.2 million two years ago and so there has been a very significant growth in the last couple of years.

Our DTH business has again done well and that is a simple model based on, a satellite that enables us to cover the entire country. Our sense is that the V-Fiber that we have launched is now enabling us to deliver 40 mbps, we have now got almost 1.7 million homes equipped to actually offer V-Fiber. We are in the process of ironing out some supply chain issues and acquiring modems and so and so forth and will very, very soon in the next few months upgrade most of our customers on to 40mbps. It is a delightful experience and at 40 mbps you pretty much can do anything you want including live streaming of television on a large smart screen. So that is really our game plan and if that has come at a fraction of the cost because this is an upgradation of our existing copper plant, all the new home passes that we are doing are all based on fiber and we will continue to drive that.

We are also looking at leveraging wireless technologies to see what we can do to deliver cheaper broadband to the home. We had in the past from 2010-2011 ran a lot of experiments so we understand that game reasonably well. On the enterprise side, I think there are two parts to the enterprise side; one is postpaid and the other is of course the larger business around connectivity and collaboration where we believe that there is greater stickiness of customers especially if you bundle more products in, these deals can take much longer time horizons for movement from one place to another; so the issue really here is the cost of delivery, which we keep watching and seeing what the market dynamic is and we will respond as and when the time is right.

Rajiv Sharma – HSBC - Mumbai

Just one follow up, so will you evaluate smaller broadband players and cable players; at some point of time do you think there is a case to evaluate some inorganic opportunities in the fixed line broadband space?

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

You know we keep doing that from time to time. It all depends on the quality of the asset, particularly the quality of the fiber on the ground and quality of the infrastructure on the ground. Many of these sometimes are not great quality and that is where the issue is, so it really needs to be understood at a granular level. So I cannot comment on that at general level.

Rajiv Sharma – HSBC - Mumbai

This has been very helpful. Thanks a lot.

Kamaldeep – Moderator

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

Rohit Chordia – Kotak - Mumbai

Good afternoon all. Quick couple of questions from my side. First I just wanted to get some sense of your 4G coverage and capacity in India. Two simple questions there rather sub questions there; first one on the coverage side, of the 160 odd thousand mobile broadband towers as you report, how many are radiating 4G signals? Does not matter you know one base station or two, but how many of these are radiating 4G signals and on the capacity side again one very simple question; hypothetically if you were to make data free like Jio did, tomorrow, would your network be able to carry the sort of volumes Jio's network is carrying today, let us say about a billion gigabytes a month. So that is the first question on 4G coverage and capacity please?

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

We do not report out the specific deployment on 4G, we report it as broadband sites so it is 4G+3G and you can take a look at that. The answer to your question of whether we have the capacity tomorrow morning to run, to sort of theoretically give everything free and actually run the same capacity, the answer will be no but we have more than adequate spectrum to actually deliver even higher than that capacity.

The question really is how much of investment do you need to make and the question on the investment is what the modular nature of that investment is because we are certainly not going to give anything free. We will not make all our stuff free so to that extent it is a theoretical question but we are prepared, you have seen in the pricing erosion in our data rates, you have seen a 30% jump. We are not seeing any significant congestion on our 4G sites, the capacity utilization is still very low and as we speak we are rolling out more and more 4G sites; so the answer I would say to you is that in the next coming 12 months a very substantial part of our CapEx will only be towards fiber and 4G.

The CapEx going in behind 2G and 3G will be almost negligible, so to that extent the spectral efficiency of that technology, the cost per bit being lower and the incremental capacity, we will keep rolling out as and when we see more and more devices coming in, and as and when we see more and more capacity required. So in a way we are chasing capacity but we are going to be ahead of that demand, so supply will always be ahead of demand. It is not going to be so far ahead that we are going to put in three years of investment just because we want to match the same amount of capacity that is actually running on another network, which is essentially providing data services for free.

Rohit Chordia – Kotak - Mumbai

Thanks Gopal. A quick related question how far do you think are we away from any potential refarming of the currently being used for 2G and 3G spectrum for 4G purposes? My second question is really on your tower rentals, I mean in a scenario where your business is under pressure; I would assume more than just a war on waste you would be looking at every single line item on your cost side and I am talking purely from a wireless business standpoint very, very closely. We have a scenario today where Bharti Infratel reported a 30% ROCE yesterday. Your business is perhaps at consolidated level at 6.5%, wireless perhaps would be even lower. In a B2B scenario I would expect you to be trying to get those costs to come down, your tower rental cost. Any thought process on that or the strategic aspect, which is you being the owner of 61%of that business does that impact decision making somewhere on that side please?

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

So to your first question, I think towards the back half of this year one or two cities we may look at actually refarming some of our spectrum to 4G. I think the real important metric that we look at there is what is the amount of voice traffic being carried by 2G devices on a 2G network and if that number is continuing to fall, which it is in the key cities and it falls beyond our threshold that we have identified, then we will immediately start looking at refarming. My estimate is that that number will be breached towards the back half of this year so as we look at FY2018 and FY2019, we will certainly have refarmed a bunch of spectrum in some of the key cities; so I think that is the first point.

On the tower side it is we operate completely at arms length. It is entirely nondiscriminatory in terms of pricing for all operators and so we have MSAs that have been signed for many years. We have to abide by those MSAs; equally we look at driving efficiency so for example one of the big programs in the key cities that we run is actually putting up some of our own sites where the costs are lower and we have looked at some of those at a time when we were refarming spectrum and we ran into some capacity issues, this was about a couple years ago and we lost some spectrum. Some of those pieces we do look at. We also look at solid programs to actually drive down energy cost along with the tower company. We have a large number of sites that are moved from indoor to outdoor that has given a lot of energy efficiency and we also work on actually looking at other ways to invest so that our longer term energy bill comes down and so all of those programs actually work as well. We also look at solar to see how we can replace existing energy being used by diesel and so and so on and so forth in order to bring that cost down. So that is really the program that we run.

Rohit Chordia – Kotak - Mumbai

A quick third one if I can slip one, in the data world is there any way to establish a predatory pricing threshold? Voice, it is the ISD rate one can understand but in the data world can one really establish a predatory pricing level, I mean free, of course, is predatory; greater than zero, strictly greater than zero, please?

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

I think that is difficult to answer because we have to look at the cost of operating across different operators. I think the important one is to look at voice and on voice clearly you know if you are bundling in the way that the plans are currently at the rates that they are operating at then without doubt they are actually significantly lower than the cost production of their entire voice and data bundles.

Rohit Chordia – Kotak - Mumbai

I understand Gopal. Thank you very much, all the best.

Kamaldeep – Moderator

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

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you very much for the opportunity. I have couple of questions; firstly again when we are moving into a bundled world, I am wondering how do you assume the split between voice and data for a bundled customer when you report voice ARPU?

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

This is Badal here. We do a fair valuation of all the packages, which are being offered and basis that should the split between various offerings within that package is identified. There are mechanisms, which are used to arrive at that. If in the ballpark, you can say 20% kind goes to data and the balance goes to voice.

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

I think just to add separate texture to what Badal is saying; I think finally in a bundled world the realization actually does not matter any more. It is ARPU that matters and that is really what. The only reason realization continues to matter is there is still a large number of non-bundled customers so as a business we continue to look at it, but as bundling takes off and as it becomes larger and larger over the next few years, I think ARPU is the real metric that matters.

Sunil Tirumalai - Credit Suisse - Mumbai

Secondly good control on costs in India, I just wanted some colour on some of the line items especially the access network and SG&A, I mean access costs in absolute terms fell 5% when the minutes expanded 15% quarter-to-quarter. I was wondering what kind of a mix change or what drove that and network OpEx staying flattish and SG&A and how should we look at that going forward? Thank you.

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

In terms of network and SG&A I think it is all several programs, it is not one straight answer. While we continue to invest in our network which Gopal alluded to is 20000 sites rolled out in the last quarter as well, we continue to evaluate energy efficiencies, AMC cost reductions, which are continuously analyzed to kind of bring down the cost of operations in almost every line item. In terms of S&D it has been flattish. It is primarily driven by if you recall e-KYC. All acquisitions are now in e-KYC and had an accelerated pace on which almost 75% to 80% of our customer adds are on e-KYC. That has given us a substantial reduction in the cost. As far as access is concerned, access is purely driven by the volume of outgoing minutes from our network to others, with the free SIM we have seen a significant increase in incoming traffic from couple of operators that has also led to higher traffic growth.

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

The overall decline in access costs actually was due to the global business, so enterprise actually saw this decline of about 200 to 250 Crores. That was largely on the global voice side, which is largely a 5% to 6% in our business so the access cost came down there and we also saw a revenue dip there and in fact margins went up. So to triangulate on the enterprise side this is what happened.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you very much Sir.

Kamaldeep - Moderator

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

Sanjay Chawla - JM Financial - Mumbai

Good afternoon. Thank you for the opportunity. My first question is on your mobile subscriber additions. In the previous quarter we had seen a decline in mobile broadband customers as well as the data customer base, but this quarter we have seen a turnaround and you have added 5 million mobile broadband customers. Can you provide some colour in the sense what is the mix in terms of the new customers who are coming on board from your own customer base or from others? How much is the return of the usage or activity from customers who might have churned attracted by the free offers of Jio? That is one. If you can provide some colour on that. Secondly, you have also shifted your Airtel Payment Bank reporting into others. And for the EBITDA loss in other segment has shot up. There is a 170 Crores increase in the EBITDA loss. Can you just point out how much of that is due to the payments bank?

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

Let me take the first question. On mobile broadband yes we have seen a substantial increase in our mobile broadband customers and that is fundamentally which I referred to earlier in the earlier question arising out of two massive programs. One is driving incremental share of new 4G devices on our network through a whole bunch of go to market alliances and efforts that we are actually putting in place which is very, very substantial and is working very well for us and the second part is really going after those customers who have moved their usage away from us to the free-SIM but as the pricing came in try and attract them back with the targeted offers and that is something that has worked well for us. So both those things have worked.

On the others, Badal can answer that question, but a large part of that is payments bank and you remember this is a new initiative that we have rolled out. Our effort is to actually get more customers in. A lot of the costs that we are incurring is acquisition cost and marketing cost. We ran a big campaign last quarter, which therefore was run on payments bank and that was the large cost. We have also put up whole bunch of shop boards and dealer boards across the several banking points that we have and finally of course there are sales and distribution costs, which are really related to the acquisition costs. The reason we felt that we must separate this out is in transparency, it will help to actually decouple the mobile business from an underlying business that is very nascent and is in investment phase. So that is the reason we decoupled it so that you get a better picture of what really is going on.

Sanjay Chawla - JM Financial - Mumbai

So Gopal you are saying that bulk of the 170 Crores costs or loss increase in others can be attributed to the payment's bank, majority of it?

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

Yes.

Sanjay Chawla - JM Financial - Mumbai

If I could just slip in one more question. Can you share your thoughts on Telenor consolidation, Telenor India consolidation in terms of timing and what percent of the subscribers you hope to retain and what kind of an ARPU potential do you see of those customers?

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

Telenor market share currently is about 2.6 to 2.7. We are awaiting CCI approvals. So we are obviously forbidden to have any conversation with Telenor at this stage. The moment we get competition commission approvals then of course the rest of the approvals start kicking in. Like I said most value players are seeing poorer performance than us, that is probably not likely to be very different for Telenor as well. We expect these approvals to come soon and hopefully in the next few months we are able to integrate the operation and pick up a substantial part of that revenue and market share.

Sanjay Chawla - JM Financial - Mumbai

So you think there is a possibility of retaining 100% of the customers?

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

Difficult to say. Some of them may go, because a lot of them are deal hunters, but then our effort will be to try and retain as much as possible by playing pricing in a way that enables us to retain, and remember at this point in time with the bundles and all that are happening, these pricing that we are operating at today is actually at the same level perhaps lower than many of these other smaller operators. So the world has changed.

Sanjay Chawla - JM Financial - Mumbai

Thank you very much and all the very best.

Kamaldeep - Moderator

Thank you very much Mr. Chawla. 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 taking my question. I have two questions. One really on your India Mobile tariffs. Do you think your current tariffs are essentially competitive versus Jio's or do you expect further downward pressure in tariffs in the coming months? The second is really on your credit rating. Specifically I think Moody's has said that it is looking for Bharti's leverage to trend down towards three times by June and if not there is a risk that could put on your rating or negative outlook? Can you comment on this and how important it is to maintain that rating? Thank you.

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

On the tariff Gopal has already mentioned. At this stage as you know there is a market offer up there. We still believe this is well below cost by the new operator and we are having competitive offers to match that, but this has to play itself out over the next few months and we will have to see how it plays this out.

Parag Toley – Head Investor Relations

Sharon, on the credit rating issue, you have seen us actually de-lever to the tune of about $3 billion via tower sales, $2 billion in Africa and about a $1 billion in India. You have also seen that we have kept aside about 10% of Infratel in a subsidiary which in effect can be sold without waiting for board for approval. So if needed that 10% is another about 0.2 turns to the EBITDA. This is over and above any FCFs that we are generating currently. Basically, business comes first, but if needed push comes to shove, we do have room to de-lever with that 10% stake if there is demand we look at it then just like we went to the board earlier this year. That is always an option but nothing that we are planning right now. Nothing that is on the horizon and nothing that we are pressured to do at this point.

Sharon Chen – Metlife - Hong Kong

Thank you.

Kamaldeep - Moderator

Thank you very much Ms. Chen. The next question comes from Mr. Deepak Sharma, AllianceBernstein, Pune. Mr. Sharma, you may ask your question now.

Deepak Sharma - Alliance Bernstein - Pune

Thank you so much. Actually most of the questions are answered. Just one question; during this quarter and particularly this year we have seen a lot of amount of money being held up in the working capital, the change in the working capital when I look at the cash flow. Can you please note the main reason for the same?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

I do not think anything particular points to this in quarter four, we had to pay the license fee in advance so Q4 always sees an extra payout but otherwise nothing unusual there.

Deepak Sharma - Alliance Bernstein - Pune

Also Sir looking at our CapEx of around 3 billion and most of the time it remains more of debt funded. So which will again increase our leverage ratios. So are we looking for an opportunity to further de-lever or what is the plan Sir?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

I think the CapEx for this since our operating free cash flow is positive. Our EBITDA is nearly 32000-odd Crores and our CapEx is about 20000 Crores, so we do not see any real increase in our debt profile due to the increased CapEx, but like we said if there is an opportunity and if there is pressure on the leverage we always have opportunities but at the moment, our free cash flows are consistent both for our interest costs, for our CapEx and both for our tax payouts. So we do not see, of course there is refinancing, which always goes on which is substituting one colour of debt with another colour of debt, but nothing from and not really increasing the leverage really.

Deepak Sharma - Alliance Bernstein - Pune

Thank you.

Kamaldeep - Moderator

Thank you very Mr. Sharma. The last question comes from Mr. Sanjesh Jain from ICICI Securities, Mumbai. Mr. Jain, you may ask your question now.

Sanjesh Jain - ICICI Securities -Mumbai

Thank you for the opportunity. I have got two questions. One on the India side. Gopal, you mentioned about network sharing for cost optimization, can you throw some more colour on that side? Second, on the Africa side, we are either number one or number two in most of the markets we operate today, but our EBITDA margins are far lower than what generally a number one or number two operator generally has. So if there a more opportunity for us to increase EBITDA margin on the Africa side? That is it from my side.

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

I will take the first question. On sharing we have two things that I can talk about. One is fiber sharing. We have over the last 18 months done extensive amount of fiber sharing with most of our competitors. I believe there is no point in digging streets all over again. So where there is already laid fiber we swap and we do it on both sides and that has helped us a lot and we saved several hundreds of Crores because of this. The second place that we are looking at is trying some experiments and trials to leverage the new policy that DoT has come out with, on active infrastructure sharing, which is really basically you use your individual spectrum but run it off the same base station. That is something that we are trying with a couple of competitors and trying out, piloting it and if that works in rural areas and small towns we may extend that more during the course of this year. So those are the two pieces we are working on.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

That will give us a substantial savings on OpEx. Of course the trial itself will give us small savings, but if it works then we can extend it and make it larger.

Sanjesh Jain - ICICI Securities -Mumbai

That was helpful and on Africa?

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

On Africa basically you need to look at it, one is the scale of the business in each OpCo, in each country and that determines the profitability along with the market share. Having said that we are actually a portfolio of quite a few ones and twos and also quite a few threes and fours. So I think you need to look at it as a portfolio totally, but as I told you earlier that we have been continuously working on improving our quality revenues, which is improving our net revenue ahead of our gross and also working on our cost reengineering in order to improve our EBITDA.

Sanjesh Jain - ICICI Securities -Mumbai

So do we still see some headroom in terms of improving the margins in the coming years?

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

We do not give you any guidance as you know and as Raghu said there is opportunity for efficiencies, we continue to drive that.

Sanjesh Jain - ICICI Securities -Mumbai

That was really helpful. Thank you.

Kamaldeep - Moderator

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

Nilanjan Roy – Global Chief Financial Officer - Bharti Airtel Limited

Thank you for joining us on this call today and we look forward to meeting some of you in person over the next quarter in investor relations meetings. 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.