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Srinivas Rao

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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 second quarter ended September 30, 2016 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. In case of a natural disaster, the conference call will be culminated post an announcement.

Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I 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

Good afternoon, ladies and gentlemen. Thank you for joining us today for this earnings call to discuss our results for the second quarter ended 30th September 2016, which we announced yesterday.

Let me introduce you to the senior leadership team who are present with me on the call today – Gopal Vittal, Raghu Mandava, Jaideep Paul and Harjeet Kohli.

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

In August 2016, Department of Telecommunications (DoT) released the NIA in which 1,434.75 MHz (paired) and 920 MHz (unpaired) spectrum across all bands and service areas was put up for Auction. The auction lasted for 5 days and raised Rs. 65,789 crore for government. We thank the Department of Telecom for addressing the long standing demand of the industry by putting out a large quantum of spectrum across multiple bands in the latest auction. However, the 700 MHz spectrum went unsold and its high price didn't justify any economic case for us.

DoT has released new guidelines for the computation of SUC, according to which the weighted average SUC rate will be computed for all spectrum held by an operator, including BWA spectrum acquired in 2010 restricted to a minimum of 3% of AGR and subject to a floor. This is a welcome move as the weighted average SUC rate will be computed for all spectrum held by an operator, avoiding the contentious issue of revenue segregation from different spectrum bands.

Now, let me turn to the key company developments.

We are happy to announce that through strategic buying in the latest spectrum auction, we have further strengthened our pan-India spectrum portfolio. Airtel has acquired 173.80 MHz of spectrum worth Rs 14,244 Crores - 43.80 MHz of paired spectrum in 1800 MHz and 2100 MHz bands and 130 MHz of unpaired spectrum in 2300 MHz band. Over 94% of our overall spend was aimed at enhancing our mobile broadband capacities. The Company now has 4G and 3G spectrum in all circles, giving it the widest mobile broadband footprint across the country. Over the past six years, we have acquired spectrum worth nearly Rs 100,000 cr through auctions and trading which will continue to reinforce our leadership position in key geographies and enable us to effectively participate in and shape India's phenomenal data growth story.

Our unique network initiative "Open Network" has received positive response from customers, who have shared feedback and suggestions along with providing leads for putting up network sites. Consequently, over 9000 Airtel network sites across the country have been upgraded and over 30,000 have been optimized. 4G in Madhya Pradesh & Chhattisgarh has been rolled out on 10 MHz spectrum in the 1800 band using FD LTE technology, the third such circle in India to do so. We have also deployed 4G Advanced Carrier Aggregation technology in Karnataka and Mumbai for superior 4G experience, with combined bandwidth capacities of 2300 MHz (TD LTE) and 1800 MHz (FD LTE).

The Company unveiled a new digital gateway with its MyAirtel App that will offer the best of web to users through a curated set of apps for all their mobile application needs. In addition to its convenient self-care features, the re-launched MyAirtel App will now have an 'Airtel Apps' section that will have a collection of apps under a single interface.

In continuation of our efforts to enhance customer experience, Airtel rolled out 20k units of Aadhaar based e-KYC solution aiming to have the solution in over 500,000 stores across the country in the coming months. The Aadhaar based digital verification offers convenience to customers and benefits the environment by eliminating the use of paper.

To spur India's digital revolution, we launched 'V-Fiber' to deliver superfast broadband to 'Digital Homes' which will deliver superfast data speeds of up to 100 Mbps over Airtel's existing broadband network and enable a great online experience in a multi-device environment. In an industry first, we also announced increased benefits for all our broadband homes customers, with 5 GB free additional data for every Airtel postpaid or digital TV (DTH) connection in their family.

In Africa, we divested 922 telecoms towers in the Democratic Republic of Congo and 588 telecom towers in Niger to Helios Towers Africa. The sale of our telecom operations in Sierra Leone to Orange was also completed in July. Over the past 24 months, we have closed tower assets sales in 11 countries and divested 2 country telecom operations for a sum total consideration of \$3.25bn. All the sale proceeds/agreements, denominated in USD or Euro have helped in deleveraging. These proceeds have also helped in reducing foreign exchange risk as well as ongoing tower capex and operations, thereby allowing a much sharper focus on customer centric activities in the market.

The Company has also announced that it will evaluate options for monetization of a significant stake in Infratel. We do note that there is no certainty of any transaction until such time the Board reviews and approves the final proposal.

Let me now turn to the Company's operating metrics

In India, Airtel continued its trend of industry leading net additions. We added 4.2 mn customers this quarter, taking our total customer base to over 259.9 million. At the same time, our focus on quality subscribers helped maintain our churn levels, which continue to be the lowest in the industry. With the industry's highest incremental RMS growth of 1.3% Y-o-Y, our Q1 revenue market share touched an all-time high of 32.7%.

We are happy to note that despite seasonal weakness, total minutes on our network increased by 11.1% Y-o-Y, highest in last 20 quarters, to 313.4 Bn as compared to 282.1 Bn in the corresponding quarter last year. Owing to competitive pressures, voice realization per minute in the quarter dropped by 2.16 paise to 32.42 paise on Y-o-Y basis, though we have seen positive elasticity on this drop resulting in voice revenue growth of over 4.1% Y-o-Y. We do believe that the on-going market consolidation has brought with it opportunities to increase RMS. Given that there is a distinct tail of market share available to be taken by leaders, our principle to participate in this lower yielding market shall purely be to optimize market share, revenue growth and margin.

We are happy to report that we continue to add healthy data customers with 62.7 Mn data customers (24.1% of total customers) as on September 30, 2016, representing a growth of 22.8% YoY. The company's continued investments and roll out of 3G and 4G have resulted in a 4.2% YoY growth in data ARPU. Data ARPU this quarter stands at Rs. 201. We continue to curate usage among customers with super saver packs and enable data penetration through the right price points, which generate an increase in demand,

and are fundamentally accretive. With additional spectrum and a pan India mobile broadband presence, we would look to keep up our investments on data to drive growth going forward.

While we are seeing a slowdown in growths sequentially due to free services being offered by a new operator, overall revenue momentum in India has been sustained during Q2 with a growth of 10.1% Y-o-Y. Further, sustained cost efficiencies led to an improvement in EBITDA margins, which expanded by 260 bps Y-o-Y to 42.8%.

We continue to show strong performance in our non-mobile portfolio in India. Homes grew 14.9%, Airtel business grew 19.2% and DTH grew 20.9% on a YoY basis. We believe our diverse yet complimentary product suite gives us a unique proposition to own the home market in India across the three screens (mobile, TV and broadband).

Over the last 2 quarters, Bharti Airtel has divested 2 country telecom operations (Burkina Faso & Sierra Leone) in Africa. Effective current quarter, financials and operational parameters have been shown for balance 15 countries and the historical periods have been re-instated to make them comparable.

Underlying Africa revenue growth for the quarter was 4.7% Y-o-Y, backed by our focus on profitable top line growth, led via localized distribution, stronger data networks and our war on waste program. Our high focus on costs have led to a significant EBITDA margin expansion of 5.3% Y-o-Y, normalized for divestment of tower assets. Our Africa EBITDA margin now stands at 23.5%.

Customer growth with focus on quality helped garner the highest net adds in Africa over the past 4 quarters, with churn remaining stable. The twin engines of data and mobile money continue to drive Africa's growth story. Data is unfolding well. Data traffic has more than doubled on Y-o-Y basis to 34.3 Bn MBs compared to 15.8 Bn MBs in the corresponding quarter last year. Data usage per customer during the quarter was at 670 MBs as compared to 405 MBs in the corresponding quarter last year, an increase of 65.5%. Total value of transactions on the Airtel money platform has witnessed a strong growth of 53.7% to \$ 3.8 Bn in the current quarter as compared to \$ 2.5 Bn in the corresponding quarter last year.

This continuing trend of growth in customer base, volumes of voice and data, as well as the adoption of mobile money is a reaffirmation of the potential growth in Africa. Coupled with the demographic dividend, there is no doubt that Africa will see the benefits of scale in the future.

Now moving onto the quarter's financial results

Consolidated revenues increased 5.6% YoY, normalized for impact of divestment of operating unit & tower assets in Africa. Revenue growth was muted by 3.3% on account of full quarter impact of Nigeria currency devaluation, normalizing for which, underlying revenue growth was 8.9% Y-o-Y. EBITDA margin improved significantly during the quarter to 38.4% as compared to 34.7% in the corresponding quarter last year, contributed by both India & Africa. Depreciation and Amortization costs have further stepped up primarily due to higher depreciation and spectrum expenses in India during the quarter. Net finance costs at Rs 19.1 bn were almost flat as compared to corresponding quarter last year. Higher interest on borrowing due to spectrum borrowing cost was off-set by lower forex losses in current quarter.

The underlying effective tax rate in India for this period has increased by 3% on account of expiry/reduction of tax holidays benefits in select units. Though due to certain one offs, reported effective tax rate in India for the period of six months came in at 29.8%. The tax charge in Africa for the period of six months ending September 30, 2016 came at \$ 69 Mn has been lower primarily due to change in profit mix of the countries.

The consolidated net income after exceptional items for the quarter came in Rs 14.6 Bn, compared to Rs 15.4 Bn in the corresponding quarter last year.

Net debt for the Company marginally came down at \$12.2 Bn as compared to \$12.4 Bn for the previous quarter, though the net debt excluding the DOT obligations has decreased by \$343 Mn as compared to previous quarter. High spectrum costs and consequent increase in associated amortization costs has resulted in decline of Return on Capital Employed to 7.4% from 9.1% in the corresponding quarter last year.

In conclusion, focus on profitable topline growth along with capital reallocation is helping stabilize and turn around our African operations. In India, the telecom industry is at the cusp of a transformation as we see data usage explode with the entry of a new operator. 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.

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

Kamaldeep - Moderator

Thank you very much. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation. Hence management will take only two questions per participant to ensure maximum participation. Participants who wish to ask questions may please press "*" "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.

Manish Adukia - Goldman Sachs - Mumbai

Good afternoon, thank you for taking my question I have two questions. First question is on Africa. Can you please help us understand the underlying strengths in the Africa business? Margins expanded Q-o-Q, despite asset sales and FX headwinds that you saw in Nigeria. What is driving this please? And if you can also tell us how much did you sell your towers in Niger and DRC for, which I think you concluded in this particular quarter? And the second question is on your Infratel stake sale monetization, which you talked about. Can you please give us some more color on it as to what timeline you are looking at, the rationale for the stake sale and the timing of this announcement, as to why this announcement is made now, and not, let's say, a few quarters later, or a few quarters earlier? Those are my questions. Thank you.

Nilanjan Roy - Global CFO - Bharti Airtel Limited

On the tower sales, I don't think we are in a position to really give the valuation of these sales. I will hand over to Raghu to explain the margin improvement trends on the Africa underlying business.

Raghunath Mandava - Chief Operating Officer - Bharti Airtel Limited

Hi Manish. What has happened in Africa is that we have been working on improving our mix of revenue in a much more profitable manner. And also this combined with the war on waste and OpEx corrections have really helped us to get this EBITDA movement.

Manish Adukia - Goldman Sachs - Mumbai

So is the current margin that you have delivered, is it a steady state margin? I mean from now on should we see this as a base? And even if I look at your revenue numbers, despite sales in two countries, where you divested late last quarter, it was a pretty healthy revenue growth. So should we take the new reported revenue and EBITDA margin this quarter as the new base rate for Africa?

Raghunath Mandava - Chief Operating Officer - Bharti Airtel Limited

I think we should be able to sustain and that is our goal.

Manish Adukia - Goldman Sachs - Mumbai

On Infratel's stake sale, can you give us any color on the timelines that you are looking at in terms of how much in the future do you think that you will be able to complete this transaction, etc., any details around that?

Harjeet Kohli - Chief Financial Officer - Bharti Enterprises

So Manish, Harjeet here. Just to supplement what Nilanjan was saying, , the fact is these decisions get deliberated, which are more strategic in nature, at the Board. And what we have done is in the spirit of absolutely fair disclosure, given the broad decision of the Board to assess the options available to the market. So really it is too early to determine what actually is going to happen, but it demands, given a listed company of our stature and with underlying subsidiary being also listed, to be fair in disclosures of how we are thinking. So I would actually not be able to comment on how much and what and how much time will it take. It is still too early.

Kamaldeep - Moderator

Thank you very much Mr. Adukia. The next question comes from Mr. Rajeev Sharma from HSBC Securities, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma - HSBC Securities - Mumbai

Just two questions; Sir, this is for Gopal, how do you see the competitive intensity going forward? Other than Jio, we have Idea and Vodafone who have added a lot of spectrum and they are trying to catch up on 4G. And Idea is also revisiting its voice strategy and they are pulling their tariffs down. You had some gaps versus competition on the spectrum side, , how do you plan to really turn this into revenue opportunity or market share gain opportunity? And second your thoughts on CapEx? Idea has suggested that FY2017 is their peak CapEx. Do you think 2017 or 2018 is your peak CapEx as well? Thank you.

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

Rajiv, let me take both your questions. This market has always been competitive and it will continue to be competitive. So I do not think anything fundamentally changes. I think on the one side you have a new operator offering free data and free voice. That has certainly put some softness on our data growth; you can already see that in quarter two. And I think there will be some continued softening of data growth, primarily arising out of that. They have already amassed about 23 -24 million customers maybe 25 million and this will grow a little bit more during the course of the next three months. We assume that their commercial launch will happen sometime in December, but that is still unknown.

The second thing is, what is happening in the market is that the smaller players, the number four, five, six, seven, are really getting squeezed. And our sense is that 23%-24% share that is there with these smaller players is certainly up for grabs and you will see a lot of that move. In fact, if you look at the trajectory over the last several years, you will find the incremental market share that the top operators have garnered has been well ahead of their existing share. So in a way there has been passive consolidation over the few years and I think this will only accelerate. Second part to the competitive situation is that we have taken a position of rolling out our 4G networks in the last 15 to16 months. So we are well ahead of the number two and number three operator, from a fiber perspective, from a radio access perspective and simply just in terms of our understanding of managing multiple technologies and multiple layers of the network. And this is a clear one-year to one and a half year lead. So our sense is that we are currently in a situation, where from all aspects, whether it is our spectrum footprint, whether it's in terms of market share, or whether it is indeed the portfolio of businesses that we have, we believe we are very well positioned and we think that there is an opportunity for us to continue to accelerate market share. This year, in the first half, we had perhaps the highest increase in market share in the first six months of this fiscal year. So to that extent that momentum will continue. There will be some pressure on revenue, because of the points that I have already underlined and that means that we need to get tougher on war on waste and continue to tightly focus on cost. So that is the first part to your question.

As far as the CapEx is concerned, we had a very large year of CapEx last year, where we rolled out 4G across the network. We announced Project Leap, where we had said Rs.60,000 crores over a three-year period. We believe that we will come back to you very shortly with the guidance on CapEx for the following year. We believe we still are in rollout mode, and we still need to roll out our 3G networks in Kerala, which is a place where we have acquired spectrum. We will need to roll out 4G quite aggressively in many of the circles where we have traded spectrum. So I think this will continue. I am not in a position to give you the exact CapEx guidance right now, but we will come back to you very shortly on that.

Rajiv Sharma - HSBC Securities - Mumbai

Just a small follow up here. We have been talking about smaller players getting squeezed. But in this kind of hyper competitive scenario, what measurement or what benchmarks do you really use to understand the ROE of this customer, because the kind of money you spend could be their five months ARPU. So how much do you like to chase them and if there is no major upside coming from there, then how do you protect resetting your high-end base to the low tariff scenario, which we are seeing in both data and voice?

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

Rajiv, I think what we have been focused on is that we are kind of looking at a strategy that is predicated on playing multiple games simultaneously. So let me elaborate that. We have put a lot of emphasis on postpaid, strengthening our retail footprint, simplifying our pricing plans and really driving postpaid very high. And secondly, we have put a lot of emphasis on our customer experience, fixing the underlying processes, bringing down calls, making sure that we actually strip out failure. Third, tremendous obsession with network, both rollout and quality and I think that is also part of the customer experience. Fourthly, we apply a lot of science on looking at things like churn. Every single one of the retail outlets that we cover, 1.5 million of them, we know the churn that we have from that retail outlet. Our sales force incentives are aligned to it, we use a lot of technology for it and we chase this metric of the first two-month churn very, very rigorously. We also, from an operational standpoint, have divided the country into 650 districts and we monitor performance at a district level.

Suffice it to say that our primary goal is, are we getting revenue market share; secondly, are we getting revenue growth and thirdly, is that profitable? I think within that context, in a mobile network, you will have all kinds of customers. You will have customers at lower ARPU, middle ARPU, high ARPU, and we don't differentiate to say that this customer we do not want and that customer we want, but what we do want to do is strip out waste, so that when we acquire customers, we actually keep them. We do not want to keep churning them at a very fast pace in the first two, three months of their coming on to our network. And that is where a lot of our focus goes.

Rajiv Sharma - HSBC Securities - Mumbai

This is helpful. Thank you so much.

Kamaldeep - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Srinivas Rao, Deutsche Bank, Singapore. Mr. Rao you may ask your question now.

Srinivas Rao - Deutsche Bank - Singapore

First on Africa, just trying to understand the numbers there. Based on your reporting, the difference between the 15 country and 17 country financials is quite low, particularly in the last two quarters, at the revenue and EBITDA level. So, can you just explain, because our understanding of those two markets had reasonable EBITDA, when you were selling them to Orange, and the EBITDA was the metric for the deal. So if you can just explain that, that will be helpful. And then in that context, in Africa, just wanted to check MTN, one of your peers have looked at ramping up quite dramatically in terms of CapEx. Will that have any impact for you? That is the Africa question, or questions related to the African geography. On India side, do you see any competitive impact of Jio's launch, particularly on the voice side, that will be helpful. Thank you.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

So if you just look at our IR pack on page 11, we have given you the Africa constant currency of 15 countries and 17 countries. So the difference in both on the revenue side is about \$71 million on these two operations and the EBITDA is about \$25 million-odd for the quarter. So you can just multiply it by four to give you a reasonable estimate of the annual impact of these.

Srinivas Rao - Deutsche Bank - Singapore

Sorry, you said the constant currency for the 15 countries versus 17, right? Is that the way I should look at that now?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, so it was 866 versus 937 for September 2015, which is a difference of \$70-odd million, into four would be about \$280 million as a ballpark and on EBITDA, \$163 million minus \$189 million, which is about \$25 million into four, about \$100 million as a ballpark.

Srinivas Rao - Deutsche Bank - Singapore

On MTN's CapEx, and will you have any competitive impact?

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

As earlier communicated, we are working on modernization of our network and building 4G in a few of our countries. And that plan is on. As we have moved out of passive on tower sales, we would see CapEx going mostly into active and hence it should be more or less stable around the \$600 million, \$700million that was given as the guidance before.

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

As far as your last question Srinivas on the competitive impact of Jio, in this quarter, they ramped up acquisition. We understand that they had close to 20 million customers on their network. And as of now, they might have probably 25million-26 million customers. They are still adding at the rate of maybe 400,000, 300,000 to 500,000 a day, which means that by December you could potentially see 40 million customers in that ballpark. And after that there could be some slowdown because of the sheer absolute number of 4G devices in India. That will definitely have an impact, you can do the math, there will be some of our customers on a second sim on them. And some of that traffic could move on data first and maybe some of it in voice as well. We are watching this very closely. We have metrics that we track on a daily basis to understand what is happening. Like I said, there is some impact and that is leading to some softening on growth. Beyond that I think we will equally come back and look at how we need to respond and ring fence our own customers. The one thing I would say is that high-value customers are very well ring-fenced. On the postpaid side we are seeing very few customers actually go. It is more the deal hunters, value seekers at the bottom end, young people, traders who are switching. This is a game we know how to play. We have seen competitors like Telenor operating at half the price of us, Aircel and so on, and I think we have honed this game over the period of the last few years to understand how to individually segment at a customer level to see what kind of a pricing we need to do without spreading contagion all around the place.

Srinivas Rao - Deutsche Bank - Singapore

This is helpful. Just one on your related issue of customers, there has been a material uptake in the 3G penetration, the percentage of 3G subscribers to overall subscribers and also share of postpaid as a percent of net adds, which is kind of stagnating in the last two quarters. Any feedback as to what has changed or how things are on ground, because we have not seen that dynamic in Idea at least?

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

So what we have done in the last quarter when we spoke, I had expressed some concern on the slowing penetration on data and I think we have seen that plateauing over the last six months, actually two quarters prior. So we have put in a very comprehensive program to drive data penetration. It is a combination of sampling, and pricing. We have a monthly Internet pack now at Rs.29, which allows the customer to use it right through the month. There is also a lot of education and digital literacy that we are driving in piloting in a few places, which we are going to scale. So a lot of that has in a sense driven some of the penetration during the quarter.

Srinivas Rao - Deutsche Bank - Singapore

Understood. This is really helpful. Thank you so much Gopal.

Kamaldeep - Moderator

Thank you very much Mr. Rao. The next question comes from the line of Mr. Rohit Chordia from Kotak Securities, Mumbai. Mr. Chordia, you may please ask your question now.

Rohit Chordia - Kotak Securities - Mumbai

Thanks for the opportunity. Quick couple of questions for Gopal, please. First one, Gopal, very open-ended question, just wanted your thoughts on the entire POI issue, TRAI recommending penalties on breach of QoS regulations on the incumbents. So, any thoughts on that would be very helpful. Second, while you have spoken on this, I also wanted, again, broad thoughts on what would be the broad contours of your response to Jio, one in the free period and then once they start charging? They have announced some pricing plans, which can be seen as an indicator. Of course they are not final, so any thoughts on that would be very welcome.

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

Yes, I think, Rohit on the POI issue, just to set the context, we do not believe this is a battle to fight. This is something that we have done for 20 years. It is a part of our regulatory obligations, customer obligations that we provide points of interconnect and at the end of the day, we believe that our job is to fight in the market and fight to serve customers better. So this is an absolute non-issue, as far as we are concerned. Having said that, let me just give you a little bit of texture.

On August 30, Jio announced that they would launch on September 5, and between then and October 20, just five weeks, the amount of augmentation that we have done on points of interconnect has been absolutely nothing short of staggering. I mean we have never seen that kind of augmentation that we have ever done in the past. Secondly, the capacity that we provided, if you do a simple math, to say the number of E1s that are provided per million customers, the number of E1s per million customers that we have provided is more than 2.5 X that of any other operator in India. Thirdly, the regulation allows you 90 days to actually provide all this augmentation, and like I said, we have done that literally in five weeks.

And having said all of that, I think we are aware of this proposed penalty. We believe there is a clear confusion here. And we will find a way to answer, go back to TRAI and to DoT and this matter is now going to DoT. And we are very confident that the government will take a very objective position in the amount of Herculean efforts that we have put to actually resolve this particular issue. So I think that is the way that we see.

Secondly, to your other question on the response to Jio, I think it will be a little premature to say what the specific response is, but I want to give you a little bit of color to how we are thinking about it. Number one is that we believe that when something is free, the only way to compete is actually to go and give it free. So it is very difficult to compete with free. So to that extent, we are watching that space. Free stuff obviously has an impact on the quality of the networks and so on and so forth, so we are keeping track of that. We know the customers who have dropped ARPU at an individual level. They are still on our network and there are different types of customers, so they still are using our network at varying degrees and varying levels. We know who they are, and that helps in this game to actually come back and look at what we need to do. Thirdly, we are very clear when it comes to 4G, which is a smaller part of the market, we will need to bundle in a much more aggressive way, and if you look at what Reliance Jio has done is offered a lot of bundled plans. We will also look at those bundles on 4G and hopefully try and provide that specifically to 4G. The good news is in terms of the pricing that they have announced is that largely they are also trying to drive on ARPU and while realization may fall, as

long as you hold ARPU, that is fine. And to get ARPU finally, if you are putting in a lot of data, then what you need is capacities for which spectrum is required, CapEx is required and that is where we have put a lot of investment over the last year, year and a half.

Rohit Chordia - Kotak Securities-Mumbai

Gopal a quick follow-up on the last point you made, the investments made on the network. Now from your disclosure standpoint what we see is the number of sites, right, and I do not know if at this point, especially on the data side it is good enough to compare sites of one operator versus other to get a sense of the network capacity and quality. So I do not know how should we look at network dimensioning that you guys are doing, if you could provide any color on where you are differentiated or where you have a lead over others in terms of the sort of network dimensioning that you have done in the past couple of years?

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

So Rohit, what we started doing, I think it was from last quarter or the one before that, we started disclosing the number of sites, because we used to earlier just disclose towers, but you will see that we also disclose now number of broadband base stations, which is the sites that we have and that we have not split out as 3G, 4G and so on. and dual carrier.

Yes, we have not split that out as 3G, 4G. But I will tell you this is a good input and we will see whether we need to disclose it at later stage. There is 3G, which is a single carrier of spectrum, which is pretty much ubiquitous now. We are covering almost 300,000 villages in India. So that is like one layer of coverage. In several circles now, we have a second carrier, either on 900 megahertz or on 2100 megahertz; Karnataka, AP, North East, Assam, Punjab, Delhi, with the 2100 spectrum, Bihar, Rajasthan, so many of these circles now we have a second carrier and to deploy a second carrier, actually very cheap, because all it needs is a software upgrade.

We will not report that as a separate base station, but that is straightaway going to double your capacities and in fact go to speeds which are similar to 1800 4G as a dual carrier, because the DoT has also remarkably done a terrific job in actually promising to harmonize that spectrum, so we will be able to run those dual-carriers in aggregated way. The third is 4G, which is 1800. Here we have all 22 circles. We have a slug of 5 megahertz. In several circles, six to eight circles, we have a slug of 10 megahertz. So the 5-megahertz that will go will go into start within the key cities, the top 50 cities, and get to 500 cities and 1,000 cities, as smart phones or 4G proliferate. And then finally, we have a block of TD 2300 megahertz, which we are deploying selectively and we are using that only where we have need for high capacity. So we track on a site-by-site basis what is the number of devices, what is the amount of data that is being pumped out and there we put in TD spectrum 2300, where we now have 30 megahertz in several circles and 20 megahertz in many others. 19 circles have TD spectrum and that gives massive capacities, because that can suck in a lot of data and bandwidth.

And finally, we have made a conscious decision in this auction. As you are aware, the 2500 spectrum, we did not buy, because we feel that while the ecosystem of 2500 will develop, at this point it is still nascent and we think that for it to develop it is at least a couple of years away.

Rohit Chordia - Kotak Securities-Mumbai

Thanks a lot Gopal.

Kamaldeep - Moderator

Thank you very much Mr. Chordia. The next question comes from the line of Ms. Amruta Pabalkar from Morgan Stanley, Mumbai. Ms. Pabalkar, you may please ask your question now.

Amruta Pabalkar - Morgan Stanley - Mumbai

Thanks for the opportunity. I had three questions. Firstly, as you said, we are seeing so far bundled offers and data packs, giving more data at a similar price, or similar ARPU. Thus we are seeing strong data volume growth so far. But with RJio gaining more subscribers by the day, do you see any signs of exhaustion coming in this incremental MB growth, just want to understand your strategy around this if you can, if you are willing to take any headline cut to keep the data growth high? Secondly, on home services, if you could explain what the drivers of your growth are, would be helpful. Do you intend to expand to the new cities and can we expect the current growth momentum to continue over the next couple of quarters? And lastly on Africa, with this sale done, could you give us your revised CapEx and tax guidance for the remaining part of the year? Thank you.

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

So Amruta, I will take two questions and then hand over to Raghu or Nilanjan. So, yes, at this point in time data volumes are holding up. But the fact is that if a lot of customers are going on to another network and using stuff free, then that will have some impact on

overall data volumes. We do not believe that competing very aggressively in pricing with something that is free is actually a response. So, while some of our pricing, or realization on data has come off, as we have corrected some of our data pricing, particularly on highend customers, on postpaid, on high value prepaid etc., we have not gone all across, because we will wait and do that at a later stage.

On the home side, the drivers of growth are fundamentally speed. Secondly, the investments or the home passes that we have. We have stepped up our home passes; we found a lower cost model to actually ramp up home passes. So this year we would have one of our biggest rollouts because of the lower cost of per home pass that we found. We have also been very scientific about identifying which homes to cover, which home passes to cover and which not to and that's an important part to sweat that asset. And fourthly, we have identified this is a very, very local business, so at each pillar level and each pillar would typically cover maybe 100 homes or 150 homes. At each pillar level we have what are called low utilization pillars and we really try and make sure that we drive low utilization pillars, so as to get again to sweat that asset.

We are in the midst of a massive upgrade of the technology through V-Fiber that Nilanjan referred to. We have already launched this in Chennai and this is vectorisation is a technology that's been used in Europe across. Basically it eliminates noise on the signaling and it uses much less of a carbon footprint, it doesn't need much trenching and there is an automatic up gradation that we do to our old copper network in order to be able to deliver 40 Mbps type speeds -- 40 Mbps to 100 Mbps, which is like very, very high speeds. So that's a big driver of the growth as well.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

On the Africa CapEx, Amruta, I mean nothing material at this stage. We had indicated about \$700-odd million. So post these two disposals, we have really not re-digged our numbers. Probably end of quarter three we will come back. These are only about 8% to 10% of the overall revenues, so it won't materially change that figure.

Amruta Pabalkar - Morgan Stanley - Mumbai

And on the tax front because these were the profitable countries, do you see any implications there?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

I mean for me also it is impossible to understand Africa tax figures, because you have profit making and loss making countries as well. But I think if you see now I think for this \$69 million, which is a reduction over the last year, primarily because these two were profit-making countries. That is right. But to give you an effective tax rate about Africa is impossible.

Amruta Pabalkar - Morgan Stanley - Mumbai

Thank you so much.

Kamaldeep - Moderator

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

Pranav Kshatriya - Edelweiss - Mumbai

Thanks for the opportunity. I have three questions. Firstly, you alluded I mean you have seen a very, very strong data subscription growth, especially the 3G pick up. In the last quarter, you had said that smart phone penetration is plateauing, that is one of the reasons for low subscriber addition. So this quarter subscriber addition, has it been led by higher smart phone penetration or it is led by more smart phone I mean more customers adopting for 3G, 4G services at a similar base? That is first question.

Secondly, do you see any requirement of having sub-1 gigahertz of spectrum for high-speed data that is 900 megahertz for 3G, 4G kind of a spectrum for coverage? And lastly, Nigerian Naira depreciated substantially and I was expecting at least some part of your expenses would be in dollar denominated, which would mean lower margin in Africa. But that has not happened. So those dollar costs have gone out of the system or there is restructuring of this? Any color on that will be helpful. If you can give us a breakup in terms of how much basis point recovery in EBITDA is because of migration to profitable countries and how many because of the cost savings, that will be helpful? Thank you.

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

So, I will take two of your questions and then hand over to Nilanjan. There is no material change in the growth of smart phone penetration. I mean it is growing on a very secular basis, so there has been no material change during the quarter. What we have found is that people with smart phones, not all of them use data. That number of people with a smart phone using data is probably around 60% to 70%. And the new smart phones that are coming are not necessarily the smart phones that people are naturally using data, which is why I raised the issue a few months ago that we are concerned about the plateauing of data penetration and this is where a lot of our effort has gone to actually drive penetration of data. We believe that going forward over the next two years, yes, you will see a growth in smart phone penetration which may have its ups and downs. But one of the big jobs for us is to actually get all of those smart phone devices to also consume data.

When it comes to sub-gigahertz spectrum, yes, it always helps to have sub-gigahertz spectrum, because it is good spectrum, it goes deep indoors and the propagation characteristics are very good. We have sub-gigahertz spectrum in pretty much all our circles, with the exception of the circles in the West which is Maharashtra, Gujarat, MP, Kerala, UP West and a few circles, about half a dozen circles. But the thing that you must know is that what we have built over the last 10, 15 years is a grid that serves 1800 megahertz, and that grid has been built on the basis of many more sites. So for the same topology or same geography, with an 1800 band, you need more sites than you would need for a 900 band or an 850 band. We have already built those sites, the sites are there. And now what we are doing is actually going on to those same sites and actually loading on new technologies on to that site at a fractional cost, when compared to putting up a full-fledged macro site. What it will also mean is, indoors, particularly in commercial complexes, hotels and so on, you need a lot more indoor solutions. Again, over the last 5, 10 years we have put a lot of investment on those indoor solutions. Now those solutions also need to be upgraded across technologies. So we are not unduly concerned about the fact that we do not have sub-gigahertz spectrum across the country, because of this factor.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes, on your question on Africa, firstly, we do not give any country-wise reporting. In the annual accounts, in any case, you can see the profitability and revenues of each, where we disclose that. But having said that, I think the underlying margin improvement, as Raghu mentioned, and we have been mentioning it over and over again, is our whole focus on cost and driving cost down in Africa and basically replicating the war on waste program, which we have in India. A lot of the cost, like you have correctly mentioned, we have started localizing. So many of our contracts, which were dollar denominated, have been made into local currency contracts. The whole GAC is improving, and lowering decay, improving our go to market, so that our churns are lower, all these are going in and impacting our whole cost drivers. The whole Tower Co., selling the towers, now we are sharing much more, driving the OpEx cost, driving down the copper cost of network. So all this is going on and we have a very aggressive plan in Africa as well to lower down the cost. So, that is contributing to that. Yes, there are some contracts, which remain always, will remain in dollars, which will impact, but in this quarter we have seen that we've been able to mitigate those impacts.

Pranav Kshatriya - Edelweiss - Mumbai

Sir, if I can just follow up on that, our expectation was around 30% to 40% of the cost basis in dollar denominated currency. Is that understanding correct or that is significantly lower than that?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Can't give any, but looks on the higher side. I can't give any numbers.

Pranav Kshatriya - Edelweiss - Mumbai

Thank you so much.

Kamaldeep - Moderator

Thank you very much Mr. Kshatriya. The next question comes from Mr. Viju George from JP Morgan, Mumbai. Mr. George, you may please ask your question now.

Viju George - JP Morgan - Mumbai

I just have a few questions. One on 4G. I think you have got a record in terms of the number of customers and for how long they've been using 4G. To give us some idea as to how their ARPU sort of upgrade, the moment they move from 3G to 4G, any qualitative, quantitative color would be helpful.

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

Look, when customers move from 2G to 3G there is an ARPU upside, if they are using data, when they move from 3G to 4G also there is an ARPU upside. As more and more customers come on to the network that ARPU upside diminishes, because you come under the constraint of the overall wallet. So I would just say you should just look at the aggregate ARPU of the business, that number is pretty much hovering around the Rs.198 to Rs.200 mark. And over time, this could see some upside if penetration of smart phone or penetration of data grows rapidly. Whether that is very material as an aggregate, difficult to comment.

Viju George - JP Morgan - Mumbai

The other question I had was really your ARPU premium relative to the other players. At some point, if I look at Idea's ARPU, you did have an ARPU premium of Rs.23, that is Rs.23 your ARPU over theirs about six, seven quarters back. But now it has shrunk to Rs.15. The question really I have here is that does a superior network allow you to expand your ARPU premium on a sustainable basis, or it just helps you retain customers better, because that does not seem to be reflected in the way the premiums have moved in the last five. six quarters?

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

Yes, I think that conceptually what you are saying makes a lot of sense, because as you have a better network, as you are rolling out networks and as more and more high-value customers come on to your network, you obviously get an ARPU premium. The only other thing that you have to look at this is the trend of double SIM-ing in India has actually increased. So one of the reasons potentially that you could see that ARPU premium having diminished somewhat is more and more dual-SIM-ing that has actually taken place. I think the one silver lining in this is that as tariffs come down, particularly with all the competitive intensity, there is a good opportunity to consolidate that spend behind one SIM. And that is always good for a player like us.

Viju George - JP Morgan - Mumbai

And the last question from my side is the margin difference has been very strong, Gopal. How confident are you of sustaining margins at these levels, given the competitive pressures that you have clearly cited out there? Are you comfortable keeping in a band, say, maybe 38% to 42% or something like that or you think you can actually hold at these levels?

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

See, finally margin is an outcome. It is an outcome of the revenue growth that you get and what you are doing on cost. So I think our agenda is very simple. Like I said, first and foremost, are we gaining market share, because coming out of this price war, so to speak, we should actually come out stronger and we believe that we have the position, we have the capability and all the assets to actually come out stronger. So the first metric to look at is are we gaining market share. The second metric to look at is how is our revenue growth going, how smartly are we playing the game to actually drive that. And the third metric to look at is what are we doing on OpEx and how do we strip waste. And after that margin just is an automatic sort of fallout of all of that. So our target is never margin. Our target is what are we doing on costs, what are we doing on revenue and that is the way we like to think about it.

Viju George - JP Morgan - Mumbai

So you think that opportunities to have revenue growth as well as manage cost means that these margins are sustainable, is that what you are saying?

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

No, that you are putting words into my mouth. I am saying that our focus is cost and revenue growth. I did say that we are seeing some softening on revenue growth. We saw a little bit of that in the preceding quarter and this will if this free stuff continues, then you will see more of that coming through. How much impact that has on margin is a function of also what we do on cost. So I think it is a bit premature. I think if you look at over the last few years, we have gone from 30% EBITDA margin to upwards of 40%, not because we said we want to improve margin, but because we said we want to grow the top line and we want to keep a control on cost and that effort will continue.

Viju George - JP Morgan - Mumbai

Thank you Gopal and good luck to the management team. Wish you all a Happy Diwali.

Kamaldeep - Moderator

Thank you very much Mr. George. The next question comes from the line of Mr. Sunil Tirumalai from Credit Suisse, Mumbai. Mr. Tirumalai, you may please ask your question now.

Sunil Tirumalai - Credit Suisse - Mumbai

My first question, again, going back to the tariff strategy in the context of Jio, do you think that given your experience in the market, a bundled strategy where voice is made free and you just pay for data, is that something that could become kind of a standard? And for the new operator, they are constrained by technology, they are offering it only to 4G customers, or customers with 4G phones, but for a multi-technology operator like you, can you offer it only to 4G customers, or will it become across all customer bases if the industry goes into that direction? That is my first question.

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

I think that this market in the next few years will certainly undergo a change, and I think that there are two things that will happen. On the one side, you will continue to see the old game being played, where you know a lot of customers will want to decouple voice and data pricing. You will still see massive amount of feature phones in this market. 75% of India is still feature phones. While that will decline over time, I would say, if you take a three to four year view, you know, you could still see maybe 50%, 60%, 55% feature phones so one side is that game.

On the other side is the smart phone game, which will increasingly move towards 4G as the ecosystem is changing and all devices are coming with multi-model chipset. And here, given the asymmetry of market positions, given the asymmetry of share and given the asymmetry of technologies across the different operators, you will perhaps see a lot more bundling happening. This has happened all over the world. Now the question is, the bundling needs to come at a price. We believe that the prices that have been announced are very low. Having said thatif we have to deal with it, we'll find different ways to actually respond and deal with it.

And my third point is that, our effort will continue to be differentiation. So let me give you an example. If you look at the postpaid myPlan, it is very difficult to really understand as to what exactly the price is, because what you are selling here is a concept of flexibility, concept of complete customization of choosing what you want to buy. And at the back end, we have simplified our system, so that we are actually selling only one plan, but the customer believes is buying many plans. So I think some of that is the innovation that we need to do around how you actually manage this perception so that everything does not come down to just one simple headline. And I think that is a marketing effort that will continue. So I would make those three broad points.

Sunil Tirumalai - Credit Suisse - Mumbai

That was helpful, thank you. My second question is on the net debt number. Last quarter we had included FLO as part of the net debt disclosure. This time we do not see it there. We just see the interest on lease obligations and the interest in expense. Can we get the FLO number, please?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

The number of 12.2 is excluding the FLO debt. So that is what we are doing. Of course, the interest line will include the FLO, which we show separately.

Sunil Tirumalai - Credit Suisse - Mumbai

But what is the outstanding amount for the FLO?

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

That we are not disclosing anymore.

Sunil Tirumalai - Credit Suisse - Mumbai

Lastly, we are seeing in the exceptional items, on three of the last four quarters, we have this item of network refarming and up gradation, which on a consolidated basis would have been about 70 basis points to 80 basis points of revenues. I mean, what is this item regarding and if it is recurring so frequently, I mean what is the rationale in keeping this as an exceptional? Thank you.

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Yes. So this relates to basically the entire refarming exercise in India. And although it will be extended over a period of time as more and more of the 1800 2G sites gets refarmed to 1800 SRAN sites to incorporate the 4G, this is that exercise. It is now started, as you know, in about six to eight circles where we've already had launched the 1800 FD, will extend throughout. We see this over a period of time, I mean to continue, but the impact, as you can see, is not materially large, but we're treating as exceptional, because it's part of a larger program.

Sunil Tirumalai - Credit Suisse - Mumbai

Thank you very much Sir. Happy Diwali.

Kamaldeep - Moderator

Thank you very much Mr. Tirumalai. The last question comes from the line of Mr. Bharat Shettigar from Standard Chartered Bank, Singapore. Mr. Shettigar, you may please ask your question now.

Bharat Shettigar - Standard Chartered Bank - Singapore

Thanks for taking the question. The question really is about the Infratel stake sale. Is that being driven by building a war chest for the increased competition going forward, or is it being driven by the pressure from the rating agencies, especially Moody's and their expectation with respect to cutting down on debt? And a related question is, from a longer-term point of view, how important is investment grade ratings for the Company? And the reason I ask is, if you look at the core debt of the Company, excluding the spectrum liabilities; it is less than \$10 billion. So even if you assume a 100 basis points increase in your funding cost, it is only about \$100 million, which is not significant in the context of the EBITDA generated by the Company. So just trying to understand these two issues.

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

Yes, so to your first question, I will take, Bharat, and then hand over to Harjeet. If you step back and look at our business, I think the first thing to say is that we have a massive scale and I think the scale gives us a tremendous amount of financial leverage in terms of the cash that we are able to generate. Secondly, we have already committed and spent, invested during this course of this year and the prior year, very significant amount of CapEx in massive rollouts that you have already seen. Thirdly, we have a very, very strong spectrum footprint, we bolstered that this auction, but if you go back in time I think we are very well positioned from a spectrum perspective. So given all of those reasons, this proposal that the Board has currently asked the Committee of Directors to assess is not based on any other reason, other than to explore what are the strategic options that are available and there is nothing more to it than that.

Harjeet Kohli - Chief Financial Officer- Bharti Enterprises

Bharat, hi, this is Harjeet. On your question whether the intent is to actually help the ratings process, well, look, let me tell you in two, three parts. Maybe your second question is more relevant, it will automatically answer the first part as well, are we attached to the investment grade ratings. In the context of the way you articulated, it may look like it is not necessarily a condition, but I think the way we look at it from our house perspective is that investment grade rating is a result of where we are and the philosophy we want to follow on the level of leverage we feel comfortable, given our context of a reasonably asset heavy business in telecom, given our context of some transformation that is residual and what we need to do in the Africa business in the coming quarters. So I think there is a level of conservatism the Group attaches to try and keep the leverage at relatively moderate levels. It is always good in these businesses to have higher headroom. So, a) the philosophy is such that drives the management to be well in time and probably ahead of any potential, even if little improbable adversities to actually be more carrying a more stronger financial flexibility.

Second is if Airtel is owning Infratel stock, Infratel stock is listed, we have seen that and the market rewards that as well, is whenever there is more increased liquidity of that stock, the price discovery of that asset is better. You have seen that right from the IPO time to a couple of secondary stake monetizations that have happened. That itself is a good unveiling of value, both at Infratel and thereby the see-through value-add at Airtel. And third, from our perspective if you see, much of our efforts of decongesting the so-called lending appetite in the globally deleveraging banking scenario was through an access to a bond market program that we started in 2013. So if you see all three hint by their own design and not by a rating attachment that it is important to retain flexibility, it is important to monetize Infratel, to let Infratel shine through better in terms of price discovery, it is important to have a good worthy access of a large deep, global pool of long-dated bonds.

Kamaldeep - Moderator

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

Nilanjan Roy - Global Chief Financial Officer - Bharti Airtel Limited

Thanks. Thank you all for an interesting round of Q&A. We have covered a wide gamut of subjects. We look forward to talking to you once again next quarter, and probably meeting some of you during our quarterly investor conferences and meetings. I wish you all and your families a very joyous Diwali. 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.